

Grampian Valuation Joint Board

Report to Members and the Controller of Audit on the 2009/10
Audit

October 2010



 AUDIT SCOTLAND

Grampian Valuation Joint Board

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Introduction

1. This report summarises the findings from our 2009/10 audit of Grampian Valuation Joint Board. The scope of the audit was set out in our Annual Audit Plan issued in February 2010.
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 give a true and fair view of 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 Joint 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 Joint Board has adequate 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 Joint Board has proper arrangements for securing best value in its use of resources.



Financial statements

Introduction

4. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2009/10. We also summarise key aspects of the Joint Board's reported financial position and performance to 31 March 2010.
5. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Joint 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 Joint Board to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Joint Board.

Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of Grampian Valuation Joint Board for 2009/10.
8. The unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly. Audited accounts were finalised at the beginning of August, well over a month ahead of the target date of 30 September and are now available for presentation to the Joint Board and publication.
9. The Joint Board is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2009 (the 'SORP'). The 2009 SORP contained some minor changes to the presentation of the financial statements. The Joint Board coped well with these changes and we are satisfied that the financial statements have been prepared in accordance with the revised SORP.



Financial position

Going concern

10. The Joint Board's balance sheet at 31 March 2010 shows net liabilities of £4.492 million. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets.
11. The net liability position is due to the requirements of Financial Reporting Standard 17 (retirement benefits) where there is an obligation to recognise the Joint Board's full pension obligations in the year they are earned. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met from employees' and employer's contributions and investment returns. In common with similar public bodies, the Joint Board has considered it appropriate to adopt a going concern basis for the preparation of its financial statements for the reasons outlined above.

Operating performance 2009/10

12. The Joint Board's net operating expenditure in 2009/10 was £4.106 million. This was met by requisitions from constituent authorities of £4.084 million, resulting in an income and expenditure deficit of £0.022 million. After taking into account statutory and non-statutory adjustments, a general fund surplus of £0.194 million (4.8% of budget) was achieved which will be refunded to the constituent authorities. The Treasurer summarises performance against budget in the Explanatory Foreword to the accounts. As in previous years, the majority of the underspend is due to reduced staff costs resulting from difficulties in recruiting professional staff.
13. Capital expenditure on the new Banff Office totalled £0.012 million in 2009/10 and was financed from the Capital Fund. The Joint Board is committed to further capital expenditure of £0.021 million in 2010/11. The Joint Board returned £0.4 million of the Capital Fund to constituent authorities during 2009/10, leaving a balance of £0.071 million on the Capital Fund as at 31 March 2010.

Legality

14. 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. The Treasurer has confirmed that, to the best of her knowledge and belief and having made appropriate enquiries of other senior officers, the financial transactions of the Joint 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.

Financial outlook

National economic conditions

16. The UK economy is in its longest recession on record and the public sector is now facing deep and prolonged cuts in funding. At a UK level, real term reductions of 2.3% each year are projected for Departmental Expenditure (DEL) budgets between 2011 and 2014. Current forecasts are that any real term growth in public spending over the next two spending review periods (2011 to 2018) will continue to be constrained and will not return to the levels seen over the last decade.
17. Whilst the Scottish Government has implemented an economic recovery programme to support the economy through this period of decline, demand for public services continues to rise adding to the ongoing strain on public sector resources. The Joint Board acknowledges that it will not be immune to these financial pressures and is looking at ways of more effectively delivering services with decreasing levels of income. As a first step in this process, the Joint Board set its budget for 2010/11 at the same cash level as the previous year.

Pension liabilities

18. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions.
19. In accounting for pensions, 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. This requirement results in large future liabilities being recognised in the annual accounts.
20. The Joint Board's estimated pension liabilities at 31 March 2010, exceeded its share of the assets in the Aberdeen City Council Pension Fund by £5.351 million, increasing from £3.678 million in the previous year. The principal reason for the increase is due to the change in the discount rate used by the actuaries to calculate future liabilities at today's prices. This reduced from 7.1% (used in 2008/09) to 5.6% (used in 2009/10) due to the substantial decrease in yields on corporate bonds, on which the discount rate is based. The liability will be made good by increased contributions over the remaining working lives of the employees, as assessed by the scheme's actuary.



Compliance with International Financial Reporting standards (IFRS)

21. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Overall, the Joint Board has made good progress in this area with the comparative balance sheet as at 1 April 2009 submitted for audit in March 2010. Work is currently underway to produce a full set of IFRS-compliant 2009/10 shadow accounts by mid-December 2010. We will discuss our audit input to this process as part of our audit planning for 2010/11.

Action plan no. 1



Governance

Introduction

22. In this section we comment on key aspects of the Joint Board's governance arrangements during 2009/10.

Overview of arrangements in 2009/10

23. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviour 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. Based on the work undertaken, we concluded that, during 2009/10, the Joint Board had systems in place that operated well within a sound control environment.
24. In 2007 CIPFA/SOLACE published a framework 'Delivering Good Governance in Local Government' which sets out standards to help local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of business. The Joint Board assessed its corporate governance structures against this framework in 2009/10 and concluded that it has a sound governance framework in place.

Internal audit

25. Internal audit plays a key role in the Joint Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The Moray Council's Internal Audit section provides an internal audit service to the Joint Board.
26. 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. Our assessment confirmed that the section operates in accordance with the CIPFA code of practice for internal audit in local government. As a result, we planned to rely on internal audit's substantive testing of payroll and creditors payments as part of our financial statements opinion work. Review of their payroll and creditors payments files confirmed that the work done was sufficient to enable us to place formal reliance on internal audit's work in these areas in 2009/10. We will review Internal Audit's plan as part of our 2010/11 planning process in order to ensure that we can continue to obtain maximum benefit from the systems work undertaken by internal and external audit.



Statement on the system of internal financial control

27. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Joint Board's internal financial control systems.
28. The Statement highlights two risks facing the Joint Board: uncertainties surrounding the proposed replacement of council tax with a local income tax; and the absence of a fully developed business continuity plan to reduce disruption caused by a major system failure or disaster. The Joint Board is currently completing the development of its business continuity plan but has no plans in place to address the proposed replacement of the council tax as the Scottish Government has postponed the necessary legislation until after the elections in 2011.
29. In accordance with good practice, the statement 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 not inconsistent with the findings of our audit.

Systems of internal control

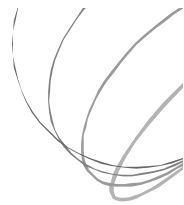
30. The Joint Board's financial transactions are processed through The Moray Council's financial systems. It is the responsibility of the Joint Board's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
31. Our review of these systems was conducted as part of the audit of The Moray Council, supplemented by specific audit work on the Joint Board's financial statements. Overall there are no material issues of concern in relation to the operation of the main financial systems.

Prevention and detection of fraud and irregularities

32. The Joint Board has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy; a confidential reporting (whistle blowing) policy; and code of conduct for staff.

Governance outlook

33. As noted at paragraph 12, the Joint Board faces challenges in recruiting and retaining suitably qualified professional staff. The Joint Board has sought to address this by introducing a programme to train and develop staff in-house.



Final remarks

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

Audit Scotland
October 2010



Appendix: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Management Response and Planned Action	Responsible Officer	Target Date
1	21	Adoption of International Financial Reporting Standards (IFRS) Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Work is currently underway to produce IFRS-compliant 2009/10 shadow accounts by 31 December 2010. <i>Risk: the Joint Board will be unable to produce IFRS compliant financial statements for 2010/11.</i>	<p>The implementation of IFRS for the Board is being taken forward as part of the Moray Council overall programme.</p> <p>The Board's 2009/10 Accounts will be restated under IFRS accounting requirements and submitted to External Audit by 17 December 2010 along with supporting working papers.</p> <p>A timetable is in place to produce IFRS-compliant 2010/11 financial statements by 31 May 2011.</p>	Treasurer	<p>17 December 2010</p> <p>31 May 2011</p>