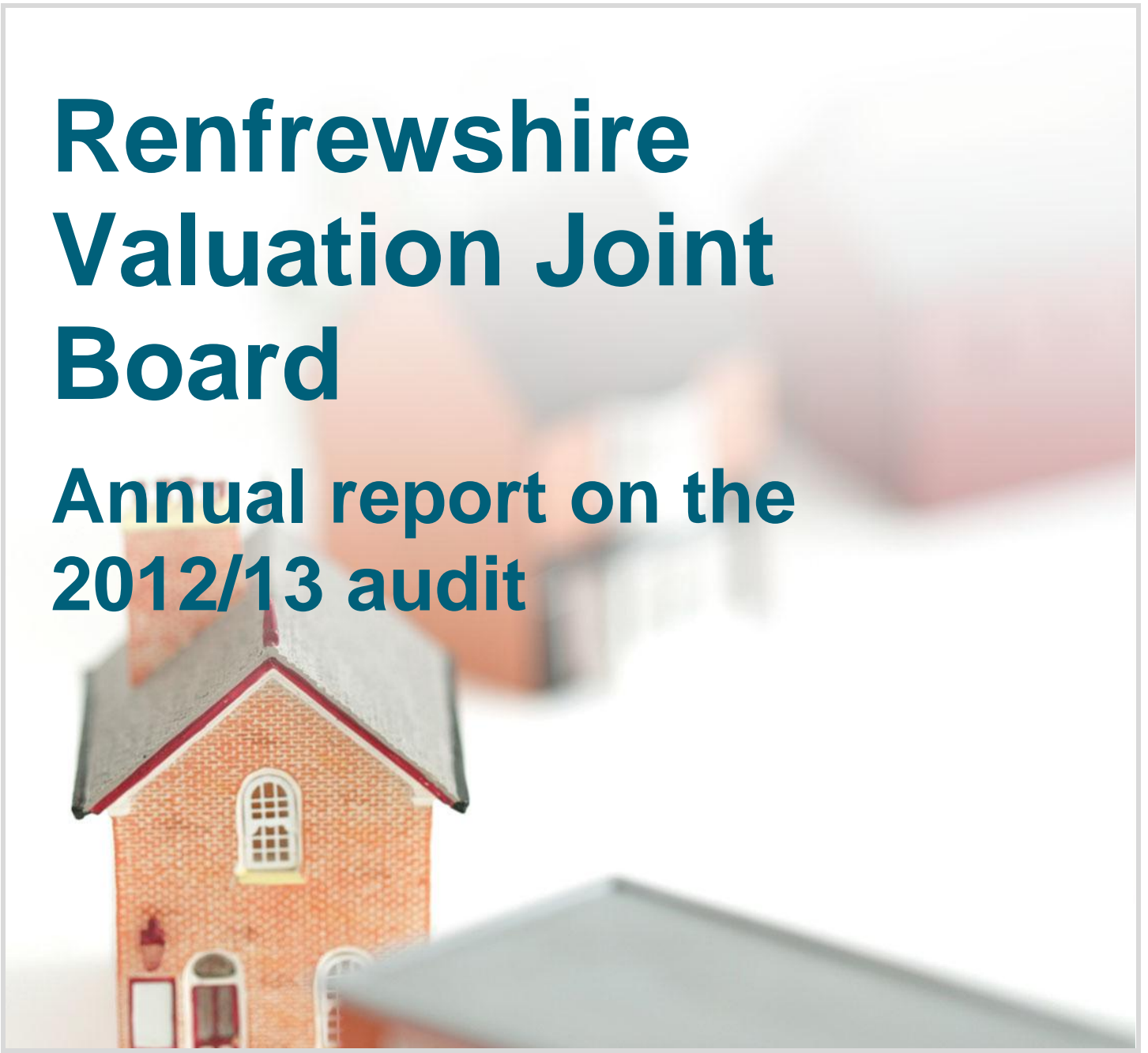


Renfrewshire Valuation Joint Board

Annual report on the 2012/13 audit



Prepared for Members of Renfrewshire Valuation Joint Board and the Controller of Audit
November 2013

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

2012/13

We have given an unqualified opinion that the 2012/13 financial statements of the Renfrewshire Valuation Joint Board (RVJB) give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The budget for 2012/13 was for a £33,500 deficit, to be funded from reserves, and the final outturn was £138,661 surplus. The difference was mainly due to lower staff costs and higher income.

The balance sheet at 31 March 2013 shows net liabilities of £2,027,329 (£1,460,746 in 2011/12), a significant deterioration over the previous year but this is mainly due to the increase of £579,000 in the pension liability during 2012/13.

Overall the system of internal control and arrangements for the prevention and detection of fraud were satisfactory during 2012/13.

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

Outlook

RVJB has to manage a number of issues with potentially significant cost implications, for example completing the work on telecoms appeals and implementation of individual electoral registration systems, which is a major project and RVJB has been part of the pilot process. RVJB assess that changes to welfare reform will generate an increase in the volume of appeals and associated costs in dealing with appeals.

Requisition income for 2013/14 is 1.7% lower than previous years but RVJB has reserves of £496,334, which can be used to support medium term financial planning. When reviewing budgets officers assess the level of these balances for addressing any unforeseen costs. However, there are no earmarked reserves which set aside funds for specific projects to demonstrate how the balances are being used to support financial planning. The Assessor and the Treasurer will review the level of reserves whilst undertaking the 2014/15 budget setting process.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Renfrewshire Valuation Joint Board (RVJB). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the RVJB and no responsibility to any third party is accepted.
3. [Appendix A](#) is an action plan setting out the high level risks we have identified from the audit. Management 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.
4. This report is also addressed to the Controller of Audit and will be published on our website after consideration by RVJB. The information in this report maybe 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.

Matters to be reported

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan issued to management in March 2013 and presented to the RVJB on 16 August 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not carry out any additional work outwith our planned audit activity the fee remains unchanged.

Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements of the RVJB for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 26 September 2013.
8. We received the unaudited financial statements on 18 June 2013, in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team which enabled us to complete our on-site fieldwork by the planned target date.
9. RVJB is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code) and we can confirm that the financial statements have been properly prepared in accordance with the 2012/13 Code.

Findings

10. The most significant changes required to the financial statements as a result of the audit process and under the accounting guidelines, were outlined in our International Standard on Auditing (ISA) 260 report, issued to the treasurer on 18 September 2013.
11. A small number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with finance officers who agreed to amend the unaudited financial statements.

Financial results

2012/13 Outturn

12. In 2012/13 the RVJB incurred an accounting surplus on the provision of services of £159,077 as shown in the Comprehensive Income and Expenditure Statement. The surplus as presented in the treasurer's foreword in the financial statements of £138,661 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.

13. The surplus in the foreword of £138,661, exceeded the budgeted deficit of £33,500, mainly attributable to the following:
 - over recovery of other income of £189,981 due to receipt of income for pilot exercises on behalf of the Cabinet Office, funding for transition to Individual Electoral Registration and income recovered from Scottish assessors.
 - an underspend of £86,329 on staff costs due to posts not filled in until the year-end.
14. In the Comprehensive Income and Expenditure Statement cost of services increased by only £14,779 (less than 1%). Employee costs had decreased due to vacancies. Contractor costs increased from £18,050 to £140,485 due to charges being paid out by RVJB on behalf of other assessors. Other income has increased and includes the recharges to other Scottish assessors. Requisition income decreased from 2011/12 in line with the agreed budget.

2012/13 financial position

15. The balance sheet as at 31 March 2013 shows net liabilities of £2,027,329 (£1,460,746 in 2011/12); a significant deterioration over the previous year but this is mainly due to the increase in the pension liability of £579,000. This is attributable to changes in the pension fund actuary's assumptions: higher pension and salary increase rates and lower expected return on pension assets.
16. A material net liability can highlight potential going concern issue however, we recognise that the appointed actuary is of the view that the asset holdings and contributions from employees and employers together with increases in contributions provide security over future liabilities. In light of these factors, it is reasonable that the accounts are prepared on a going concern basis.

Financial planning

17. Income and expenditure have been projected in revenue estimates for a two-year period up to 2014/15 based on predicted levels of operating income and expenditure and with the assumption of 1.7% reduction to requisition income for 2013/14 and no further decreases or increases in 2014/15. 2014/15 revenue estimates are indicative with budget and associated requisition levels to be reviewed once member councils' grant levels have been confirmed.
18. In January 2013 RVJB approved 2013/14 budget of total expenditure of £2,317,900. After taking into account other income and decreased requisition income of 1.7%, a deficit of £22,800 is budgeted, to be transferred from reserves. There are small changes to the core budget with decreases for employee property costs and increase in administration costs.
19. The revenue budget monitoring report to RVJB in August highlighted that, as at 19 July 2013, RVJB was £6,000 (6%) under budget, primarily due to employment costs, but officers

assessed that the projected year end position would still be for £22,800 to be drawn down from reserves.

20. In 2012/13 RVJB terminated its lease for the Greenock office and moved to a space in Inverclyde Council's new customer service centre. The RVJB anticipates this will generate net savings of £17,200 in future years.
21. Like all joint boards, RVJB has no specific powers to retain reserves to meet future requirements and technically the amounts are due to local authorities. These balances are used to support medium term financial planning. When reviewing budgets officers assess the level of these balances for addressing any unforeseen costs. The balance has increased by 57% over the past three years (see Table 1) and the balance as at 31 March 2013 is now 21% of 2013/14 budgeted expenditure. There are no earmarked reserves which set aside funds for specific projects and RVJB risks not demonstrating it is making best use of accumulated balances in budget plans.
22. There are significant areas that could impact on future costs but these have as yet not been quantified due to the level of uncertainty. These include:
 - legal costs associated with complex telecom appeals
 - implementation of Individual Electoral Registration from August 2014, which is expected to increase the volume of communication with the electorate
 - Welfare Reform under the Council Tax Reduction Scheme, which is expected to generate an increase in the volume of appeals and associated costs in dealing with appeals.
23. Also, additional costs may be required to resolve the number of non-domestic rates appeals.

Refer to Action Point 1

Table 1:

As at 31 March	2013	2012	2011
Reserves/ balances due to local authorities	£496,334	£357,674	£314,908

Source: Renfrewshire Council Annual Accounts 2011/12 and 2012/13

Corporate governance and systems of internal control

Overall governance arrangements

24. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and we found that the RVJB has sound governance arrangements in place.

Accounting and internal control systems

25. 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.

26. With Renfrewshire Council (the council) being the host for RVJB, all financial transactions of the 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 2012/13 we placed reliance on their testing at the council. Internal audit reported on some system weaknesses on trade payables and we carried out additional substantive testing and results were satisfactory.
27. Internal audit carried two specific reviews on governance arrangements and the valuation system. Recommendations for improvement included a review of policies and introduction of an annual declaration of interests for relevant staff. In the Internal Audit Annual Report 2012/13, the Chief Auditor concluded that reasonable assurance can be placed upon the adequacy and effectiveness on RVJB's internal control, risk management and governance arrangements.

Public Services Network

28. As already noted the council hosts all the systems for RVJB and if there were any ICT system failures this would have a significant impact on the work of RVJB as it exchanges so much data with other public bodies. The government secure intranet (GSI) is the mechanism that allows the council to share data and services. The council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network. This year the government is replacing GSI with the public services network (PSN). The new code of connection is challenging and uncompromising about security measures.
29. In our Annual report on the Audit 201/13 for Renfrewshire Council we confirmed that in September 2013 the Cabinet Office awarded accreditation to the council.

Prevention and detection of fraud and irregularity

30. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the overall arrangements for the prevention of fraud within the RVJB are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

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

31. 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. No issues have been identified by us for inclusion in this report.

Best value and performance

32. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. 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.
33. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. 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.
34. 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

Electoral registration annual report

35. Each year the Assessor and Electoral Registration Officer prepare a report, which describes all the work undertaken to ensure that the maximum possible number of citizens are registered to vote. Use of text, internet and telephone continue to be popular ways of communication with statistics showing registrations doubled using these methods since 2006 through to 2012. The Assessor concludes legally satisfactory information is held for 97.5% (2011/12 - 96.5%) of residential properties across the joint board area.

Performance statistics

36. Members are provided with a performance report at each meeting of the RVJB. In May 2013 members were provided with results for 2012/13 and then for each year back to 2005/06 on alterations and amendments to the council tax list and the valuation roll. The results show that processing times have improved steadily over that period. For amendments to the valuation roll there has been improving performance since 2005/06. There was a small decrease for 2012/13 compared to 2011/12, although targets were met and RVJB are still dealing with significant increases in the level of valuation roll appeals.

Individual Electoral Registration

37. During 2012/13, RVJB was selected to be one of 14 pilot areas throughout the UK to test processes which would help the introduction of Individual Electoral Registration. The most recent part of this project involved matching the RVJB's pre-canvass register with records held by the Department of Work & Pensions (DWP). This entailed matching some 264,245 electors, covering the whole of the RVJB area.
38. As a result there was 74% rate of positive matches achieved where RVJB's records and the DWP records were identical. Possible matches where RVJB's records and the DWP records had some degree of matching, for example surnames matched but not forenames, equated to

4% of the total. There was no match at all for 225 of the total. Officers advised members that the results for RVJB were at the higher end when compared to the other pilot areas.

39. The RVJB is investigating the “non- matches”. Work continues to ensure the secure connection between RVJB and the Cabinet Office/FCO/DWP is working to specification and this should help refine the matching process and help check the mismatches.

Non-domestic appeals

40. Last year we noted that the number of revaluation appeals had increased almost ten-fold compared to a normal revaluation cycle and that the appeals needed to be resolved by December 2013. At each meeting of the RVJB, members are provided with an update on progress. The report to members in August showed that (as at July 2013) there were 220 revaluation appeals all of which to be disposed of by 31 December 2013 and 1,802 running roll appeals, most of which were to be dealt with 31 December. The corporate risk register explains the context and actions in place to manage the risk, however, if there are delays the RVJB may breach its statutory duties.

Refer to Action Point 2

Acknowledgements

41. We would like to express our thanks to the staff of Renfrewshire Council and RVJB for their help and assistance during the audit of this year’s financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Action Plan

Issues and Planned Management Action

Action Point	Refer Para No	Issue Identified	Planned Management Action	Responsible Officer	Target Date
1	22/23	<p>Reserves/ balances due to authorities</p> <p>The level of reserves has increased by 57% over two years and now represents 21% of gross expenditure for 2013/14 budget. There are significant risks, potentially impacting on costs but none of the reserves are earmarked for specific projects.</p> <p><i>Risk: the authority is not making best use of accumulated balances in budget plans.</i></p>	<p>There are significant developments on IER and welfare reform whose impact is not fully known for RVJB, plus potentially significant legal costs for telecom appeals and so been prudent to retain this level of reserves. The Assessor and the Treasurer will review the level of reserves whilst undertaking the 2014/15 budget setting process.</p>	Assessor	December 2013
2	40	<p>Non-domestic appeals</p> <p>The level of revaluation appeals had increased ten fold. The Assessor has a number of actions to meet 31 December deadlines but officers are having to deal with an extraordinary number of appeals.</p> <p><i>Risk: RVJB may breach its statutory duties.</i></p>	<p>Report for RVJB meeting on 22 November 2013 provides update that officers are on course to settle all appeals that are required to be disposed of by 31 December 2013. A diet of hearings by the Valuation Appeal Panel will ensure that this process is completed by mid-December.</p>	Assessor	December 2013