

Orkney and Shetland Valuation Joint Board

Annual report on the 2011/12 audit



Prepared for Members and the Controller of Audit
October 2012

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

2011/12

We have given an unqualified opinion on the 2011/12 financial statements of Orkney and Shetland Valuation Joint Board.

No high level risks have been identified from the audit.

During 2011/12 Orkney and Shetland Valuation Joint Board spent £583,327 on the provision of services.

Outlook

The 2012/13 budgeted net expenditure for the Orkney and Shetland Valuation Joint Board is £580,661.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Orkney and Shetland Valuation Joint Board (the joint board). The report focuses mainly on the joint board's financial statements and addresses any significant findings that have arisen throughout the year. The scope of the audit was set out in our audit fee letter dated 2 February 2012.
2. Appendix B 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 joint 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 financial statements are the means by which the joint board 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 present a true and fair view of its financial position and the income and expenditure for the year.
4. 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.
5. This report is addressed to members and the Controller of Audit. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting. The report will be published on our website after consideration by the board. The Controller of Audit may use the information in this report for his annual overview of local authority audits to the Accounts Commission later this year.

6. The management of the audited body 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 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

7. 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.
8. 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.
9. We also review the Annual Governance Statement 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.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Orkney and Shetland Valuation Joint Board for 2011/12 give a true and fair view of the financial position and expenditure and income of the joint board for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Annual Governance Statement

11. For the first time, the 2011/12 financial statements include an annual governance statement. The inclusion of an annual governance statement is in line with good practice as set out by CIPFA/SOLACE in 'Delivering good governance in local government'.
12. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the joint board to obtain assurances on systems of control.

Accounting issues

13. We are satisfied that the financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Accounts submission

14. The joint board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2012. The accounts were certified by the target date of 31 August 2012 and are now available for presentation to members and publication.

Financial position

15. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial positions are 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 circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Financial Position

18. In 2011/12, Orkney and Shetland Valuation Joint board spent £583,327 (£366,959 2010/11) on the provision of services. After accounting for sales, fees and charges and requisitions from members, the resulting surplus on the provision of services was £10,300 (£225,485 2010/11). The significant reduction in the surplus from last year is mainly due to a gain in 2010/11 of £241,000 for pension past services costs when the government changed from using RPI to CPI.
19. The budget set for 2011/12 was based on planned contributions of £606,911 (£616,315 2010/11) from the constituent authorities. The Treasurer summarises performance against budget in the Introductory Statement to the accounts. Overall, there was an underspend of £16,182 (£26,911 2010/11) before adjusting the accounts for IAS 19 entries. This was mainly due to a reduction in costs for travel, subsistence, property and stationery.

Reserves and balances

20. The joint board does not hold a general fund balance at the year end. The joint board holds a pension reserve which shows a pension liability of £1,113,000, an increase from £449,000 in the previous year. The increase in pension liability is mainly due to the pension actuarial assumptions at 31 March 2012 being less favourable than the assumptions at 31 March 2011.
21. The employee statutory adjustment account shows a liability of £8,840 (2010/11 £10,140). This reserve absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year. Statutory

arrangements require that the impact on the general fund is neutralised by transfers to or from the account.

Going concern

22. 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. The joint board's balance sheet at 31 March 2012 shows net liabilities of £1,121,840 (2010/11 £509,410).
23. The net liability position is due to the employee statutory adjustment account and the requirements of International Accounting Standard 19 (employee benefits). Under IAS 19 there is an obligation to recognise the joint board's full pension obligations in the year they are earned. In accounting for pensions, IAS 19 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. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met from employer's contributions and investment returns. In common with similar authorities, the joint board has considered it appropriate to adopt a going concern basis for the preparation of the financial statements.

Financial Planning

24. The joint board approved the budget strategy for 2012/13 to 2014/15 on 12 August 2011 and it was agreed that budget planning should seek cost reductions of no less than 3% per year, for the next 3 years.
25. The 2011/12 estimates were presented to the joint board on 14 February 2012 with the budget agreed at £580,661.

Partnership Working

26. Through the working of the Scottish Assessors' Association, there is a large-scale exchange of information and views via committees and working parties towards the harmonisation of the Rating and Council Tax valuation processes throughout Scotland. The Assessor for Orkney and Shetland is a member of most committees of the Scottish Assessors' Association, either personally or represented by the Assistant Assessor.

Outlook

2012/13 budget

27. The joint board approved the 2012/13 Budget Strategy on 12 August 2011 and, on 14 February 2012, approved the proposed level of net expenditure for 2012/13 at £580,661. The following issues were identified that would impact on the 2012/13 budget:

- increase in the cost of postage
 - likely rent increases in both of the board's offices
 - the retirement of the Shetland Valuer during 2012/13
 - maternity cover for the Admin Assistant job share post.
28. The joint board anticipates that the Service Level Agreement covering Asset Valuations and Void Relief Inspections will bring in sufficient funds to cover the increased costs and allow the 2012/13 savings target to be met.

Significant financial risks

29. The joint board is wholly funded by Orkney and Shetland Islands Councils and both councils are working towards making considerable savings in their budgets. The board should ensure that it has robust planning in place so that the required services are delivered within the allocated budget.

Refer Action Plan no. 1

Governance and accountability

30. 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.
31. 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.
32. 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.
33. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

34. An Annual Governance Statement is included within the annual financial statements. This is the first time such a statement has been prepared and is in line with good practice. Overall, the statement complies with accounting requirements and is not inconsistent with our knowledge of the joint board or the findings of our audit.

Internal control

35. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
36. The joint board's financial transactions are processed through Shetland Islands Council's financial systems. It is the responsibility of the council'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.

37. Our review of these systems was conducted as part of the audit of Shetland Islands Council, supplemented by specific audit work on the joint board's financial statements. This includes our reliance on the work of the internal auditor in a number of areas.
38. We have concluded that these arrangements are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Prevention and detection of fraud and irregularities

39. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. The joint board does not have in place its own arrangements for the prevention and detection of fraud and corruption, but complies with the relevant policies of Shetland Islands Council. We are not aware of any specific issues that we need to identify in this report.

Standards of conduct and arrangements for the prevention / detection of bribery and corruption

40. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Best Value, performance management and improvement

Introduction

41. We believe that an effective organisation has a clear and ambitious vision for what it wants to achieve for its locality and communities and to secure high quality services and effective outcomes for local people. The vision is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective organisation has a performance management culture which is embedded throughout the organisation. This section provides a high level overview of performance management in the joint board.

Performance Management

42. The joint board publishes performance indicators on its website. These provide key statistics on the council tax list and the valuation roll. There are currently no performance indicators for the electoral registration service.
43. The Electoral Commission publishes each Electoral Registration Officer's Performance standards which can be 'Below the Standard', 'Meeting the Standard' or 'Above the Standard'. For 2011, the joint board is rated at 'Meeting the Standard' or 'Above the Standard' in all ten performance measures.
44. The Assessor & Electoral Registration Officer reports on best value issues to the board through twice-yearly progress reports covering council tax, non-domestic rating and electoral registration.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue
Annual Audit Plan	February 2012
Report on financial statements to those charged with governance	31 August 2012
Audit opinion on the 2011/12 financial statements	31 August 2012
Annual Audit Report	31 October 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	There is a risk that, without adequate service planning, reduced funding allocations may mean that the board will be unable to fulfil its statutory duties.	Work is already underway to ensure that the Valuation Joint Board is well placed to absorb any reductions in grant funding from the Shetland Islands Council and Orkney Islands Council. A balanced budget will be set for 2013-14 and this will be monitored appropriately throughout the year.	Treasurer	31 March 2013