

Ayrshire Valuation Joint Board

Annual report on the 2011/12 audit



Prepared for Members of Ayrshire VJB and the Controller of Audit
October 2012

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Key messages

Financial statements

In 2011/12 we looked at the key strategic and financial risks faced by Ayrshire Valuation Joint Board (the board). We audited the financial statements and looked at aspects of governance, use of resources and performance. This report sets out our main findings, summarising key outcomes from the 2011/12 audit and the outlook for the period ahead. We have given an unqualified opinion that the financial statements of Ayrshire Valuation Joint Board for 2011/12 give a true and fair view of the state of the affairs of the board as at 31 March 2012 and of the income and expenditure for the year then ended.

The board recorded a net surplus for 2011/12 of £53,592, therefore increasing the general fund balance to £209,522 as at 31 March 2012. This includes an uncommitted general fund balance of £137,855. The board expects to draw upon the remaining funds to address workload and budget pressures.

The main conclusions and outcomes from the audit are highlighted below:

- An unqualified opinion has been issued on the financial statements for 2011/12.
- Final accounts preparation procedures and working papers were of a good standard and this enabled the audit to progress smoothly.
- The board has a sound corporate governance framework.

Financial performance and position

The board had budgeted to spend £2.229 million in 2011/12 funded through constituent contributions of £2.224 million and £0.005 million of income. The outturn for 2011/12 was net expenditure of £2.170 million resulting in an in year favourable variance of £0.054 million when compared to the constituent contributions. A cumulative surplus of £0.209 million has been carried forward into 2012/13.

The board's net assets have decreased by £0.614 million in the 2011/12 financial year to £1.088 million due primarily to the rise in the board's net pension liability.

Governance

South Ayrshire Council (SAC) provide internal audit services to the board. The Statement on the System of Internal Financial Control (SSIFC) for the year 2011/12, signed by the Treasurer and the Assessor & Electoral Registration Officer (the Assessor), concluded that the board has in place a sound system of internal financial control with no identified material weaknesses. Our audit work at the board resulted in findings consistent with that opinion.

Administrative support is also provided by SAC. The support includes various services, which could not be economically provided by the board. There is no service level agreement in place for the provision of these services.

Performance

The most significant challenge for the board remains completion of appeals following the 2010 revaluation exercise. The board must complete this before the statutory deadline of 31 December 2013. To assist in meeting this challenge, the board have taken on three temporary trainee valuers. It is unclear however whether this will ensure that the obligation will be achieved.

The board achieved its target to issue 50% of Non-Domestic rates valuation notices within three months of the date that amendments to the valuation roll become effective. However, it failed to meet the target for a similar measure in relation to 3-6 month target. The board also met its target in relation to Council Tax, and achieved the statutory deadline to publish the electoral register. Increasing pressure to complete the NDR appeals, however, could impact on performance.

Reports presented to the board during the year indicate an increase in staff sickness absence rates. With a number staff on long term absence, this may contribute to the problems in meeting both internal and statutory reporting obligations

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 2011 following the UK Comprehensive Spending Review indicated that significant budget reductions to the constituent authorities will be required in these years. This could result in budget reductions for the board to manage in both cash and real terms over this period.

Key performance indicators were revised downwards during 2012 to reflect the increased workload arising from the 2010 NDR revaluation and the number of appeals resulting from this exercise. To ensure performance standards are maintained, the performance indicators should be regularly reviewed to maintain the high performance standards expected by stakeholders.

The board agreed at its meeting of 26 June 2012 to establish a sub-group, led by the Assessor and supported by the Treasurer and a representative from human resources, and board members from each of the constituent authorities. The sub-group will consider the pressures on the board arising from the increased number of revaluation appeals, identify options open to meet these challenges and recommend a way forward.

The board face a considerable challenge in effectively delivering services with static or decreasing levels of income and the increased workload that has arisen from 2010 NDR revaluation appeals. Members and officers have recognised these challenges and through the introduction of the sub-group, continue to take steps to meet this challenge.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the board. The nature and scope of the audit were outlined in the Audit Plan presented to management in March 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising.
2. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps 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 action and have a mechanism in place to assess progress.
3. The members and officers of the board are responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their 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 control.

Financial statements

4. 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.
5. 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
 - the regularity of the expenditure and income (except for local government bodies).
6. Auditors review and report on, as appropriate, other information published with the financial statements, including the assessor's report, treasurer's report, statement on the system of internal financial control and the remuneration report. This section summarises the results of our audit on the financial statements.

Audit opinion

7. We have given an unqualified opinion that the financial statements of Ayrshire Valuation Joint Board for 2011/12 give a true and fair view of the state of affairs of the Board as at 31 March 2012 and its income and expenditure for the year then ended

Legality

8. 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 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 of the system of internal financial control

9. We are satisfied with the disclosures made in the SSIFC and the adequacy of the process put in place by the board to obtain the necessary assurances.

Remuneration report

10. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985 and the Scottish Government finance circular 8/2011 and includes all required disclosures.

Accounting issues

11. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011 Code). We are satisfied that the board prepared the 2011/12 financial statements in accordance with the 2011 Code.

Accounts preparation & submission

12. The board's financial statements were submitted to the Controller of Audit by the deadline of 29 June. Final accounts preparation procedures and working papers were of a good standard. This enabled the audit to progress smoothly and allowed us to conclude the audit and certify the financial statements by the target date of 30 September 2012.

Presentational and monetary adjustments to the unaudited accounts

13. The audit resulted in mainly presentational and other minor changes. The most significant of these was in relation to the presentation of the Explanatory Foreword which was amended to include all content required by the Code. Other minor changes in relation to disclosure of accounting policies and concepts were agreed and incorporated in the final version of the accounts.
14. Any errors identified during the audit have been corrected and therefore there are no unadjusted misstatements to bring to your attention.

Financial position

15. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
16. 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.
17. These are key areas in the current economic climate. This section summarises the financial position and outlook for the board.

Financial results

Budgetary control

18. In 2011/12 the board generated a surplus on the provision of services of £615,035 which when adjusted for statutory and non-statutory adjustments gives a surplus of £53,592. The surplus has arisen largely due to employee costs being lower than anticipated due to delays in appointing the three temporary trainee valuers, long term sickness absence and reductions in costs relating to property, travel and supplies & services.

Financial position

19. The net assets on the board's balance sheet have decreased from £1.702 million in 2010/11, to £1.088 million in 2011/12, a reduction of £0.614 million. The principal reason for this decrease is due to the £1.771m increase in the pension liability which exceeds the increase in share of the scheme assets of £1.125m in 2011/12. The pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouse in the form of pension payments and the underlying value of pension fund assets to meet this cost. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure.
20. The large increase in the pension liability in 2011/12 is due to financial assumptions about the cost of pension payments being less favourable at March 2012 than they were at March 2011 which has the effect of increasing the overall cost of pensions. In addition, the level of assumptions applied by the actuary to the expected return on pension fund assets was more favourable than actual returns in most cases. Both these factors have contributed to the increase in the net liability faced by the board.

21. In preparing the budget for 2011/12, the board agreed to utilise some of the general fund balance to fund the employment of three temporary trainee valuers. The intention was for them to help meet the additional workload demands resulting from appeals following the 2010 non-domestic rates valuation exercise. However, through lower than anticipated employment costs, long term sickness absence, and delays in recruiting the temporary trainee valuers, the transfer from reserves was not required.
22. Utilising reserves for revenue expenditure is not sustainable in the longer term. It is therefore important that the board reviews its budget requirements to ensure expenditure can be met from the requisition contribution from the constituent authorities

Action Plan 1

Outlook

2012/13 budget

23. In January 2012, the board agreed a revenue budget of £2.301m, including utilisation of £0.072m of general fund balances to fund the temporary trainee valuers positions during 2012/13.

Governance and accountability

24. 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 board has in place a number of plans, policies and procedures (such as the risk register, service plans and a scheme of delegation).
25. In our Annual Audit Plan issued in January 2012 we highlighted a risk regarding the revised structure of the board introduced following the retirement of the previous assessor. In their final report on the 2010/11 audit, the previous auditors highlighted that the loss of key personnel may negatively impact on the ability of the board to deliver its services. At recent board meetings, a further restructuring exercise has been discussed. In order to ensure the board continues to offer appropriate service provision, the correct structure must be in place and the impact of any change minimised which can negatively affect staff morale and performance.

Relationship with host authority

26. South Ayrshire Council (SAC) is the host authority for the board, and as such provides various support services (such as finance, human resources, Information Communication Technology (ICT), legal and administration). SAC in turn charges the board for the provision of these services. In 2011/12, this was maintained at £177,500. We would normally expect such an arrangement to be subject to a Service Level Agreement (SLA) between the board and SAC however there is no such agreement in place. As a result there is insufficient clarity over issues such as service definition, performance measurement, duties, warranties and termination of agreement.

Action Plan 2

Internal control

27. 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. In 2011/12 Internal Audit reviewed the board's valuation roll amendment process. This review concluded that the system was operating satisfactorily with no adverse points arose during the audit requiring attention.
28. Internal audit also reviewed SAC's payroll, main accounting, and creditors processes (which are all used by or have an impact for the board) and found these to be satisfactory.
29. Audit Scotland, as external auditors to the council, reviewed SAC's main financial systems as part of their annual work. In their governance report issued to the Executive Director of Corporate Services in May 2012 they concluded that although there were important areas

where improvements could be made there are adequate controls operating over the main financial systems.

Performance

30. The Assessor's report in the board's 2011/12 Annual Report provides a comprehensive review of the board's performance of the year ending 31 March 2012. Key performance indicators (KPI's) have been established to facilitate performance monitoring with performance targets established. Balanced performance reporting is a cornerstone of public performance reporting and is a key element of public accountability. We note the targets on a number of these indicators have been reduced in the last year to take account of the increased workload arising from the 2010 NDR revaluation exercise and the number of appeals resulting from this exercise. On completion of this exercise, it is important that the targeted performance levels are returned to previous levels.
31. Due to the Assessor's report being extensive and publicly available we have limited the information in this section of the report to key issues. Further detail can be obtained by reading the Assessor's report which is available on the board's website.
32. The Assessor notes that the board:
- Exceeded (54%) its target (50%) to issue Non-Domestic Rates valuation notices within three months of the date that amendments to the valuation roll become effective. We note that the board have agreed to retain the target in 2012/13.
 - Significantly exceeded (79%) its target (60%) to issue Council Tax banding notices within three months of the date that amendments to the valuation list become effective. We note that the board have agreed to increase the target in 2012/13.
 - Completed the annual canvass on schedule and met the statutory deadline to publish the electoral register by 1 December 2011.
33. Key performance indicators were revised downwards to reflect the increased workload arising from the appeals process. To ensure performance standards are maintained, the performance indicators should be regularly reviewed to maintain the high performance standards expected by stakeholders.

Action Plan 3

34. The board agreed at its meeting of 26 June 2012 to establish a sub-group, led by the Assessor and supported by the Treasurer and a representative from human resources, and board members from each of the constituent authorities. The sub-group will consider the pressures on the board arising from the increased number of revaluation appeals, identify options open to meet these challenges and recommend a way forward within existing resources. Three principal issues have been identified by the Assessor:
- Successive funding reductions have reduced staffing levels below comparable Assessors' departments
 - A threefold increase in non-domestic rate revaluation appeals from 2005 levels
 - The management restructure review in 2011 led to a reported deterioration in both staff morale and motivation, with a consequential reduction in performance and productivity.

35. We will consider the results of the sub-group's review as part of our 2012/13 audit.
36. Following the Electoral Commission's report on the performance standard of electoral registration officers, the board was downgraded in relation to canvass performance and it now sits in the bottom quartile of those assessed. However, unless the electoral registration officer can commit to visiting every property where a return is not received, or the residents can be confirmed by a secondary check, the assessment will continue to remain below standard.

Non-Domestic Rates running roll appeals

37. In his Annual Report, the Assessor makes reference to the downturn in the economy resulting in a material increase in the volume of running roll appeals received in both 2010/11 and 2011/12. Specifically he highlights the significant impact this will have on the workload of valuation staff in the period to December 2013 and possibly beyond. Proposals to address this issue will require to be developed for the next planning and budgeting cycle.

Action Plan 4

Resourcing

38. One of the areas under review by the sub-group is the board's management structure. The Assessor has reported that the management restructure review in 2011 led to a deterioration in both staff morale and motivation, with a consequential reduction in performance and productivity. The three temporary trainee valuers have also intimated an intention to leave the Board, which puts additional pressure on the remaining staff. The sub-group will require to consider inter alia whether there is evidence thus far that the previous restructure has impacted on the delivery of services.

Customer Satisfaction Survey

39. All public sector organisations should periodically carry out a customer satisfaction survey to determine any areas its stakeholders feel needs improvement. No customer satisfaction report has been completed in recent years. In order to ensure that the board meets the standards of service and expectations of its stakeholders, some commitment should be given to community engagement.

Action Plan 5

Sickness Absence

40. The Assessor has reported increased levels of sickness absence affecting staff in his regular updates presented to the board. Appropriate steps should be taken to control both long and short term sickness absence.

Action Plan 6

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	22	<p>Use of Reserves</p> <p>The use of reserves to fund revenue expenditure is not sustainable in the long term. The general reserves should be maintained at between 2-4% of revenue expenditure.</p> <p><i>Risk - The general fund balance does not hold sufficient funds to meet unplanned expenditure when required</i></p>	Members and officers acknowledge the limitations on use of reserves. Future budget proposals will seek to maintain reserves at between 2 and 4 per cent	Treasurer	Ongoing
2	26	<p>Service Level Agreements (SLAs)</p> <p>There are no SLAs in place to define the support services provided to the board by South Ayrshire Council.</p> <p><i>Risk - there is insufficient clarity over issues such as service definition, performance measurement and termination of agreement.</i></p>	A service level agreement will be developed	Assessor/ Treasurer	April 2013
3	33	<p>Key Performance Indicators</p> <p>The board reduced performance targets for routine workload to ensure resources were available to meet the increased workload from the 2010 revaluation appeals.</p>	The Assessor will monitor performance and review performance targets annually and report to the Board.	Assessor	April 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		Risk - performance levels may be allowed to remain at levels below public expectation.			
4	37	<p>Running Roll Appeals</p> <p>An increase in the number of running roll appeals is considered likely to impact on the workload of valuation staff.</p> <p>Risk - the board does not have the resources available to clear the appeals within the statutory deadline of 31 December 2013.</p>	The Assessor will monitor the outstanding number of appeals and report the position to the Board at each Board meeting.	Assessor	Each Board Meeting.
5	39	<p>Customer Satisfaction Report</p> <p>No customer satisfaction report has been completed in recent years</p> <p>Risk - needs and expectations of stakeholders are not being met by the Board</p>	A customer satisfaction report will be prepared and submitted to the Board.	Assessor	January 2013
6	40	<p>Sickness Absence</p> <p>Recent reports from the Assessor have highlighted an increase in staff sickness absence levels.</p> <p>Risk - Long term absence may significantly affect performance and staff morale if not managed appropriately.</p>	The Assessor will monitor sickness absence levels and report to the Board at regular intervals.	Assessor	Quarterly.