

# Ayrshire Valuation Joint Board

**Report to Members and the Controller of Audit  
on the 2006/07 Audit**



October 2007



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on the 2006/07 Audit**

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Convener and Members of Ayrshire Valuation Joint Board

31 October 2007

Controller of Audit  
EDINBURGH

Ladies and Gentlemen

**Report on the Audit for the year ended 31 March 2007**


I have now completed my audit of the Board's Accounts for the year ended 31 March 2007.

As part of my responsibilities as external auditor to the Board I am required to submit, at the conclusion of each year's audit, a report addressed both to Members of the Board and to the Controller of Audit. I have pleasure in attaching my report on the Board's audit for the year to 31 March 2007.

This report aims to summarise all significant matters which have arisen during the course of the audit and which I feel are worthy of Members' attention.

I should like to take this opportunity to thank those officers who have assisted my staff in the course of the audit.

Yours faithfully



**Asif A Haseeb**  
**Senior Manager**

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# Key Messages

## Introduction

In 2006/07 we looked at the key strategic and financial risks being faced by Ayrshire Valuation Joint Board ("the board"). We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes in 2006/07 and the outlook for the period ahead.

## Key outcomes from 2006/07 audit

- We have given an unqualified opinion on the financial statements of the board for 2006/07.
- The board had corporate governance systems in place during 2006/07 that operated well within a sound control environment. The board does not, however, have a policy for the prevention and detection of fraud, which could mean that fraud is not being adequately dealt with.
- The statement on the system of internal financial control complies with accounting requirements and is consistent with audit findings.
- Final accounts preparation procedures and working papers were very good.
- Balances held at 31 March 2007 are shown as due to the constituent authorities as the board has no powers to carry forward general balances.
- Effective risk management systems, including internal control systems and an internal audit function are in place.
- Internal audit concluded that they were able to "provide reasonable assurance that adequate controls were in place and were operating in 2006/07".
- Key performance indicators (KPIs) are continually monitored.
- Progress continues to be made in developing performance management and public performance reporting arrangements.

## Outlook for future audits

In the course of our work we identified some of the strategic risks that the board will need to manage in delivering on its stated objectives and priorities. These can be grouped into the following themes:

- affordability and efficient use of resources
- developing the performance improvement culture



- supporting political governance
- a modern and streamlined workforce.

The implementation of the single status agreement has yet to be developed. Until single status is fully implemented the initial and continuing costs cannot be reliably estimated which represents some financial risk. The board has agreed to use £30,000 of its accumulated surplus, towards the cost of implementing the single status agreement.

Changes to the Local Government Pension Scheme permit employees retiring on or after April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pensions. On the advice of the board's actuaries the treasurer has assumed that 25% of employees retiring after 6 October 2006 will take advantage of this change to the pension scheme. The pension commutation figure is sensitive to individual preferences and could fluctuate in the future resulting in a significant impact on the board's Income and Expenditure Account and Balance sheet

The board will have to respond to the efficient government agenda and progress activities in relation to best value as well as communicating performance information to interested parties.

The Electoral Commission is moving forward with the development and roll out of performance indicators and a financial information survey as part of its statutory duty to set and monitor performance standards and to collect information on the costs of electoral services. The board should monitor any further developments over the coming year

The co-operation and assistance given to us by board members and staff over the course of our audit is gratefully acknowledged.

**Audit Scotland**  
**October 2007**



# Introduction

1. The members and officers of the board are responsible for the governance and management 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 interest
  - 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 misstatement, error, fraud or corruption
  - the board has proper arrangements for securing best value in its use of resources and is complying with its community planning duties
  - arrangements have been made to collect, record and publish performance information.
2. This report summarises the most significant issues arising from our work during 2006/07. Internal audit have submitted more detailed reports to management of South Ayrshire Council throughout the year and since the board use the council's internal control systems, we have placed reliance on their work.
3. Detailed action plans covering the issues raised during the audit have been discussed with management throughout the year. Key issues for the attention of members are outlined in the action plan included in this report.



# Financial statements

## Independent auditor's report

4. The financial statements present fairly the board's financial position at 31 March 2007 and income and expenditure during the year.
5. The board's balance sheet has an excess of assets over liabilities of £734,506. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets. We consider the board to be going concern.
6. Changes to the local government pension scheme permit employees retiring on or after April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pensions. On the advice of the board's actuaries the treasurer has assumed that 25% of employees retiring after 6 October 2006 will take advantage of this change to the pension scheme. The board's actuaries have advised that this will reduce the value of the board's pension liabilities by £137,000 and this has been included within current service pension cost on the face of the income & expenditure account. The pension commutation figure is sensitive to individual preferences and could fluctuate in the future resulting in a significant impact on the board's income and expenditure account and balance sheet.

## Financial position

7. The board's financial position as at 31 March 2007 showed that surplus funds of £140,794 were available for use by the constituent authorities in future years. The board have already committed to using £74,787 of this balance to meet expenditure in 2007/08 and £30,000 to address the costs of implementing single status and changes to electoral administration. Proposals for the use of the remaining £36,007 will be considered by the board when setting the 2008/09 revenue budget. This cumulative surplus is shown in the accounts as being due to the constituent authorities rather than as a reserve, because under current legislation valuation joint boards have no statutory authority to carry forward general balances.

## Issues arising

8. The board's unaudited financial statements were submitted to the controller of audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were very good and this enabled the audit to progress smoothly.
9. 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. FRS 17 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.

10. During the course of the audit we noted that three invoices totalling £351 relating to 2006/07 were included as 2007/08 expenditure. Therefore the creditors figure in the balance sheet is understated by £351 and 2006/07 expenditure is understated by this amount. In discussion with the treasurer we found that there is no routine review of payments made during April for write back to the previous year. Only accruals in relation to payroll, valuation appeal expenses and audit fees which are considered to be material. We agree with the treasurer's view that this amount is not material and that the accounts do not require to be adjusted. The treasurer intends to set a de minimis level of £500 in respect of any individual accruals and prepayments for future years

**Key risk area 1**

11. The main invoice making up the debtors balance is for £8,399 has been agreed to an insurance renewal notice. However the insurance premium relates to the period from 09/03/07-08/03/08. This means that 22 days of the premium relates to 2006/07. Therefore an amount of £506 should have been charged to expenditure in 2006/07 and not included as a debtor. The effect of this is that 2006/07 expenditure is understated by £506 and debtors are overstated by the same amount. On discussion with the treasurer it is noted that no adjustment has been made in previous years in respect of insurance premium and as such a full year's premium has been charged to 2006/07. However she proposes to make the adjustment in 2007/08, which will mean that an additional 22 days will be charged in that year.

**Key risk area 1**

12. We found that two debtor accounts raised in period 1 of 2007/08 had not been processed at the time of the audit (period 5). The treasurer has discussed the current system with the relevant officer of the board and recommended that reconciliations between the board record of accounts raised and actual accounts ledgered be introduced to ensure that all invoices are ledgered and issued correctly. The treasurer has agreed to provide details of debtors accounts processed on a monthly basis and this will be checked by board staff against the record of accounts raised.

**Key risk area 2**

13. All fixed asset additions were agreed to supporting documentation. Some additions appear to relate to software and software licences. These should be considered for inclusion in the financial statements as intangible assets. The treasurer proposes to undertake an exercise during 2007/08 to reclassify fixed assets additions between tangible and intangible assets.

**Key risk area 3**



14. The board does not have an asset register since it owns so few assets. However there is a spreadsheet detailing the asset values and depreciation calculations of assets owned. It is not considered necessary to hold an asset register given the small number of assets.

## **Legality**

15. Each year we request written confirmation from the treasurer that the 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 clerk to the board and the assessor, the financial transactions of the board were in accordance with the relevant legislation and regulations governing its activities.
16. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## **Statement on the system of internal financial control**

17. The 2006/07 financial statements include a statement on the system of internal financial control which highlights the treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the board's internal financial control system.
18. The statement was signed by the treasurer and reviewed by the board as part of the annual accounts on 3rd of July. It is supported by a high level review of the adequacy and effectiveness of internal financial controls undertaken by internal audit. The statement complies with accounting requirements and is consistent with the findings of our audit.

## **Issues from previous years**

19. The only prior year issue raised by the outgoing auditors, KPMG, was that the board should take due cognisance of the 2006 SORP. The treasurer has produced the financial statements in accordance with the 2006 SORP and all changes required have been actioned.

## **Looking ahead**

20. The board should be aware of any changes in the 2007 SORP which may have an effect on the board's financial statements.

**Key risk area 4**



# Corporate governance

## Overview

21. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. The council's Assistant Chief Executive acts as the board's treasurer and the council's depute chief executive acts as the clerk. The financial systems of the board are the same as those operated by the council. Our review of the council's financial systems did not identify significant issues relating solely to the board.
22. As part of our 2006/07 audit of the board we carried out a high level overview of the board's website. The website was found to be informative and containing relevant links and information. However there are some areas where improvements to the management and operation of the website are advisable, as we were unable to obtain recent minutes of board meetings from the website.

### Key risk area 5

23. The board has decided not to set up an audit committee. The full board is instead considering reports and issues regarding best value as they arise. Internal and external audit reports are submitted and considered by the board as appropriate.
24. Internal audit plays a key role in the board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The internal audit service is provided by South Ayrshire Council. Each year we undertake an overview of internal audit arrangements which includes an assessment of whether or not we can place reliance on internal audit work in order to reduce our own input. We are pleased to state that we were able to place reliance on aspects of internal audit work.
25. Officers have confirmed that to date there have been no claims for equal pay issues. The board have already agreed to use £30,000 of the accumulated surplus to meet the costs of implementing single status. It is important that single status is implemented as soon as possible.

### Key risk area 6

## Anti-fraud and corruption arrangements

26. As part of our audit we considered the adequacy of current arrangements using a standard checklist approach. Overall, we found a number of good practices including a whistle blowing policy that is consistent with the provisions of the Public Interest Disclosure Act 1998. This provides the framework of statutory protection for employees making disclosures relating to instances of fraud and malpractice



in the workplace. The board however does not have a defined policy for the prevention and detection of fraud and corruption.

## Key risk area 7

### Systems of internal control

27. We placed reliance on the work of internal audit in 2006/07 on a number of key systems within the board, covering main accounting feeder systems, cash income and banking reconciliations, creditor payment computer controls, debtors' accounts and payroll. The audit services programme review manager concluded that *'Performance Appraisal and Audit can provide reasonable assurance that adequate controls were in place and were operating in 2006/07'*.

### Issues from previous years

28. There were no issues relation to the prior year with regard to corporate governance

### Looking ahead

29. In the coming years the board faces significant challenges which include implementing single status.



# Performance

## Best Value

30. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities and joint boards. Although the board was not subject to a formal audit in this area we carried out limited high level transitional work to review some broad aspects of best value requirements in 2006/07.
31. Key findings included:
  - clear standards and targets are set and monitored in the form of key and internal performance indicators
  - accountability and transparency are facilitated through the publication of the annual performance report on the board's website and valuation and council tax bandings on the Scottish assessors' association website. The board should continue to monitor progress in this area.
32. We have been advised that the board went through a European Foundation Quality Management (EFQM) exercise a number of years ago. In addition to this a performance management and planning audit was undertaken by the management team and best value working group in 2003. From that audit a service plan and improvement agenda were created and these are reviewed on an annual basis.
33. A risk analysis was carried out by the board in March 2006, and this has recently been updated. Though this is still in its infancy, progress towards implementing improvements identified is monitored by management at monthly meetings. Our review confirmed that the board is making progress in the areas reviewed.

## Key Performance indicators

34. The board is not required to prepare statutory performance indicators in terms of the local government act 1992. However, it is required to produce key performance indicators (KPIs) and, so far as is practicable, ensure they are accurate and complete. The board has key performance indicators for non-domestic valuation roll amendments and appeals and council tax new entries. These are reviewed annually by the board and monitored at monthly management meetings. In 2006/07 the board reported that they achieved their KPI target for council tax, but marginally failed to meet their target for non-domestic valuation roll amendments entered within three months (target 75%, achieved 72%).



35. In the board's annual performance report they also incorporate a section on electoral registration which shows the statistics in relation to the board's annual canvass of electors.

### **Issues from previous years**

36. There were no issues from the prior year.

### **Looking ahead**

37. Challenges facing the board in the coming years continue to include responding to the efficient government agenda and progressing activities in relation to best value as well as communicating performance information to interested parties.

### **Key risk areas 8 & 9**

38. The Electoral Commission is moving forward with the development and roll out of performance indicators and a financial information survey as part of its statutory duty for electoral services and to collect information on the costs of electoral services from electoral registration officers, returning officers and referendum counting officers. The board should monitor any further developments over the coming year.



# Final remarks

39. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
40. A mechanism should be considered and agreed by members for monitoring the effectiveness of the planned action by officers as detailed in the action plan to this report. We will review the operation of the agreed mechanism as part of the 2007/08 audit.
41. The co-operation and assistance given to us by board officers and members is gratefully acknowledged.



# Appendix A: Action plan

No. (para)	Risk identified	Responsible officer	Planned management action	Target date
1. (para 10 and 11)	<p><b>Accruals</b></p> <p>During the course of the audit we found amounts totalling £857.41 included in expenditure of 2007/08 actually related to the financial year 2006/07. In discussion with the treasurer we found that there is no routine review of payments made during April for write back to the previous year. Only accruals in relation to payroll, valuation appeal expenses and audit fees which are considered to be material.</p> <p><i>Risk: There is a risk that expenditure is understated and that the accumulated surplus is overstated.</i></p>	Treasurer	The treasurer is going to set a de minimis level of £500 in respect of any individual accruals and prepayments for the 2007/08 accounts.	March 2008
2. (para 12)	<p><b>Debtors Accounts</b></p> <p>Two debtor accounts raised in period 1 had not been processed at the time of the audit (period 5).</p> <p><i>Risk: There is a risk that debtors accounts are not raised and the board does not receive income due to them.</i></p>	Treasurer and the Administration Officer	Reconciliations between the board record of accounts raised and actual accounts ledged will be introduced to ensure that all invoices are ledged and issued correctly. The treasurer has agreed to provide details of debtors accounts processed on a monthly basis and this will be checked by board staff against the record of accounts raised.	Implemented
4. (para 20)	<p><b>2007 SORP</b></p> <p>The board should be aware of the changes incorporated in the 2007 SORP and any effect they may have on the financial statements.</p> <p><i>Risk: That the board does not comply with the 2007 SORP</i></p>	Treasurer	A review of the 2007 SORP will be undertaken and appropriate action taken before the 2007/08 financial statements are produced.	March 2008





No. (para)	Risk identified	Responsible officer	Planned management action	Target date
5. (para 22)	<p><b>Website</b></p> <p>The board's website is very well sourced, and easy to navigate, however we have been unable to get the most recent minutes from the website for the last two board meetings.</p> <p><i>Risk: There is a risk that the public are not informed of the most recent decisions taken by the board</i></p>	Assessor and Electoral Registration Officer	Procedures are now in place to update the website with the approved minutes of Board meetings following the subsequent meeting. The lack of minutes was a temporary omission.	Implemented
6. (para 25)	<p><b>Single Status</b></p> <p>The board has not implemented single status.</p> <p><i>Risk: The board may be liable to equal pay claims from employees.</i></p>	Clerk, Treasurer and Assessor & Electoral Registration Officer	The majority of job evaluations have been completed. The board would normally follow the pay and terms and conditions applied within South Ayrshire. The Board need to determine whether to follow the South Ayrshire scheme or implement a separate scheme.	January 2008
7. (para 26)	<p><b>Anti-Fraud and Corruption Arrangements</b></p> <p>The board does not have a defined policy for the prevention and detection of fraud and corruption.</p> <p><i>Risk: There is a risk that fraud goes undetected.</i></p>	Treasurer/ Assessor and Electoral Registration Officer.	A policy will be prepared for consideration by the Board.	January 2008
8. (para 37)	<p><b>Best Value</b></p> <p>Best value is an area in where ongoing work is required to ensure the board is complying with its statutory duties.</p> <p><i>Risk: The board is unable to demonstrate compliance with the principles of Best Value as outlined in the 2003 Act.</i></p>	Assessor and Electoral Registration Officer	Compliance with the principles of Best Value is considered regularly by management and improvements to performance information considered annually.	Ongoing
9 (para and 37)	<p><b>Efficient Government</b></p> <p>The board will need to take necessary action in relation to cash releasing and time releasing savings.</p> <p><i>Risk: The Board fails to demonstrate that available efficiencies have been identified and realised.</i></p>	Assessor and Electoral Registration Officer	To be addressed as part of 2008/09 Revenue Budget process.	January 2008