

Ayrshire Valuation Joint Board

**Report to Members and the Controller of Audit
on the 2007/08 Audit**



October 2008



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Key Messages

Introduction

In 2007/08 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 from the 2007/08 audit and the outlook for the period ahead.

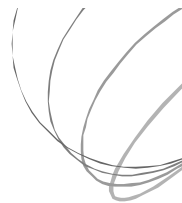
Key outcomes from 2007/08 audit

- We have given an unqualified opinion on the financial statements of the board for 2007/08.
- The board had corporate governance systems in place during 2007/08 that operated well within a sound control environment.
- 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 2008 are shown as due to the constituent authorities.
- 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 2007/08.”
- Key performance indicators (KPIs) are continually monitored.

Outlook for future audits

In the course of our work we identified some of the strategic risks that the board needs to manage in delivering its corporate objectives and priorities. These have been summarised below:

- In the past valuation joint boards had no statutory authority to carry forward general balances. However, latest interpretation of the legislation now gives valuation boards some flexibility in deciding whether to carry forward a surplus or deficit. This would result in boards being able to show a general fund balance at the year end. The board has agreed that the 2007/08 accounts would remain unchanged and that the 2008/09 accounts will be presented in line with this guidance.

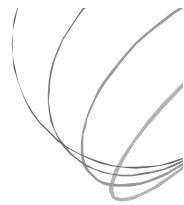


- Progress on single status is being made in conjunction with South Ayrshire Council. Further work is required in this area to fully implement single status.
- The board has narrowly failed to achieve some of its key performance indicators (KPIs) for 2007/08. As work for the revaluation in 2010 gets underway it is anticipated that progress against KPIs may be adversely affected. The extent to which performance may fall below target is unknown.
- Challenges facing the board in the coming years continue to include responding to the efficient government agenda and demonstrating achievement of best value.

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



October 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of the board, the second year of a five year appointment. Findings are set out in four sections: financial statements; financial position; governance; and performance. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the board going forward.
2. The scope of the audit is set out in our annual audit plan (AAP), which was submitted to officers on 31 March 2008. The AAP summarises the specific governance and other risks that could affect the board's financial statements. It describes the work we planned to carry out in response to these risks.
3. Overall conclusions about the board's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.



Financial statements

Introduction

4. In this section we summarise key outcomes from our audit of the board's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
5. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the board and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the board to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the board.
7. The statement on the system of internal financial control highlights the treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the board's internal financial control system. The statement was signed by the treasurer and reviewed by the board as part of the annual accounts on 17 June 2008. The statement complies with accounting requirements and is consistent with the findings of our audit.

Overall conclusion

8. We have given an **unqualified** opinion on the financial statements of the board for 2007/08.
9. The board's unaudited financial statements were submitted to the controller of audit prior to the deadline of 30 June 2008. Final accounts preparation processes and working papers were very good and enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2008 and were presented to the board on 16 September 2008. The financial statements are an essential means by which the board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.



Accounting practice

10. Local authorities and joint boards in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes relevant to the board were the replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account
11. Overall, we were satisfied that the board had prepared the accounts in accordance with the revised SORP.
12. As reported to the board via our report issued in line with International Standard on Auditing 260 (ISA 260) *communication of audit matters with those charged with governance*; there were no audit adjustments required to the financial statements as a result of our audit findings.
13. Some minor presentational changes were made to the accounts to aid understanding by the reader after discussion with the treasurer.

Legality

14. Each year we request written confirmation from the treasurer that the board's financial transactions accord with relevant legislation and regulations. Significant legality requirements are also included in audit programmes. 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.
15. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Fixed Assets

16. No progress has been made with regard to transferring the title deeds for the board's offices in Wellington Square. The deeds remain in the name of the former Strathclyde Regional Council. It is understood that this issue will be addressed by South Ayrshire Council's estates department as part of the work to resolve the issues regarding the properties at 8 and 10 Wellington Square, which are owned by the council.

Key Risk Area 1



Financial reporting outlook

General fund balance

17. Latest guidance now gives valuation boards some flexibility in deciding whether to carry forward a surplus or deficit. This would result in boards being able to show a general fund balance at the year end. The board has agreed that the 2007/08 accounts would remain unchanged and that the 2008/09 accounts will be presented in line with the amended guidance.

Key Risk Area 2

IFRS adoption

18. Central government and NHS bodies are to move from UK generally accepted accounting principles to international financial reporting standards (IFRS) with effect from 2009/10. The government also announced its intention to publish whole of government accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas.

Key Risk Area 3



Financial position

Introduction

19. In this section we summarise key aspects of the board's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the board in managing ongoing financial pressures in funding existing service delivery and future improvement.

Surplus Balances

20. The board's financial position as at 31 March 2008 showed that surplus funds of £179k were available for use by the constituent authorities in future years. This cumulative surplus is shown in the accounts as being due to the constituent authorities rather than as a reserve since the previous interpretation of the legislation did not permit valuation joint boards to carry forward general balances.
21. The board have already committed to using £131k of the £179k to meet expenditure in 2008/09 and £30k to address the costs of implementing single status. Proposals for the use of the remaining £18k will be considered by the board when preparing the 2009/10 revenue budget.
22. Decisions on the utilisation of this balance should be taken in a prompt and timely manner as technically the constituent authorities could ask for any surplus funds to be repaid to them. The decision on an unallocated amount of £36k at the end of 2006/07 was not taken until the 2008/09 budget discussions in January 2008.

Key Risk Area 4

Single status

23. Officers have confirmed that to date there have been no claims for equal pay issues. As there are no equal pay issues there will be no requirement to backdate the implementation of single status. The board have already agreed to provide £30k of the accumulated surplus to meet the costs of implementing single status.



Financial outlook

Single Status

24. Progress on single status is being made in conjunction with South Ayrshire Council. Consideration will be given as to whether application of the council's pay model will be appropriate to the board's specific requirements or whether the development of a separate pay model will be required. Further work is required in this area.

Key Risk Area 5

Pension liabilities

25. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, financial reporting standard 17 (retirement benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.
26. The next full actuarial valuation will assess the position at 31 March 2008. This will determine contribution rates for 2009-10 and the next two financial years. Recent changes to the local government pension scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners.
27. Planned changes to the local authority pension scheme will result in the introduction of tiered contributions rates. The board is working with the council to ensure that payroll system can be adapted to cope with this change.

Key Risk Area 6



Governance

Introduction

28. In this section we comment on key aspects of the board's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

29. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. South Ayrshire Council's assistant chief executive and depute chief executive act as the board's treasurer and clerk respectively. 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.
30. As part of our 2007/08 audit of the board we carried out an overview of the board's website. As raised in our audit for 2006/07, minutes for board meetings are not being added in a timely manner. In addition there are no links to supporting reports and appendices referred to in the board minutes. Therefore the availability of information is limited and not up to date.

Key Risk Area 7

31. The board has decided not to set up an audit committee. The full board considers reports and issues regarding best value as they arise. Internal and external audit reports are submitted and considered by the board as appropriate.
32. 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.

Anti-fraud and corruption arrangements

33. As part of our audit we considered the adequacy of current arrangements. 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 updated its policy for the prevention and detection of fraud and corruption during 2007/08.

Governance outlook

34. No significant governance issues to consider at present.



Performance

Introduction

35. In this section we summarise how the board manages its performance. We discuss the overall arrangements before focussing on the specific areas. Finally, we give an outlook on future performance, including our views on the current status of identified risks.

Overview of performance in 2007/08

Best value

36. 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 has not been subjected 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 2007/08.
37. The board has clear standards and targets and these are monitored in the form of key and internal performance indicators.
38. 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.
39. 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.

Key performance indicators

40. The board is not required to prepare statutory performance indicators in terms of the local government act 1992. However, it is required to produce local key performance indicators (KPIs) and, so far as is practicable, ensure they are accurate and complete.
41. 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 2007/08 the board reported that they narrowly failed to achieve their KPI



targets for council tax and non-domestic valuation roll amendments entered within three months (target 87%, achieved 81.7% and target 75%, achieved 68.1%).

Efficient government

42. The board does not have specific efficiency targets as part of the efficient government agenda, however the board does actively seek to identify and realise efficiencies where possible.
43. As a result of the generation of budget savings, the requisitions levied on constituent authorities have been minimised. The treasurer and assessor should attempt to quantify the efficiencies achieved and report these to the board in due course.

Performance outlook – opportunities and risks

Revaluation in 2010

44. As preparations for the revaluation in 2010 get underway it is anticipated that progress against KPIs may be adversely affected. The extent to which performance may fall below target is unknown.

Key Risk Area 8

National performance indicators

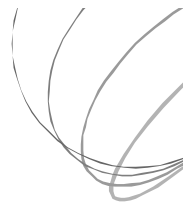
45. The first draft performance indicators were produced on time and these indicators are being reviewed for years 2008/09 by the Electoral Commission.

Key Risk Area 9

Efficient government & best value

46. 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.

Key Risk Area 10



Final remarks

47. 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.
48. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.
49. The co-operation and assistance given to us by board officers and members is gratefully acknowledged.



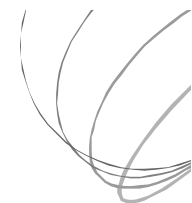
Appendix A: Action plan

Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|---|---------------------|---------------|
| 1 | 16 | <p>Fixed assets</p> <p>No progress has been made with regard to transferring the title deeds for the board's offices in Wellington Square from the former Strathclyde Regional Council.</p> <p><i>Risk: In the event of the building being sold, it is important that legal ownership by the board can be demonstrated.</i></p> | <p>The title deeds will be transferred once issues around access have been resolved with South Ayrshire Council.</p> | Clerk | 31 March 2009 |
| 2 | 17 | <p>General fund balance</p> <p>Latest guidance now gives valuation boards some flexibility in deciding whether to carry forward a surplus or deficit allowing boards to show a general fund balance at the year end. The board has agreed that the 2007/08 accounts would remain unchanged and that the 2008/09 accounts will be presented in line with the amended guidance.</p> <p><i>Risk: The accounts for 2008/09 will not be presented in the amended format. The 2007/08 figure will not be restated.</i></p> | <p>The guidance which allows the board to show a general fund balance was received late in the accounts closure process.</p> <p>The 2008/09 accounts will be presented in accordance with the amended guidance.</p> | Treasurer | 31 March 2009 |
| 3 | 18 | <p>IFRS adoption</p> <p>The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas.</p> <p><i>Risk: the board does not fully comply with IFRS.</i></p> | <p>A review of the requirements of IFRS will be undertaken to ensure that the board can fully comply for 2010/11 accounts</p> | Treasurer | 31 March 2009 |



| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|--|---------------------|-----------------|
| 4 | 22 | <p>Surplus balances</p> <p>Decisions on the utilisation of this balance should be taken in a prompt and timely manner.</p> <p>Risk: constituent authorities could ask for any surplus funds to be repaid to them if the board cannot demonstrate that the funds are required. Alternatively requisition amounts from authorities may be reduced.</p> | <p>The board have agreed to consider use of the surplus balances and the need to retain an uncommitted general reserve as part of the setting of 2009/10 revenue budget</p> | Treasurer | 31 January 2009 |
| 5 | 24 | <p>Single status</p> <p>Progress on single status is being made in conjunction with South Ayrshire Council.</p> <p>Risk: The eventual pay bill may increase once single status is implemented. Staff morale may be affected by delays in implementation.</p> | <p>The assessor will continue to work with officers from South Ayrshire Council to progress the implementation of single status.</p> <p>A provision of £30,000 is available to meet any additional payroll costs</p> | Assessor | 31 March 2009 |
| 6 | 27 | <p>Tiered pension contributions</p> <p>Planned changes to the local authority pension scheme will result in the introduction of tiered contributions rates.</p> <p>Risk: payroll systems are unable to cope with these changes.</p> | <p>Payroll services are provided by South Ayrshire Council and council staff are ensuring that the payroll system is able to cope with the required changes</p> | Treasurer | 31 March 2009 |
| 7 | 30 | <p>Website Information</p> <p>Minutes for board meetings are not being added in a timely manner. In addition there are no links to supporting reports and appendices referred to in the board minutes.</p> <p>Risk: the transparency and availability of information to the public has limitations.</p> | <p>The board have agreed to review the information held on the website in light of audit comments</p> | Board | 31 January 2009 |



| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|--|------------------------|-------------|
| 8 | 44 | <p>2010 Revaluation</p> <p>As preparations for the revaluation in 2010 get underway it is anticipated that progress against KPIs may be adversely affected.</p> <p><i>Risk: the extent to which performance will fall below target is unknown.</i></p> | KPI performance and preparation for 2010 Revaluation will be monitored at monthly management meetings and the board will be advised as required. | Assessor | ongoing |
| 9 | 45 | <p>National Performance Indicators</p> <p>The introduction of national performance indicators for electoral registration will require some preparatory work.</p> <p><i>Risk: the board will not be in a position to adapt to meet the requirements of new targets.</i></p> | This review will be monitored and actioned as required. | Assessor | ongoing |
| 10 | 46 | <p>Efficient Govt & Best Value</p> <p>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.</p> <p><i>Risk: the board is unable to demonstrate that it operates in compliance with best value principles and that it is achieving identifiable efficiencies.</i></p> | Assessor and treasurer to prepare report for Board in line with budget for 2009/10 | Assessor and Treasurer | Jan 2009 |