

Renfrewshire Valuation Joint Board

Annual report on the 2010/11 audit



Prepared for Members of Renfrewshire 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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Key messages

2010/11

In 2010/11, we audited the financial statements and looked at aspects of governance within Renfrewshire Valuation Joint Board (RVJB). This report sets out our main findings.

Overall, we found the financial stewardship of RVJB during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified opinion has been issued on the financial statements for 2010/11.
- Final accounts preparation procedures and working papers were of a good standard and this enabled the audit to progress smoothly.
- RVJB has a sound corporate governance framework.

Renfrewshire Council provide internal audit services to RVJB. The Statement on the System of Internal Financial Control for the year 2010/11, signed by the Treasurer and the Assessor & Electoral Registration Officer, concluded that RVJB has in place a sound system of internal financial control with no identified material weaknesses. Our audit work resulted in findings consistent with that opinion.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years.

In addition the Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for councils and other local government bodies to consider given the financial constraints being faced.

Introduction

1. The members and officers of RVJB 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.
 - RVJB'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.
 - RVJB 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.
 - RVJB has proper arrangements for securing best value in its use of resources.
2. This report summarises the most significant issues arising from our work during 2010/11.

Financial statements

3. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
4. 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 audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
5. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

6. We have given an unqualified opinion on the financial statements of RVJB for 2010/11, concluding that the financial statements:
 - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2010 Code, of the financial position of the joint committee as at 31 March 2011 and its income and expenditure for the year then ended
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Legality

7. Through our planned audit work we consider the legality of the joint board's financial transactions. In addition the Treasurer has confirmed that, to the best of her knowledge and belief the financial transactions of the joint 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 of the System of Internal Financial Control

8. We are satisfied with the disclosures made in the Statement of the System of Internal Financial Control and the adequacy of the process put in place by the joint board to obtain the necessary assurances. The statement reports that the joint board has in place a sound system of internal financial control which is in line with findings from our tests of controls and also with the findings of internal audit. In addition, this finding is in line with our findings from the audit of the host authority, Renfrewshire Council, where we found no significant weaknesses in the systems which are used by the joint board.

Remuneration report

9. 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 joint board officers and elected members. From review of the remuneration report we noted that the salary for the post of Assessor & Electoral Registration Officer has not been subject to review since 2002. We would recommend that a review is carried out in the near future.

Accounting issues

10. 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 joint board prepared the 2010/11 financial statements in accordance with the 2010 Code.

Accounts preparation & submission

11. RVJB's financial statements were submitted to the Controller of Audit by the deadline of 30 June.
12. The 2010 Code saw the full implementation of Internal Financial Reporting Standards (IFRS) for the first time. The main impact this had on the accounts was to introduce new primary statements. The first of these is the Movement in Reserves Statement (MIRS) which is presented before the other primary statements. This new statement includes some of the items from the previous Statement of Movement on the Revenue Reserve as well as introducing some items concerning the other reserves held. The Comprehensive Income & Expenditure Account combines the features of the former Income & Expenditure Account and Statement of Recognised Gains & Losses. The other primary statements (the Balance Sheet and the Cash Flow Statement) remain relatively similar to as before with the latter now containing some information (at the bottom) which was previously included within a separate note.
13. Final accounts preparation procedures and working papers were generally of a good standard. The audit resulted in mainly presentational and other minor changes. The most significant of these were in relation to the presentation of the Movement in Reserves Statement and the Comprehensive Income & Expenditure Account where a format was agreed upon that best fit the requirements of the Code. This did not result in a change to the value of reserves held by the joint committee.
14. One other presentational change was the re-designation of an item of expenditure in the Comprehensive Income & Expenditure Account which was originally titled Capital Charges. As such charges relate to the ownership of non-current assets such as land and buildings, this is felt to be an inappropriate line title. As the expenditure relates to the costs of renovating the Robertson Centre, this is now shown within the Property Costs line.

15. One other significant new feature from the implementation of IFRS is the introduction of an accrual regarding untaken staff annual leave at year-end. The work carried out here involved comparing the amount of time taken off at 31 March 2011 for all staff members and comparing this to the amount of time due for the period elapsed, i.e. an officers total annual leave requirements for the year pro-rata for the amount of the leave year completed at the financial year-end. The method employed by finance officers at the host authority was reviewed and found to be satisfactory. Statutory guidance was issued by the Scottish Government for the creation of a new reserve balance (the Employee Statutory Adjustment Account) in order to ensure that this new accrual has no impact on the level of revenue reserves held.
16. We issued our report on the audit of the financial statements (in compliance with the International Auditing Standard 260) on 15 September 2011 which indicated our intention to give an unqualified opinion on the financial statements for the joint board. The audit certificate was duly signed off on 28 September 2011.

Prior year adjustments

17. 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 (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The only item requiring an adjustment was the inclusion of the accrual for untaken employee benefits such as annual and flexi leave at 31 March 2011. This change has resulted in the net liability position of the joint board as at 31 March 2010 changing from £2,740,000 to £2,754,236. However the new Employee Statutory Adjustment Account referred to previously ensures that this results in no change to the revenue reserves held by the joint committee.

Pension costs

18. RVJB is a member of Strathclyde Pension Fund, a multi employer defined benefit scheme. The joint board's share of net liabilities within the scheme as at 31 March totalled £577,000 which represents a movement of £2,163,000 from the liability position of £2,740,000 from the previous year. The improvement in the joint board's liability is attributable to pay freeze agreements and the change from retail price indexation to consumer price indexation in measuring future pension increases. It is important to note that pension scheme valuations are sensitive to stock market movements and as such represent a snapshot picture as at 31 March 2011.

Outlook

Audit appointment for 2011/12

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

last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for RVJB but a different audit team will be in place. We look forward to continuing the good working relationships that exist.

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. In 2010/11 the RVJB generated a surplus on the provision of services of £940,984. The surplus as presented in the Foreword in the financial statements on page 4 of £103,344 is different because this is net of pension adjustments and movements in the untaken annual leave accrual. As the budget is prepared without these adjustments it is appropriate for the analysis in the foreword to be presented in this way. The surplus of £103,344 compares to a budgeted deficit of £77,400. This has arisen largely due to employee costs being lower than anticipated due to a combination of high staff turnover, vacancies not being filled and a pay freeze. Additional savings have been achieved elsewhere to also contribute to the surplus, such as a reduction in administration and supplies and services costs through the reduction in the use of consultants.

Financial position

24. RVJB's balance sheet as at 31 March 2011 reflected net liabilities of £616,596, an improvement of £2,137,640 over the previous year mainly due to movement in the pension asset/liability during 2010/11. This has been partially off-set by the movement of the accrual in respect of employees' untaken annual and flexi leave at year-end. As stated above a new adjustment account has been set up which ensures this accrual has no impact on the level of revenue reserves held. In addition, advice received via the host council (Renfrewshire) from

the appointed actuaries stated that asset holdings and planned increases in employers' contributions provide sufficient security and income to meet future pension liabilities. In light of these factors, it is reasonable that the accounts are prepared on a going concern basis.

25. In the covering report to the 2010/11 revenue estimates, the Treasurer forecast a draw-down on resources which would (if repeated in the three subsequent years) result in the Revenue Reserves being fully exhausted. The in-year surplus has instead resulted in the Revenue Reserves increasing from £211,564 to £314,908. As the RVJB is not permitted to hold reserves, these funds are disclosed within the creditors' line on the face of the balance sheet (as the funds are in a surplus position and are in effect owed back to the member authorities).

Outlook

2011/12 budget

26. In the covering report to the 2010/11 revenue estimates, the Treasurer estimated that £47,000 worth of Revenue Reserves would be used during 2011/12 however this was based on an assumption that a similar draw-down would be required in 2010/11 (which was not the case). The Treasurer forecast this would deplete the level of reserves to just under £100k by the end of 2011/12. The most recent budget monitoring report presented to the Joint Board however forecast a £22k under-spend which would (if achieved) increase the level of reserves to around £335k.

Governance and accountability

27. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on work carried out by ourselves during the risk assessment stage of our audit, we acknowledge that the RVJB has in place a number of policies and procedures (such as the financial regulations, procedural standing orders and scheme of delegation). We also understand that RVJB does not have a corporate risk register in place although we have been informed that there are a number other risk registers with a narrower focus.

Refer Action Plan no. 1

Internal control

28. Internal audit plays a key role in RVJB's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Internal audit's programme of work is based on a five year cyclical approach based on an assessment of risk. In 2010/11 the 2 reports issued were the annual report (which incorporates the annual assurance statement) and a report by the computer auditor concerning the Alpha 5 valuation system and Mailflow/Formflow systems. This review concluded that both systems were effective with some minor areas for improvement. In addition internal audit also undertook a review of the RVJB's financial regulations which we noted were reviewed and approved by the Joint Board in January 2011.
29. Internal audit also reviewed Renfrewshire Council's payroll, business continuity, financial management and cash and banking (which are all used by or have an impact for RVJB) and found these to be satisfactory. The annual assurance statement is largely based upon this work.
30. We have also reviewed Renfrewshire Council's main financial systems as part of our annual work and our findings are consistent with those of internal audit with only a small number of minor issues highlighted in a management letter issued to the Director of Finance and Corporate Services in June 2011. We have also undertaken an overview of internal audit (as reported in a management letter in January 2011) and found that the section has appropriate resources, documentation standards and reporting procedures to allow us to review and place reliance on aspects of their work during the year.

Relationship with host authority

31. Renfrewshire Council is the host authority for the joint board, and as such provides various support services (such as finance, personnel, legal and administration). The host authority in turn charges the joint committee for the provision of these services. Last year we reported that while a formalised service level agreement (SLA) exists for some of these services (legal

and administration) it does not for others such as finance. We understand a draft agreement is now in place but this still requires to be agreed by both RVJB and Renfrewshire Council.

Refer Action Plan no. 2

Pay & Grading Structure

32. We noted from review of the minutes of the joint board meeting in May this year that a new pay and grading model was approved as were revised terms and conditions. We also note that at the same meeting that management are seeking expressions of interest for any employee wishing to apply for voluntary severance whilst also implementing a vacancy freeze in order to ensure costs are reduced. The impact on service standards during this time should be considered prior to any decision being made.

Performance

33. The performance report for 2010/11 highlighted that 98.4% of new houses in the area were added to the valuation list within 3 months which exceeds the 95% target but is a decrease from the 2009/10 position of 99.2%. The average number of days to add a new house to the list was 29.16 days as compared to 29.32 the previous year. In terms of non-domestic properties, 90.6% of statutory amendments to the valuation roll were completed within 3 months against a target of 80%. However this is again a slight decrease from 2009/10 where it was 91.5%. It is therefore evident from these results that the efficiency of the organisation (although slightly down on the previous year) remained above target at a time when the number of employees within the organisation reduced.
34. Last year we reported on an exercise we carried out on the non-domestic revaluation process. As 2010/11 was the first year of the new rates, it is useful to take account of the number of appeals which resulted from this. In the report to the joint board in May the total number of appeals stood at 3,613 which represented an increase of 7% from the previous revaluation exercise in 2005. This increase in appeals spreads across many categories with several also showing slight reductions. We have also been informed of a significant number of appeals (over 3,000) relating to the impact of the recession which will have a significant impact on staff time. Any additional costs arising from these will likely be met from reserves
35. The annual canvas report identified an increase in the level of the electorate from the year to 1 December 2010 of 8,145 (representing 3.23% rise). It is noted that it is now estimated that the total number of people registered on the electoral roll is now 96%. It is felt that the changes made to registration forms and the increased number of canvassers used during the process are seen as the main contributory factors behind this improved position. This represents good progress made by the joint board to increase the total number of registered voters in the joint board area.

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	27	<p>Corporate Risk Register</p> <p>The joint board does not have a corporate risk register in place.</p> <p>Risk - The joint board is not adequately prepared for all foreseeable risks.</p>	The joint board has a number of risk registers with a rather narrow focus which require to be brought together to represent the corporate position.	Assessor & Electoral Registration Officer	31 March 2012
2	31	<p>Service Level Agreements (SLAs)</p> <p>There are a number of SLAs in place with the host authority; however these do not cover all areas of service provision.</p> <p>Risk - Payments to the host authority exceed the level of service provided.</p>	A draft SLA has been produced which pulls together and standardises all the various individual service SLAs which are already in place. This requires to be agreed between RVJB and Renfrewshire Council.	Assessor & Electoral Registration Officer and The Treasurer	31 December 2011