

Renfrewshire Valuation Joint Board

Report to Members on the 2005/06 Audit



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Key Messages

Introduction

In 2005/06 we audited the financial statements and we looked at aspects of performance management and governance. This report sets out our key findings, summarising key outcomes in 2005/06 and the outlook for the period ahead.

Key outcomes from 2005/06 audit

We have given an **unqualified** opinion on the financial statements of the Renfrewshire Valuation Joint Board.

The Joint Board's financial transactions are processed through Renfrewshire Council's financial systems. Our review of these systems was conducted as part of the audit of Renfrewshire Council and supplemented by specific audit work on the Joint Board's financial statements. In addition, as part of our 2005/06 audit of the Joint Board, we carried out a review of the key controls operating within the main financial systems focusing on those authorisation procedures carried out at Board level. Overall there were no material issues of concern concerning the operation of the main financial systems and the Board's transactions.

The Joint Board's accounts had a year end surplus of £15,022 after a contribution from the pension reserve of £35,000 to fund the Board's FRS 17 pension costs. The accumulated surplus for the Joint Board at 31 March 2006 was £ 207,646, of which a balance of £100,000 has been earmarked for use in 2006/07 to finance the planned completion of the revaluation of the telecommunications subjects.

The Joint Board's balance sheet at 31 March 2006 shows net liabilities of £975,000. This reflects the pensions liabilities falling due in future years. In common with similar public bodies, the financing of these liabilities will be met by requisitions from member authorities and the application of future income, to be approved annually by the Boards. On this basis, the accounts have been prepared on a going concern basis.

It was noted as part of the 2006/07 estimates that there was a need for the Joint Board to make efficiency savings whilst maintaining current levels of service. It is envisaged that the proposed staff restructuring will release savings. Future costs pressures are likely to come from the implementation of the requirements of the Electoral Registration Act and the implementation of a single status agreement for employees of the Valuation Joint Board.



We carried out as part of the 2005/06 audit a follow up on the progress made against our 2004/05 report on the Joint Board's Performance Management and Improvement arrangements. The issues identified by our review were the need to approve the 2006/07 Service Plan and to report against the performance indicators introduced by the Electoral Commission as part of Joint Board's quarterly performance reports. It has been agreed with management that the 2006/07 Service Plan will be finalised by November 2006 and will reflect the cost implications of any new initiatives and links to the Joint Board's corporate objectives. It is planned to expand the reporting of performance indicators by April 2007.

Outlook for future audits

Changes to accounting rules will have an impact on the presentation of the 2006/07 annual financial statements which will require to be more consistent with the accounts of other public and private sector organisations.

**Audit Scotland
October 2006**



Introduction

1. This report summarises the findings from our 2005/06 audit of the Renfrewshire Valuation Joint Board. Information on the integrity and objectivity of the audit engagement lead and audit staff, were outlined in the Audit Risk Analysis and Plan submitted to Renfrewshire Council's Scrutiny Board in May 2006 and in the Code of Audit Practice prepared by Audit Scotland in July 2001. The nature and scope of the audit of the Joint Board were outlined in the audit fee letter issued 16th January 2006.
2. The financial statements of the Joint Board are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the Joint Board to prepare financial statements that present fairly its financial position and the income and expenditure for the year.
3. The members and officers of the Joint Board are responsible for the management and governance 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 mis-statement, error, fraud or corruption; and
 - the Board has proper arrangements for securing best value in its use of resources.
4. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Joint Board during the course of our audit work.



Performance

Introduction

5. In this section we summarise key aspects of the Joint Board's reported performance.
6. It is the Joint Board's responsibility to ensure that proper arrangements are in place to secure the economy, efficiency and effectiveness in the use of its resources. My audit does not include detailed reviews in this area. However, from carrying out other aspects of my audit, including a review of the minutes, I am able to report on aspects of the Joint Board's arrangements to manage its performance.

Overview of performance in 2005/06

7. As part of the 2005/06 audit we carried out a follow up on the progress made against our 2004/05 report on the Joint Board's Performance Management and Improvement arrangements. The issues identified by our review were the need to approve the 2006/07 Service Plan and to report against the performance indicators introduced by the Electoral Commission as part of Joint Board's quarterly performance reports. It has been agreed with management that the 2006/07 Service Plan will be finalised by November 2006 and will reflect the cost implications of any new initiatives and links to the Joint Board's corporate objectives. It is planned to expand the reporting of performance indicators by April 2007.
8. Currently the main direct measure of the Joint Board's performance is by key performance indicators which relate to maintaining the valuation roll and council tax list. These are reported quarterly to each meeting of the Joint Board. As shown by the performance indicator, the time taken to process changes to the valuation roll and council tax list remained stable throughout the year, with the report to the Board meeting in January 2006 showing that 100% of all amendments to the non domestic valuation roll had been made within 6 months of receipt and that 99.46% of all new dwellings had been added to the council tax valuation list within 6 months of their occupation.



Financial position

Introduction

9. In this section we summarise key aspects of the Joint Board's reported financial position and performance to 31 March 2006, providing an outlook on future financial prospects, including our views on potential financial risks.

Revenue Account

Revenue performance 2005/06

10. In her foreword to the financial statements the Treasurer highlights that the 2005/06 budget resulted in a planned deficit of £45,000 to be met from the balance of excess member contributions as agreed by the Joint Board. The final position shows however that the Joint Board had a year end surplus of £15,022 after a contribution from the pension reserve of £35,000 to fund the Board's FRS 17 pension costs. The main reasons for the underspends against budget were lower than expected property rental charges due to the full year effect of the move to new office accommodation, lower than anticipated land valuation appeal committee costs and savings against budgeted conference costs and costs of elections. The accumulated surplus for the Joint Board at 31 March 2006 was £ 207,646. As the Joint Board does not have the statutory powers to hold reserves, this balance is shown in the financial statements within creditors as amounts due to constituent councils.

Capital Spend

11. The three year capital budget for the Joint Board was approved at the November 2003 meeting. Progress against the plan is regularly reported to members. The total capital budget for 2005/06 was £ 416,976 made up from a carry forward from previous years of £ 166,976 and an in year allocation of £ 250,000. As per the capital budget progress report of 25 August 2006, there was an underspend of £88,677 against budget at the end of 2005/06. This related mainly to expenditure planned on buildings. Future levels of capital expenditure should be closely monitored to ensure the achievement of the Joint Board's approved capital programme.

Action Plan 1



Financial outlook

Current budget

12. The 2006/07 revenue estimates were approved by the Joint Board in November 2005. A balance of £100,000 has been earmarked for use in 2006/07 from the accumulated surplus brought to fund the completion of the revaluation of telecommunications subjects during the year. This leaves £ 107,646 as a contingency for unforeseen future costs.
13. The 2006/07 revenue estimates have not utilised accumulated balances to fund services in line with the previous policy of reducing the dependency on working balances It was noted as part of the 2006/07 estimates that there was a need for the Joint Board to make efficiency savings whilst maintaining current levels of service. It is envisaged that the proposed staff restructuring would release savings and delegated authority has been given to the Assessor and Electoral Registration Officer to implement any staff changes in order to realise the required savings.

Single Status

14. In 1999 a single status agreement was reached between Scottish local authorities and trades unions which would harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers covering pay, working hours, leave and negotiating mechanisms. The implementation of a single status agreement is likely to also apply to employees of Renfrewshire Valuation Joint Board. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, this was extended by agreement between local authorities and unions to April 2004. The Joint Board has yet to implement a single status agreement.
15. We are advised that the management of the Joint Board has been in discussion Renfrewshire Council's HR section on the application of single status. While an estimate for additional single status costs have not yet been built into the revenue estimates it is planned to incorporate a balance into the 2007/08 estimates. Until a local agreement is concluded the initial and continuing costs to the Joint Board cannot be reliably estimated. Evidence from other public bodies is that there is significant variation in the level of potential costs which can be up to 10% of the current pay-bill on a continuing basis. It is important that the progress made in finalising the single status agreement is kept under review by the Joint Board, in particular the potential impact on future costs.

Action Plan 2



Electoral Registration Act

16. The Joint Board has been pro - active in planning ahead for the potential workload and cost implications resulting from the introduction of the Electoral Registration Act 2006. Previous reports to the Joint Board have highlighted that the Act could result in additional costs ranging from £ 182,000 to £302,000 and identified the likely increase in the levels of requisitions from constituent authorities. It is essential that the Joint Board continue to closely monitor the resulting cost pressures and potential impact on future budgets.

Action Plan 3

Pension disclosures

17. The Joint Board participates in the Local Government Pension Scheme (Scotland) which is administered by the Strathclyde Pension Fund. To comply with Financial Reporting Standard 17 (Retirement Benefits) the financial statements account for retirement benefits at the point at which the Joint Board commits to paying them, even if the actual payment will be made years into the future. This accounting requirement results in very large future liabilities being recognised in the face of the annual accounts. The Joint Board's estimated pension liabilities at 31 March 2006 exceeded its share of the assets in the Strathclyde pension Fund by £ 975,000. In common with similar public bodies, the future financing of these pension liabilities will be met by increased pension contributions. The actuary is required to make a 3 year assessment of the contributions that should be paid by employing authorities as from 1 April 2006 to maintain the solvency of the pension fund. The contributions are expected to rise from 260% of employee contributions in 2006/07 to 280% by 2008/09. This is likely to be a future cost pressure for the Joint Board.



Governance

Introduction

18. In this section we comment on key aspects of the Joint Board's governance arrangements during 2005/06.

Overview of arrangements in 2005/06

19. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. The Joint Board has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. As auditor I have a responsibility to report on the Joint Board's corporate governance arrangements.
20. A Statement on the System of Internal Financial Control is included within the annual financial statements, and states the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal financial control system.
21. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Systems of internal control

22. The Joint Board's financial transactions are processed through Renfrewshire Council's financial systems. It is the responsibility of the council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates the significant financial systems and the associated internal controls, both for the purpose of giving an opinion on the statement of accounts, and in order to report on the adequacy of such systems and controls.
23. Audit's review of these systems was conducted as part of the audit of Renfrewshire Council and supplemented by specific audit work on the Joint Board's financial statements. In addition, as part of our 2005/06 audit of the Joint Board we have carried out a review of the key controls operating within the main financial systems focusing on those authorisation procedures carried out at Board level. Overall there were no material issues of concern concerning the operation of the main financial systems and the Board's transactions.



Prevention and detection of fraud and irregularities

24. The Joint Board does not have in place its own arrangements for the prevention and detection of fraud and corruption. Instead the Board complies with the relevant policies of Renfrewshire Council. We noted however as part of our 2005/06 review that this approach had never been formally adopted by members of the Board and that staff had not been made aware of the terms of the policies. Management had agreed to progress these issues by August 2006. There were no frauds identified within the Joint Board in 2005/06.



Financial statements

Introduction

25. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2005/06. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
26. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the Joint Board and its expenditure and income for the period in question; and
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
27. We also review the Statement on the System of Internal Financial Control by:
 - considering the adequacy of the process put in place to obtain assurances on systems of internal control; and
 - assessing whether disclosures in the Statement are consistent with our knowledge of the internal financial control systems within Renfrewshire Council.

Overall conclusion

28. We have given an **unqualified** opinion on the financial statements of Renfrewshire Valuation Joint Board for 2005/06.
29. The Joint Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June 2006. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly.
30. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the Joint Board and publication. The financial statements are an essential means by which the Joint Board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.



Accounting practice

31. The Joint Board is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the ‘SORP’). Only a number of presentational changes were made to the unaudited accounts provided for public inspection. Some recommended improvements to presentation of the accounts will be implemented in 2006/07.

Going Concern

32. The Joint Board’s balance sheet at 31 March 2006 shows net liabilities of £975,000. This reflects the pensions liabilities falling due in future years. In common with similar public bodies, the future financing of these liabilities will be met by future requisitions from member authorities and the application of future income, to be approved annually by the Boards. On this basis, the accounts have been prepared on-going concern basis.

Group accounts

33. Renfrewshire Valuation Joint Board has been treated as an associate of Renfrewshire Council in the council’s group accounts.

Legality

34. Each year we request written confirmation from the Treasurer that the Joint 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 her knowledge and belief and having made appropriate enquiries of the members of the Joint Board, the financial transactions of the Joint Board were in accordance with the relevant legislation and regulations governing its activities.
35. There are no additional legality issues arising from our audit which require to be brought to members’ attention.

Financial reporting outlook

36. Overall the Joint Board is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has a record of responding positively to audit issues and changing accounting rules. Significant challenges ahead are summarised below.

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37. A number of changes have been made to the 2006 SORP. These include changes to the single entity statement of accounts which include the replacement of the Revenue Account with a traditional Income and Expenditure Account; and the replacement of the Statement of Total Movement in Reserves with a Statement of Total Recognised Gains and Losses.
 38. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities.

Change of external auditor

39. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years.
40. This is the final year of my current appointment to the audit of Renfrewshire Valuation Joint Board and I would like to express my appreciation for the assistance provided to me in the 2005/06 audit. The Board's auditor from 2006/07 will also be from Audit Scotland.



Final Remarks

41. The members of Renfrewshire Valuation Joint Board are invited to note this report. We would be pleased to provide any additional information that members may require.
42. The co-operation and assistance given to us by Renfrewshire Valuation Joint Board and the relevant officers within Renfrewshire Council is gratefully acknowledged.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	Planned improvements as agreed as part of the Joint Board's capital programme are not achieved.	The capital programme will be managed and monitored to ensure it is implemented within identified resources, with regard to identified and programmed timescales.	Assessor	During the course of 2007/08
2	There are unreasonable delays in the implementation of a single status agreement with employees of the Valuation Joint Board.	Renfrewshire Council and the Joint Board will pursue implementation of a single status agreement to take effect as soon as practically possible.	Assessor/Renfrewshire Council	As soon as practically possible
3	There is a lack of available resources to fund the potential additional costs to the Joint Board resulting from the implementation of a single status agreement and the implementation of the Electoral Registration Act.	The cost pressures associated with both these issues will be managed within the normal budget setting process, as part of the setting of the 2007/08 Revenue Estimates.	Assessor/Treasurer	February 2007