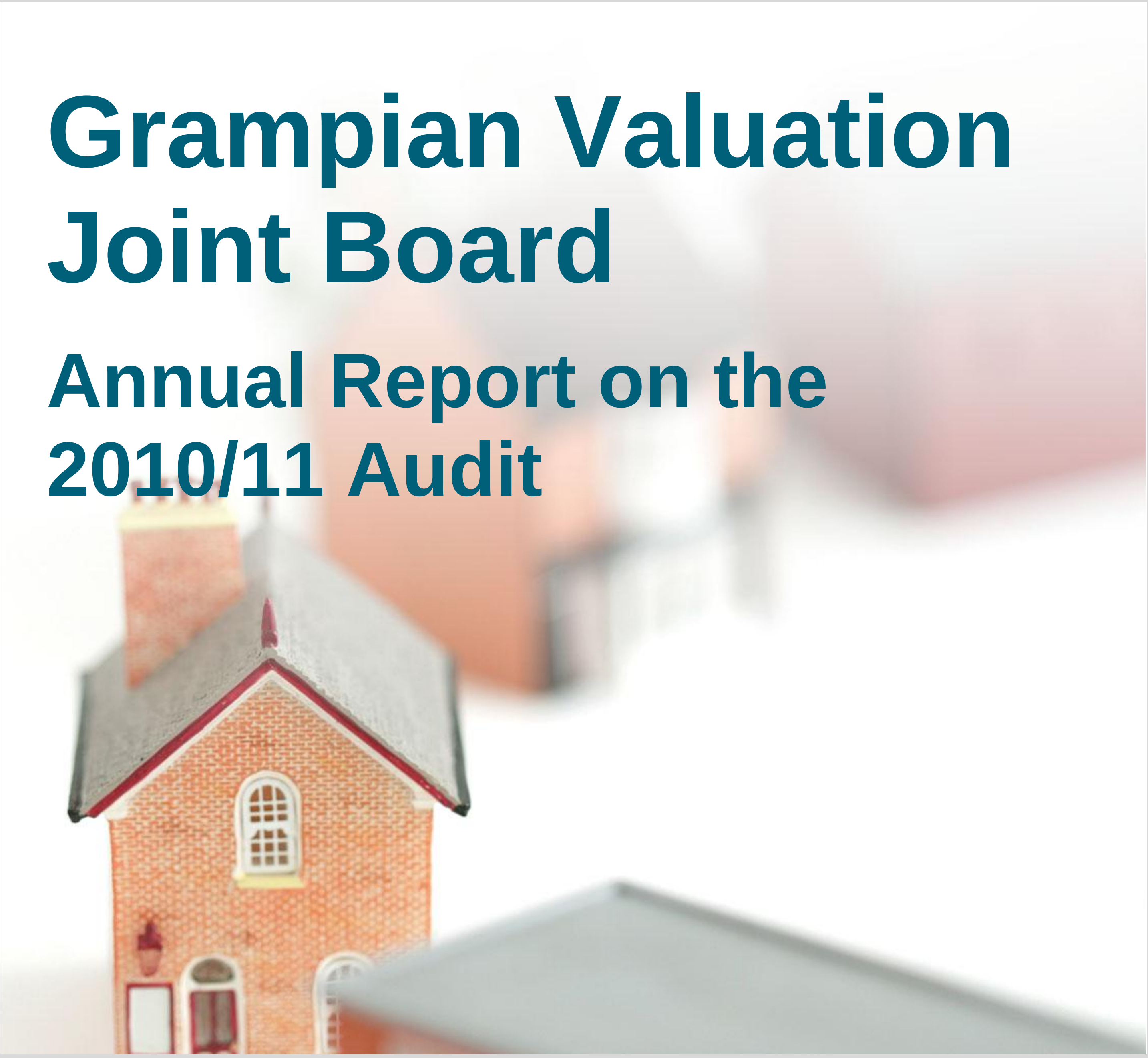
Grampian Valuation Joint Board

Annual Report on the 2010/11 Audit



AUDIT SCOTLAND

Prepared for members of Grampian Valuation Joint Board and the Controller of Audit

October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds

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Introduction

1. This report summarises the findings from our 2010/11 audit of Grampian Valuation Joint Board. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. Appendix A is an action plan setting out the high level risk we have identified from the audit. Officers have considered the issue and have agreed to take the specific steps set out in the column headed 'Planned Management Action'. We do not expect all risks to be eliminated or even minimised. What we expect is that the board understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and that they have a mechanism in place to assess progress.

3. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the board. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate.

4. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by the board. The information in this report may be used to prepare the annual overview of local authority audits report later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.

5. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of internal control.

Financial statements

6. 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.

7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of the council and its income and expenditure for the year
   - whether they have been prepared properly in accordance with relevant legislation, the applicable accounting standards and other reporting requirements.

8. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the system of internal financial control and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

9. We gave an unqualified opinion that the financial statements of Grampian Valuation Joint Board for 2010/11 gave a true and fair view of the state of the affairs of the board as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

10. Through our planned audit work we consider the legality of the board's financial transactions. In addition, the Treasurer has confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of the board's management team, the financial transactions of the board were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of financial control

11. We are satisfied with the disclosures made in the statement on the system of internal financial control and the adequacy of the process put in place by the board to obtain the necessary assurances. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

Remuneration report

12. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant board officers and elected members.

Accounting issues

13. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). We are satisfied that the board prepared its 2010/11 financial statements in accordance with the 2010 Code.

Accounts submission

14. The board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2011 and are now available for presentation to members and publication.

Prior year adjustments

15. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (UK GAAP). This transition required a prior period adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The only adjustment that had to be made for the board was the inclusion of an accrual for untaken annual leave and flexitime which resulted in the net liabilities position of the board as at 31 March 2010 increasing from £4.492 million to £4.568 million.

Presentational and monetary adjustments to the unaudited financial statements

16. The board adjusted the unaudited financial statements to reflect the majority of our audit findings. These adjustments related to the presentation of the figures within the financial statements and had no impact on the board's results for the year. As is normal practice, the Treasurer decided not to amend the accounts for two immaterial financial misstatements:

- the Comprehensive Income & Expenditure Statement surplus is understated and creditors are overstated by £3,000 due to the over accrual of an invoice which was estimated as part of the accounts preparation process; and
- debtors and creditors are overstated by £4,000 due to the inclusion of an invoice partly relating to 2011/12 as both a creditor and a prepayment (debtor).

17. These amounts are not material to the financial statements and we agree with the Treasurer's decision not to amend for them.

Going concern

18. The board’s balance sheet at 31 March 2011 shows an excess of liabilities over assets of £3.227 million due to the accrual of pension liabilities in accordance with International Accounting Standard 19 (IAS19). In common with similar public bodies, the board has adopted a 'going concern' basis for the preparation of its financial statements as the pension liabilities are based on long-term actuarial projections and do not require immediate funding other than through increased employers' contributions which are already built into the board's budgets and plans. We are satisfied that the process that the board has undertaken to consider the organisation's ability to continue as a going concern is reasonable.

Outlook

19. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the past five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) PricewaterhouseCoopers will be the appointed auditor for Grampian Valuation Joint Board.

Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

21. Auditors consider whether audited bodies have established adequate arrangements and examine:
    - financial performance in the period under audit
    - compliance with any statutory financial requirements and financial targets
    - ability to meet known or contingent, statutory and other financial obligations
    - responses to developments which may have an impact on the financial position
    - financial plans for future periods.

22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Budgetary control

23. The board's net operating expenditure in 2010/11 was £3.788 million, an underspend of £0.296 million (7%) against budget. The Treasurer summarises performance against budget in the Explanatory Foreword to the accounts. As in previous years, the majority of this underspend is due to reduced staff costs resulting from vacant posts. Property costs were also underspent this year due to the refund of previous years' overcharges by Aberdeenshire Council for services relating to the board's office space within Woodhill House.

24. The board's net operating expenditure (£3.788 million) differs from the Net Cost of Services disclosed in the Comprehensive Income and Expenditure Statement of £2.230 million by £1.558 million. This is because reports prepared for the board's monitoring purposes are prepared on a different basis from the accounting policies used in the financial statements. Note 24 to the accounts, which reconciles the figures in the budget monitoring report to the figures in the Comprehensive Income and Expenditure Statement, shows that the majority of the difference is due to retirement benefits which are based on cash flows in the budget monitoring reports but based on the current service costs of benefits accrued for the year within the accounts.

Reserves and funds

25. In January 2011, the board approved the creation of a general fund to provide the Assessor with some flexibility to investigate any spend to save projects which would require some one-off expenditure in order to deliver future budget savings.

26. In the absence of a more specific regulation for valuation joint boards in respect of the carry forward limits on its general fund, members agreed to align the board's carry forward limits with those imposed on police and fire boards i.e. a maximum of 3% of the total budget to be added to the general fund in any one year as long as the cumulative balance does not exceed 5% of the total budget in that year. The board transferred £0.123 million (3% of budget) of its £0.296 million surplus to the general fund at 31 March 2011. The remaining £0.173 million was returned to constituent authorities.

27. The board also has a capital fund which is used to fund capital expenditure. As at 31 March 2011 the balance on the capital fund was £0.071 million.

Financial outlook

Revenue budget for 2011/12

28. The board, like all public sector organisations, faces a very challenging financial climate. This served as an impetus for the creation of the general fund discussed above. The budget of £3.913 million for 2011/12 is 4.19% lower than last year's budget of £4.084 million. Staff costs, which account for 77% of the total budget, have been reduced by 3.8% through the freezing of three posts and a general pay freeze for all employees (excluding annual increments).

29. The constituent authorities have requested that the Assessor make a further 4% per annum savings for 2012/13, 2013/14 and 2014/15. As noted above, staff costs account for 77% of the revenue budget and this leaves little scope to make efficiencies without impacting on the level of service delivery. This risk has been recognised in the statement on the system of internal financial control.

Refer action plan no. 1

Pensions funding

30. 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. In accounting for pensions, IAS19 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying for 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.

31. The board’s estimated pension liabilities at 31 March 2011 exceeded its share of the assets in the North East of Scotland Pension Fund by £4.1 million (£5.4 million at 31 March 2010). This decrease of £1.3 million in the net pension liability is due to a change in one of the financial assumptions used by the actuaries following the UK Government's decision to link future pensions' increases to the consumer price index (CPI) rather than the retail price index (RPI). The actuary has recommended that the council’s contributions should be 19.3% of pensionable pay in 2011/12.

Governance and accountability

32. The three fundamental principles of corporate governance - openness, integrity and accountability - apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

33. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

34. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

35. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

36. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the modernisation agenda. The board has oversight of the financial resources and receives budget monitoring reports at each meeting. The board is generally well attended by members and officers who respond to queries. The responsibilities of the Assessor, Treasurer and Grampian Valuation Joint Board in relation to budget monitoring and review are set out in board's Financial Regulations.

37. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. The 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.

38. In 2006, the board adopted a Code of Corporate Governance which sets out its purpose and governance and management arrangements. The board assessed its corporate governance structures against the CIPFA/SOLACE 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 during 2009/10. This review concluded that the board has a sound governance framework in place.

Internal control

39. The board's financial transactions are processed through The Moray Council's financial systems. Our review of these systems was conducted as part of that council's audit, supplemented by specific audit work on the board's financial statements. There are no material issues of concern in relation to the operation of the board's main financial systems.

40. 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 Moray Council's Internal Audit section provides an internal audit service to the board.

41. 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.

Risk management

42. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.

43. The board developed a risk register in January 2006. Each risk is given a rating, which is a combination of the likelihood of it happening and its impact, and remedial actions are outlined against each risk. The risk register is a standing item on the management team's agenda and risk owners report directly to the Assessor & Electoral Registration Officer in relation to any matters of concern. Risks which are assessed as moderate or high receive special attention outwith the routine cycle of management team meetings. Updates on the risk register are presented to members in June of each year.

Prevention and detection of fraud and irregularities

44. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

45. The 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.

Outlook

46. In early 2008, the SNP government announced its proposals to replace council tax with a local income tax based on ability to pay. There is, therefore, uncertainty with regards to the future of council tax although the board believe it will continue in its present form until at least 2015.

Best Value, use of resources and performance

47. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

48. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

49. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
    - a performance audit which may result in the publication of a national report
    - an examination of the implications of a particular topic or performance audit for an audited body at local level
    - a review of a body's response to national recommendations.

50. During the course of their audit appointment, auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

51. This section includes commentary on the Best Value / performance management arrangements within the board.

Management arrangements

Best Value

52. The introduction of best value has given rise to a number of key performance indicators. In respect of electoral registration, the Electoral Commission has established a regime of self-assessment and inspection. The board submits self-assessments each year and was subject to a scrutiny visit by the Commission in 2009. This confirmed that the self-assessment completed by the board was an accurate reflection of its performance.

53. 2010/11 is the third year that the Electoral Commission has published performance standards. The board met or exceeded all 10 of these standards in 2010/11.

Overview of performance in 2010/11

Performance management

54. The board's Code of Corporate Governance sets out a framework for performance measurement and evaluation, and identifies a number of quantitative service related performance indicators. Performance targets have been agreed between the Scottish Government and the Scottish Assessors Association and performance against these is reported to each meeting of the board.

55. In addition, the Assessor & Electoral Registration Office publishes an annual public performance report which summarises the key activities and achievements of the board under each of its main functions - council tax list, valuation roll and electoral register. Information on the board's expenditure and funding is also included together with staffing information. The board exceeded all its performance targets in 2010/11.

Outlook

56. The economic recession has given rise to an increase in the number of appeals which is unprecedented in the rating field in Scotland. This is expected to continue in future years and may result in a significant number of litigations which will put additional strain on the board's resources.

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	29	The board, like all public sector organisations, faces a very challenging financial climate. The budget for 2011/12 is 4.19% lower than last year's. The constituent authorities have requested that the Assessor make a further 4% per annum saving for 2012/13, 2013/14 and 2014/15. Staff costs account for 77% of the revenue budget and this leaves little scope to make efficiencies without impacting on the level of service delivery. ***Risk: the Assessor & ERO and the board will be unable to maintain the current level of service provision whilst addressing the financial challenges it faces.***	The Assessor & ERO and his Senior Management Team will work with the Treasurer to identify any savings that can be made from the Revenue Budget. The Treasurer has already contacted the relevant Head of Finance in each of the three constituent authorities to inform them that achieving a further 4% savings for the next three financial years is highly unlikely.	Assessor & ERO and Treasurer	Budget setting meetings in 2012, 2013 and 2014.