

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Ayrshire Valuation Joint Board

Annual audit report for 2005-06 to the Members of the Ayrshire Valuation Joint Board and the Controller of Audit

8 September 2006

AUDIT

Contents

Executive summary	1
Introduction	3
Financial position	5
Corporate governance	7
Financial statements	9
Appendix	12

Notice: About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ('the Code') and Statement of Responsibilities of Auditors and Audited Bodies.

This report is for the benefit of only Ayrshire Valuation Joint Board and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the requirements or circumstances of anyone other than the beneficiaries

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Contents

Executive summary	1
Introduction	3
Financial position	5
Corporate governance	7
Financial statements	9
Appendix	12

Executive summary

Financial statements

On 5 September 2006 we issued an audit certificate expressing an unqualified opinion on the financial statements of the Ayrshire Valuation Joint Board for the year ended 31 March 2006

During the audit of the draft financial statements, we identified two audit adjustments as well as some minor presentational issues. These were communicated to the Board's management and the financial statements amended accordingly.

Financial position

During the financial year 2005/06 the Board returned a surplus of £57,787 (2004/05 deficit of £3,497). Any surplus recorded by the Board is required to be returned to the constituent authorities and therefore recognised as a creditor in the Board's balance sheet.

The Board's balance sheet shows a net liability of £113,547 at 31 March 2006 (31 March 2005 liability of £1,028,401). This is due to the Board's liability through the Strathclyde Pension Fund, recognised in the financial statements in accordance with FRS 17. Due to the Board being a statutory body and the constituent authorities being required to meet its costs on an annual basis, the financial statements continue to be prepared on a going concern basis.

Corporate governance

The 2005-06 statement on internal control prepared by management does not disclose any major weaknesses.

The Board's financial systems are the same as those operated by South Ayrshire Council; the reviews of these systems were conducted simultaneously to those carried out as part of the Council's audit. Appropriate checking of the draft financial statements back to these systems was undertaken at the year end. No audit findings relating uniquely to the Board were identified during work carried out at the Council.

The Board's internal auditor service is provided by the Internal Audit Department of South Ayrshire Council. The internal audit annual report concludes that the Council has adequate and effective internal controls. These controls apply equally to the Board which utilises the same systems.

Contents

Executive summary	1
Introduction	3
Financial position	5
Corporate governance	7
Financial statements	9
Appendix	12

Introduction

Background

2005-06 was the final year of our five year appointment as external auditors of Ayrshire Valuation Joint Board ("the Board"). This report summarises our opinion and conclusions and highlights significant issues arising from our work.

Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities embodied in the Code of Audit Practice ("the Code"), issued by Audit Scotland during July 2001. The respective responsibilities of KPMG LLP as auditors and Board management are embodied within Audit Scotland's Statement of responsibilities of auditors and audited bodies. The Code states the auditor's objectives are to:

- provide an opinion on whether the Board's financial statements present fairly the financial position of the Board in accordance with standards and guidance issued by the Auditing Practices Board; and
- review and report on the Board's corporate governance arrangements.

Work against these objectives has been undertaken during the year and this report covers the principal matters arising from that work. Given the relative size of the Board and the way in which its activities are undertaken, we have taken reliance from our audit work on corporate governance and other arrangements undertaken at South Ayrshire Council ("the Council").

We focus our work on the areas most likely to give rise to a material misstatement in the financial statements. The significant risk areas identified may impact the Board's financial statements or the regularity of its transactions and subsequently our audit opinion:

- the disclosure of pension fund liabilities within the financial statements
- the classification of expenditure between capital and revenue
- the valuation of land and buildings and the correct treatment of any revaluation

Basis of information

External auditors do not act as a substitute for the Board's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Whilst no significant issues have arisen from the completion of our audit procedures, we have included an action plan, including management responses and dates for implementation of agreed recommendations in respect of 2005-06.

To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the Board. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of KPMG LLP except where explicitly stated as being so.

Acknowledgement

Our audit has brought us in contact with a wide range of Board staff. We wish to place on record our appreciation of the continued co-operation and assistance extended to us by staff in the discharge of our responsibilities. It is our intention to minimise the disruption to the Board from a change in auditor through briefing and liaison on unresolved issues with the incoming auditor's staff.

Contents

Executive summary	1
Introduction	3
Financial position	5
Corporate governance	7
Financial statements	9
Appendix	12

Financial position

Revenue account

The Board returned a surplus for 2005/06 of £57,787 from income of £2,152,796, the vast majority of which is funding from the constituent authorities. A summary of the Board's revenue account for 2005/06 outturn against budget is shown in figure one:

Figure 1: 2005/06 outturn against budget

	Budget £000	Actual £000	Variance £000
Employee costs	1,746	1,702	44
Other costs	478	466	12
Financing costs	70	49	21
Income	(2,153)	(2,153)	-
Net cost of services	141	64	77
Asset management revenue a/c	(41)	(26)	(15)
Expected return on pensions	(56)	(56)	-
Net operating expenditure	44	(18)	62
Contribution from Capital Financing a/c	(39)	(35)	(4)
Contribution to pension reserve	(5)	(5)	-
Net surplus	-	(58)	58

A surplus of £58,000 was generated principally as a result of a £44,000 underspend in budgeted employee costs, as well as an overestimate of the capital charges budget required for the year, which impacted on the required appropriations from the asset management revenue account and capital financing account.

Balance sheet

The Board's balance sheet position at 31 March 2006 is summarised in figure two:

Figure 2: balance sheet position as at 31 March 2006

	31 March 2005 £000	31 March 2006 £000	Movement £000
Fixed assets	492	574	82
Current assets	96	140	44
Current Liabilities	(96)	(140)	(44)
Pension liability	(1,520)	(688)	832
Total assets	(1,028)	(114)	914

The reduction in the Board's net liabilities position at the balance sheet date from the prior year is due to the following factors:

- The upward revaluation of the Board's land and buildings and capital additions have increased the fixed asset carrying value
- Current assets have increased as a result of the surplus generated being held in the Council's loans fund on behalf of the Board. This is matched by the transfer of the surplus in year to creditors, representing the amount to be returned to the constituent authorities.
- The Board's net pension liability, as a result of its share of the assets and liabilities within the Strathclyde Pension Fund, has reduced by £832,000, with a year end net pension liability of £688,000 as at 31 March 2006.

The Board's net worth at the year end, however, remains negative. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the Board's other sources of income, may only be met by future requisitions from the constituent authorities. Under the terms of the Valuation Joint Boards (Scotland) Order 1995, requisitions from the constituent authorities are based on expenses incurred in the forthcoming financial year and not with reference to liabilities falling due in future years. Requisitions for 2006-07, taking into account the amounts required to meet the Board's expenses falling due in that year, have already been determined and agreed. It has accordingly been considered appropriate to adopt the going concern basis for the preparation of these financial statements.

Contents

Executive summary	1
Introduction	3
Financial position	5
Corporate governance	7
Financial statements	9
Appendices	12

Corporate governance

Overall arrangements

The Head of Finance and ICT at the Council acts as the Board's treasurer. The Board's financial systems are the same as those operated by the Council; the reviews of the systems were conducted simultaneously to those carried out as part of the Council's audit. Appropriate checking of the draft financial statements back to these systems was undertaken at the year-end. No audit findings relating uniquely to the Board were identified during the work carried out at the Council.

Statement of internal financial control

In order to ensure the proper financial conduct of its business, the Board has a responsibility to develop and implement systems of internal financial control. Audit Scotland has issued guidance to auditors on their role in relation to review of the statement of internal financial control. The objective of our review is to assess whether the description of the process in reviewing the effectiveness of the system appropriately reflects the process. We are not required to provide an opinion on the Board's systems of internal financial control.

The Board's statement describes the component parts of the internal financial control framework and the process by which the treasurer has reviewed the effectiveness of the internal financial control system enabling her to conclude that reasonable assurance can be placed on the adequacy and effectiveness of the internal financial control system. The statement prepared by the Board expresses its framework of control and is consistent with our understanding of the established framework

Standards of conduct and prevention and detection of corruption

Public business should always be conducted with fairness and integrity including matters such as the avoidance of personal gain from such business, even handedness in the appointment of staff, open competition in the letting of contracts and the avoidance of waste and extravagance. We are required to consider whether the Board has put in place adequate arrangements to maintain and promote proper standards of financial conduct and detect corruption. Our work over the five year period of our appointment in relation to this element of the Code was reflected within our long term plan

Fraud and irregularity

During 2005-06 we had regard to Statement of Auditing Standards 110: *Fraud and Error* and International Standards on Auditing 240: *The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements* when completing our audit work in this area.

From discussion with management and completion of our audit procedures, we have not identified any suspected or actual fraud.

Performance audit

The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors. No performance audit studies were identified by Audit Scotland for the Board during 2005-06.

Contents

Executive summary	1
Introduction	3
Financial position	5
Corporate governance	7
Financial statements	9
Appendix	12

Financial statements

Audit opinion

On 5 September 2006 we issued an audit certificate expressing an unqualified opinion on the financial statements of the Board for the year ended 31 March 2006.

Audit completion

An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in Figure three the three key elements of the audit process with which we require the Board to engage.

Figure 3: key elements of the audit process

Completeness of draft financial statements

We received a completed draft of financial statements for the Board in line with the agreed timetable for the audit.

Quality of supporting working papers

In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. The documents provided were to a high standard.

Response to audit queries

We are pleased to note that all audit queries were dealt with in a timely manner

Financial adjustments and confirmations

In Figure four we draw attention to adjustments to the financial statements made by management during the course of the audit. There were no remaining unadjusted audit differences.

Figure 4: financial statement adjustments

	Revenue account £'000	Balance sheet £'000
Net return on pension	(10)	0
Contribution from pension reserve	10	0
Write back of depreciation on revalued assets	0	63
Net adjustment	0	63

Confirmations and representations

We confirm that as of 5 September 2006, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of audit staff is not impaired. This has been confirmed separately in writing to the Board of the Ayrshire Valuation Joint Board.

In accordance with auditing standards, we will obtain representations from the Board's directors on material issues prior to signing our opinion.

Significant accounting issues

Disclosure of pension fund liabilities

The Board are members of the Strathclyde Pension Fund. The Board's share of assets and liabilities under this fund is communicated to them on an annual basis through an independent actuarial valuation. Due to the significant sums involved the incorporation of the actuarial valuation within the Board's financial statements requires to be accurately reflected.

In agreeing the actuarial valuations treatment in the financial statements it was recognised that the pensions interest cost and expected return on pension assets

Financial statements (continued)

was overstated in the revenue account by £10,000. As a result of this error, a contribution to the pension reserve of £5,000 was recognised on the revenue account instead of a £5,000 contribution from the reserve.

Classification of expenditure between capital and revenue

The Board obtains separate requisitions from the constituent authorities for its revenue and capital activities. In order to ensure that expenditure is correctly categorised, all capital additions in the year were vouched to supporting documentation and found to be both capital in nature and in agreement with the Board's approved capital plans.

Review of other areas of expenditure likely to include capital expenditure was undertaken and found no instances of significant capital expenditure being treated as revenue costs.

The valuation of land and buildings

In accordance with the requirements of the SORP, the Board obtained a valuation of its land and buildings as at 1 April 2005. The valuation resulted in an increase in gross book value to £550,000. The draft financial statements did not remove prior year accumulated depreciation to the value of £63,344 and as a result understated the value of the fixed assets within the balance sheet.

This was corrected by the Board's management by writing back the relevant depreciation charge through the fixed asset restatement reserve.

Contents

Executive summary	1
Introduction	3
Financial position	5
Corporate governance	7
Financial statements	9
Appendix I - action plan	12

Appendix I - action plan

This appendix summarises the performance improvement observations we have identified during the financial statements audit. Each of our observations has been allocated a risk rating, which is explained in Figure 1.

Figure 1: risk rating for performance improvement observations

	<p>Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Board or systems under consideration. The weakness may therefore give rise to loss or error.</p>		<p>Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.</p>		<p>Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.</p>
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Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation timetable	
1	The requirements of the 2006 SORP are likely to require a number of presentational changes to the financial statements of the Board.	In order to ensure disclosure in accordance with the SORP and ensure clarity of financial statements going forwards, we recommend that the Board gives early thought to reviewing the format and presentation of the financial statements to ensure continued compliance with the SORP.	The Treasurer will review the format and presentation of the financial statements to ensure continued compliance with the SORP and advise the Board of the proposed presentational adjustments.	Treasurer - by 31 March 2007

