

Renfrewshire Valuation Joint Board

Annual report on the 2013/14 audit



Prepared for Members of Renfrewshire Valuation Joint Board and the Controller of Audit
October 2014

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Key Messages

2013/14

We have given an unqualified opinion that the 2013/14 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 2013/14 was for a £22,800 deficit, to be funded from reserves, and the final outturn was a deficit of £32,343. While there was a significant increase in other income to cover additional contractors and administrative costs, the main reason for the additional deficit was the one off replacement cost of air conditioning units at Robertson centre.

The balance sheet at 31 March 2014 shows net liabilities of £2,499,972 (£2,027,329 in 2012/13); a significant deterioration over the previous year but this is mainly due to the increase of £452,000 in the pension liability during 2013/14.

Overall the system of internal control and arrangements for the prevention and detection of fraud were satisfactory during 2013/14.

This year was a period of high workload in terms of processing non domestic appeals. The end of the main cycle of appeals passed on 31st December 2013 and the Assessor reported that all those appeals, subject to the deadline, were disposed of by that date. The processing times for changes to the valuation rolls and council tax list continued to remain above target.

Outlook

RVJB has met the significant challenge of the introduction of Individual Electoral Registration (IER) in the 2014/15 financial year and is currently engaged in the further development of its IT systems as part of the compliance with the Public Services Network (PSN) protocols set by the Cabinet Office. RVJB continue to monitor the changes to welfare reform and to manage the impact on the volume of appeals and associated costs in dealing with appeals.

Requisition income for 2014/15 continues at the same level as 2013/14 while payroll costs are budgeted at a 1% increase and other costs of services at zero inflation. The 2014/15 financial year will however bear the costs of compliance with the PSN protocols. This is estimated (as at 18 July 2014) to lead to a draw down of reserves of £40,300 leaving a projected balance of £423,691 of unallocated reserves for the 31 March 2015 year end. The Assessor and the Treasurer are keeping this position under close review and should there be no further requirements to draw resources from reserves to attain PSN compliance, or to cover extra costs associated with the Referendum, they will consider a one-off reimbursement from reserves to member authorities on the closure of the 2014/15 accounts.

Introduction

1. This report is the summary of our findings arising from the 2013/14 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 2014 and presented to the RVJB on 15 August 2014, 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 2013/14 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 2013/14 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 30 September 2014.
8. We received the unaudited financial statements on 16 June 2014, 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 2013/14 (the 2013/14 Code) and we can confirm that the financial statements have been properly prepared in accordance with the 2013/14 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 22 September 2014.
11. **Project income:** Other income includes recharges of costs and also funding from the Cabinet Office and Scottish Government for various projects including Individual Electoral Registration (IER). An error on income recognition was identified by audit and following the query, a further two errors were uncovered by officers at Renfrewshire Council and Renfrewshire Valuation Joint Board.
 - The recharge income for legal fees for telecoms valuations was over accrued in 2013/14 by £23,337.
 - IER income was received from the Cabinet Office in July 2014, £54,100 of which related to 2013/14 but had been missed due to the accounts being prepared in June.

- IER income of £21,993 received in 2013/14 was incorrectly accounted for in 2013/14 accounts when it should have been accounted for as deferred income as it is to be spent on the IER project in 2014/15.
12. The adjustments had the net affect of increasing 'other income' of £166,583 by £8,770 and the net deficit changed from £218,756 to £209,986. Various notes to the accounts were adjusted accordingly.

Financial results

2013/14 Outturn

13. In 2013/14 the RVJB incurred an accounting deficit on the provision of services of £209,986 as shown in the Comprehensive Income and Expenditure Statement. The deficit as presented in the Treasurer's foreword in the financial statements of £32,343 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.
14. The deficit in the foreword of £32,343 exceeded the budgeted deficit of £22,800, mainly due to the one off replacement cost of air conditioning units at Robertson centre. The over recovery of £178,656 of other income was mainly due to the receipt of income for the IER scheme from the Cabinet Office, to additional funding received from the Scottish Government for registration of sixteen to eighteen year olds in the referendum, and to the recharges of telephone mast valuation costs. This increase in other income covered the £88,870 of additional administrative costs arising from the above changes in the electoral process and the additional contractors' costs of £73,241 arising from the legal fees for the telephone mast valuation appeals. Requisition income decreased by 1.9% from 2012/13 in line with the agreed budget.

2013/14 financial position

15. The balance sheet as at 31 March 2014 shows net liabilities of £2,499,972 (£2,027,329 in 2012/13). The increase in liabilities is mainly as a result of the movement on the pension liability (an increase of £452,000) which is a result of changes in the pension fund actuary's assessment and in particular a lower than 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 for a two-year period based on predicted levels of operating income and expenditure and with the assumption of requisition income for

2014/15 remaining consistent with that of 2013/14 and no further decreases or increases in 2015/16. 2015/16 requisition levels will be finalised once member council grants levels have been confirmed.

18. In January 2014 RVJB approved the 2014/15 budget of total expenditure of £2,471,100. After taking into account other income and members requisition income, breakeven is budgeted. There are small changes to the core budget with increases for employee costs and administration costs and a small decrease for supplies and services costs. Additional funding of £174,200 is expected from the Cabinet Office in relation to additional cost pressures associated with implementing the Independent Electoral Registration scheme
19. The revenue budget monitoring report to RVJB in August highlighted that, as at 18 July 2014, RVJB was £2,000 (6%) over budget, primarily due to supplies and services costs. Officers have assessed that the projected year end position has changed from breakeven to a drawdown of reserves of £40,300. This is mainly due to PSN costs of £131,000 of which £90,700 is recoverable from the Cabinet office.
20. 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 and address any unforeseen costs.
21. The projected balance of unallocated reserves for the 31 March 2015 year end is £423,691. RVJB continues to maintain a relatively high level of reserves (see Table 1 showing 2015 level is 18% higher than 2012) which represents 17% of 2014/15 budgeted expenditure. While a level of contingency is desirable to cover unexpected costs, RVJB has not earmarked any of the reserves for specific projects and risks not demonstrating that it is making best use of accumulated balances in budget plans.

Refer to Action Point 1

Table 1: Reserves/ balances due to local authorities

As at 31 March	2015 Projected	2014	2013	2012
Reserves/ balances due to local authorities	£423,691	£463,991	£496,334	£357,674

Source: Renfrewshire Valuation Joint Board Annual Accounts 2011/12-2013/14

Corporate governance and systems of internal control

Overall governance arrangements

22. 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 satisfactory governance arrangements in place. Since the year-end a number of reviews of policies and procedures were reviewed, in line with the phased programme. These include the Code of

Conduct for RVJB employees, the whistleblowing policy and the introduction of a Declaration of Interest form for both senior officers and staff.

Accounting and internal control systems

23. 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.
24. 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.
25. In the Internal Audit Annual Report 2013/14, the Chief Auditor concluded that reasonable assurance can be placed upon the adequacy and effectiveness of RVJB's internal control, risk management and governance arrangements. As part of their work Internal audit reviewed ICT security arrangements within the Board. The report concluded that several areas of the disaster recovery arrangements needed to be improved upon as a matter of urgency to ensure the organisation can continue to provide their services during a period of interruption. Management agreed to address these issues as part of their preparations for PSN accreditation.

Public Services Network and IT services

26. 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.
27. The government secure intranet (GSi) was the mechanism that allowed the council to share data and services. In 2012/13 the UK government replaced GSi with the public services network (PSN). The new code of connection is challenging and uncompromising about security measures. Last year we confirmed that in September 2013 the Cabinet Office awarded accreditation to the council.
28. After discussion with the Cabinet Office and Renfrewshire Council who have been hosting /managing the majority of the IT services, RVJB chose to provide their own IT capability internally and to become PSN compliant in their own right. During 2014 the RVJB has created over 40 policies to meet the PSN compliance and designed a new network for the operational IT requirements. The RVJB's application for PSN accreditation was submitted to the Cabinet Office in September and the Board awaits a response.

Refer to Action Point 2

Prevention and detection of fraud and irregularity

29. 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

30. 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 other issues have been identified by us for inclusion in this report.

Best value and performance

31. 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.
32. 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.
33. 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

34. 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. The annual canvass, conducted in late 2013/14, recorded that returns were obtained from approx. 80% of properties canvassed and that additional exercises were undertaken to determine the status of the no returns in order to ensure that the register is as accurate as possible. The Assessor concluded that legally satisfactory information is held for 97.5% (also 97.5% for 2012/13) of residential properties across the joint board area.

Performance statistics

35. Members are provided with a performance report at each meeting of the RVJB. In August 2014 members were provided with the results for the first half of the rating year and these demonstrated that processing times for the maintenance of both the Valuation (Council tax) List and the Non Domestic Valuation Roll were ahead of target. It was noted that the impact on performance levels due to the disposal of appeals workload had been negligible.

Individual Electoral Registration

36. The introduction of IER should be fully implemented in Scotland by the end of 2014. RVJB has successfully negotiated the various stages of implementation to the date of the Referendum. This included the confirmation dry run for the new process which took place in August 2013, and the testing of the new system of registering individuals under the IER framework. The IT systems have been developed to integrate the new IER process into the Board's electoral management system and staff have been trained to follow new protocols as part of the PSN compliance process. Confirmation live run started after the Referendum and no significant issues have been reported to date by the Assessor.

Non-domestic appeals

37. The end of the main cycle of appeals, the revaluation appeals and some running roll appeals, passed on 31st December 2013 and the Assessor reported that all those appeals, subject to the deadline, were disposed of by that date. A significant number of appeals, mostly for larger, more complex appeals have been subject to hearings by the Lands Tribunal. These include telecommunications, clinics, health centres and Glasgow Airport. The Assessor noted that while the exceptionally high workload has passed, there will continue to be a significant appeals workload for the foreseeable future. This is due to the ongoing inflow of appeals and the complexity of the remaining revaluation and earlier running roll appeals.

Acknowledgements

38. 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	21	<p>Reserves/ balances due to authorities</p> <p>The projected level of reserves at 31/3/15 represents 17% of gross expenditure for 2014/15 budget. While a level of contingency is desirable to cover unexpected costs the RVJB has not earmarked any of the reserves for specific projects.</p> <p><i>Risk: the authority is not making best use of accumulated balances in budget plans.</i></p>	<p>The Assessor and the Treasurer are keeping this position under review. Should there be no requirements to draw additional resources from reserves to attain PSN compliance, or to cover the extra costs of the Referendum , considerations will be given to a one-off reimbursement from reserves to member authorities on the closure of the 2014/15 accounts.</p>	Assessor and Treasurer	March 2015
2	28	<p>PSN Compliance</p> <p>RVJB's application for PSN accreditation was submitted to the Cabinet Office in September 2014 and the Board awaits a response.</p> <p><i>Risk: a negative response could result in additional costs being incurred to achieve compliance.</i></p>	<p>The Board is confident that any issues raised by the Cabinet Office can be resolved effectively and would anticipate additional funding from the Cabinet Office to address any extra costs that may arise.</p>	Assessor	December 2014