

Renfrewshire Valuation Joint Board

Annual report on the 2011/12 audit



Prepared for Members of Renfrewshire Valuation Joint Board and the Controller of Audit
November 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.

Contents

Key messages	4
2011/12 audit findings	4
Outlook.....	4
Introduction	5
Financial statements	6
Audit opinion	6
Accounting issues	7
Financial position	8
Financial results	8
Governance and accountability	10
Corporate governance.....	10
Prevention and detection of fraud and irregularities.....	11
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption	11
Best Value, use of resources and performance	12
Overview of performance in 2011/12.....	12
Outlook.....	13
Appendix A: action plan	14

Key messages

2011/12 audit findings

We have given an unqualified opinion on the financial statements of Renfrewshire Valuation Joint Board (RVJB) for 2011/12, concluding that the financial statements give a true and fair view of the financial position of RVJB as at 31 March 2012 and its income and expenditure for the year.

The budget for 2011/12 was £47,000, to be funded from reserves, and the final outturn was £42,766, surplus. The difference was mainly due to underspend on employee costs from staff vacancies and income received from the Department of Work and Pensions for a pilot project.

The balance sheet at 31 March 2012 shows net liabilities of £1,460,746 (2010/11 £616,596), a significant deterioration over the previous year but this is mainly due to the movement in the pension liability during 2011/12, attributable to lower than expected investment performance and a decrease in the discount rate.

As part of organisational review RVJB reviewed their pay and grading model and in 2011/12 staff voted to accept the job evaluation scheme and terms and conditions package.

While dealing with increased number of non domestic appeals, processing times for changes to the valuation rolls and council tax list have improved on last year and remain above target.

Outlook

RVJB has to manage a number of issues with potentially significant cost implications, for example dealing with a ten-fold increase in the number of non domestic appeals at a time of decreasing funding from requisitioning authorities. Implementation of individual electoral registration systems is a major project for the future and RVJB has been part of the pilot process, which they consider will help them understand the emerging process. Managing the increased demand for services and large new projects, with decreasing funding will be a challenge for the RVJB.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Renfrewshire Valuation Joint Board (RVJB). The nature and scope of the audit were outlined in the Audit Plan issued to the Treasurer in June 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. The report is divided into sections, which reflect the public sector audit model.
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 RVJB 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. This report is addressed to the members of RVJB and the Controller of Audit and should form a key part of discussions, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. This report 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.
4. This report will be published on our website after consideration by RVJB. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
5. The Treasurer is 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 that 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

6. 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.
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 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.
8. The accounts of RVJB are to be prepared in accordance with the Code of Practice on Local Authority Accounting 2011/12 (the 2011/12 Code).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the statement on internal financial control and the remuneration report.

Audit opinion

10. We have given an unqualified opinion on the financial statements of RVJB for 2011/12, concluding that the financial statements:
 - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2011/12 Code, of the financial position of RVJB as at 31 March 2012 and its income and expenditure for the year then ended
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Legality

11. Through our planned audit work we consider the legality of RVJB's financial transactions. In addition the Treasurer has confirmed that, to the best of her knowledge and belief the financial transactions of RVJB 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.

Going concern

12. The net liability of RVJB has increased from £616,596 as at 31 March 2011 to £1,460,746 as at 31 March 2012. The increase is predominantly due to the changing pension position: the pension liability increasing from £577,000 to £1,412,000. A material net liability can highlight a potential going concern issue however, we recognise that the appointed actuary is of the view that the asset holdings of the Strathclyde Pension Scheme and the contributions from employees and employers together with planned increases in contributions provide sufficient security over future liabilities. In light of these factors, it is reasonable that the accounts are prepared on a going concern basis.

Statement on the system of internal financial control

13. We reviewed the statement on the system of internal financial control (SSIFC) and confirm that it complies with the 2011/12 Code. The statement reports that RVJB 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.
14. However, we consider the process put in place by RVJB to obtain the necessary assurances for the SSIFC could be improved. The statement is supported by Renfrewshire Council directors' certificates of assurance, since RVJB use these systems, but the Assessor at RVJB does not provide a certificate of assurance. We consider this should be reviewed to ensure that any financial systems, which are local to RVJB, are included in certificates of assurance.

Refer Action Plan no. 1

Remuneration report

15. 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 2011/12 financial statements include all eligible remuneration for the relevant RVJB officers.

Accounting issues

16. RVJB is required to follow the 2011/12 Code. We are satisfied that RVJB prepared the 2011/12 financial statements in accordance with the 2011/12 Code.

Accounts submission

17. RVJB's financial statements were submitted to the Controller of Audit by the deadline of 30 June 2012. Final accounts preparation procedures and working papers were of a good standard and officers were helpful in dealing with queries during the audit.
18. We issued our report on the audit of the financial statements (in compliance with the International Auditing Standard 260) on 25 September, which indicated our intention to give an unqualified opinion on the financial statements for RVJB. The audit certificate was duly signed off on 28 September 2012.

Presentational and monetary adjustments to the unaudited accounts

19. As a result of the audit, a small number of changes were made to the presentation and disclosures in the financial statements, the main ones being adding comparative 2010/11 figures for the Movement in Reserves Statement and amending figures in the cash flow statement.

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

23. In 2011/12 RVJB reported an accounting surplus on the provision of services of £115,616 as shown in the Comprehensive Income and Expenditure Statement. The surplus as presented in the Treasurer's foreword in the financial statements of £42,766 is different because it is prior to items such as pension adjustments and employee 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.
24. The budget for 2011/12 was £47,000 deficit, to be funded from reserves, and the final outturn was £42,766 surplus. This was primarily due to underspend on employee costs due to staff vacancies and income received from the Department of Work and Pensions for a pilot project.
25. As part of organisational review RVJB reviewed their pay and grading model and in 2011/12 staff voted to accept the job evaluation scheme and terms and conditions package.

Financial position

26. RVJB's balance sheet at 31 March 2012 shows net liabilities of £1,460,746 (2010/11 £616,596), a significant deterioration over the previous year but this is mainly due to the movement in the pension liability increasing from £577,000 to £1,412,000. The significant change is attributable to lower than expected investment performance and a decrease in the discount rate. The liability is based on actuarial valuations and reflects on the triennial valuation results as at 31 March 2011.

2012/13 budget

27. RVJB's 2012/13 budget is expenditure of £2,368,000, income of £2,334,000 with a deficit of £34,000. In setting this budget it is assumed that both employee and other costs remain

unchanged (zero inflation) and there is 1.7% reduction in level of requisitions from constituent authorities.

28. As at 20 July 2012 there was an underspend of £44,000 but a risk for RVJB is the level of costs around non-domestic rating appeals which may result in significant costs and a deficit is still forecast for the year.

Financial forecasts beyond 2012/13

29. There continues to be pressure on the financial position at requisition authorities and requisition levels for 2013/14 will be further decreased by 1.7% with no change planned for 2014/15. Indicative budgets for 2013/14 and 2014/15 show that cumulative savings of approximately £220,000 are required to be made to maintain a sustainable level of reserves.
30. As described under the Performance section, RVJB has to manage a number of issues with potentially significant cost implications at a time when there are pressures at requisitioning authorities. Managing the increased demand for services and large new projects, with decreasing funding will be a challenge for RVJB.

Governance and accountability

31. 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.
32. Through its chief executive or equivalent, 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.
33. 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
34. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

35. Following the May 2012 elections new members were appointed to RVJB. At the first meeting in June the members were provided with information on performance reporting and the Electoral Registration Annual Report 2012.

Internal control

36. 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.
37. With Renfrewshire Council being the host for RVJB, all financial transactions of RVJB are processed through the financial systems of the council and are subject to the same controls and scrutiny of the council including regular reviews of internal audit. We assess the work of internal audit and where possible place reliance on their work. For 2011/12 we placed reliance on their testing e.g. testing on council payroll and treasury management systems.
38. Internal Audit reviewed the electoral registration system and non-domestic appeals systems at RVJB confirming they operated satisfactorily. In the Internal Audit Annual Report 2011/12, the

Chief Auditor concluded reasonable assurance can be placed upon the adequacy and effectiveness of RVJB's internal control, risk management and governance arrangements.

39. Overall the Statement on the System on Internal Financial Control reports that there were no identified material weaknesses in 2011/12 and we concur with this conclusion.

Prevention and detection of fraud and irregularities

40. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. No frauds were reported in Internal Audit's Annual Report for 2011/12 and we have no fraud issues identified from our audit work.

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

41. 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. The personnel policies of Renfrewshire Council continue to be applied. We have concluded that the arrangements at RVJB are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Best Value, use of resources and performance

42. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
43. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
44. As part of their statutory responsibilities, the Auditor General and 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.
45. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
46. 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.
47. This section includes a commentary on the performance management arrangements within RVJB and note any headline performance outcomes/ measures used by RVJB.

Overview of performance in 2011/12

Annual Canvas report

48. Each year the Assessor and Electoral Registration Officer prepare an Annual Canvas Report, which estimates that the overall level of registration has remained at approximately 96%. Changes made to forms and canvass procedures increased the level of completeness and accuracy of the registers.

Performance statistics

49. Members are provided with a Performance report at each meeting of the RVJB. In June 2012 members were provided with results for 2011/12 and Table 1 shows performance compared to the previous two years. As the results show RVJB is managing to improve processing times when also dealing with significant increase in level of appeals.

Table 1: Performance statistics

	Target	2011/12	2010/11	2009/10
Percentage of new houses entered into the valuation council tax list within 3 months	95%	99.2%	98.4%	99.2%
Average number of days taken to add a new house to council tax list	38 days	26.18 days	29.16 days	29.32 days
Percentage of statutory amendments made to valuation roll within 3 months	80%	94.4%	90.6%	91.5%

Source: RVJB Performance Reports

Outlook

50. As reported to members in August 2012 there are two main areas which have significant implications on service delivery: the increasing number of non domestic appeals and proposed introduction of Individual Electoral Registration (IER).
- Non domestic appeals - at this point in the revaluation cycle RVJB would normally have received approximately 600 running roll appeals but due to the economic downturn, the number of appeals has now increased almost 10 fold to 5,800. This is clearly a very large increase and in addition, these revaluation appeals should be resolved by 31 December 2013. Additional resources are being sought to deal with the number of appeals.
 - Individual Electoral Registration - over the next three years Individual Electoral Registration will be introduced with potentially, a significant impact on resources. RVJB has taken part in the first pilot exercises with the Cabinet office, which officers consider has helped them understand the emerging process. Currently the Cabinet Office is funding additional costs incurred and the intention is that government will fund all of the changes required for implementation (on ICT system changes, increased processing and staff training) but there are no details yet as to how finance will be delivered.
51. These are large projects with potentially significant cost implications. On-going work by RVJB to manage these pressures include:
- The Treasurer has in place budget monitoring procedures and a rolling medium-term financial plan, which outlines to member authorities their proposed future requisitions.
 - Working balances are held at levels to address unforeseen events in the medium term.
 - The Assessor provides regular updates to members on pressures on service delivery.
52. We will continue to monitor progress on delivery against these pressures.

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	14	<p>SSIFC assurances</p> <p>There is no separate assurance statement obtained from the Assessor covering systems specific to RVJB.</p> <p>Risk – insufficient arrangements around obtaining assurances for SSFIC.</p>	Internal Audit will review arrangements with the Assessor in time for preparing the 2012/13 annual accounts.	Chief Auditor and Assessor	30 May 2013