

MAIDSTONE BOROUGH COUNCIL

CORPORATE SERVICES OVERVIEW AND SCRUTINY COMMITTEE

8 JANUARY 2013

REFERENCE FROM AUDIT COMMITTEE

REVALUATION OF INVESTMENT PROPERTIES

The Audit Committee, at its meeting held on 26 November 2012, considered the report of the Head of Finance and Customer Services setting out the Audit Commission's Annual Audit Letter covering the 2011/12 financial year. It was noted that:-

- The Annual Audit Letter provided a summary of the results of the Audit Commission's inspection activity at the Council during 2011/12. As the main issues arising from the audit were dealt with in the Annual Governance Report which was presented to the last meeting of the Committee, the Letter was a much shorter summary document this year.
- Following the last meeting of the Committee, the District Auditor wrote to the Chairman detailing progress on outstanding issues, drawing his attention to changes made to the accounts since the meeting and outlining the action required before he could issue his audit opinion. In this letter, the District Auditor identified three issues where the Officers had decided not to amend the accounts, and he invited the Chairman to consider asking the Officers to make amendments in respect of these issues. The District Auditor indicated that if, following discussions with the Officers, the Chairman decided not to request a change to the accounts, the reasons for this decision should be specified in a revised Letter of Representation. However, if the decision was made not to amend the accounts for these items, he did not consider that this would affect his audit opinion.
- In his letter to the Chairman of the Committee, the District Auditor also referred to the reply he had received from the Council's External Valuers in response to his audit queries. He indicated that the External Valuers had identified a number of limitations to the scope and reliability of their valuations, particularly in respect of the timescale for their work, assumptions made and the extent to which the valuations could be relied upon. In particular, they had made clear that their valuations were based on the information provided by the Council without any independent inspections. The District Auditor had therefore requested that the Officers include a statement within a revised Letter of Representation to confirm that the information provided to the External Valuers was accurate and complete.

- Upon receipt of the revised Letter of Representation signed by the Director of Regeneration and Communities confirming that amendments would not be made to the accounts in relation to the three items, and explaining the reasons for this decision, and that the information provided to the External Valuers in order to undertake their valuations was accurate and complete, the District Auditor issued an unqualified opinion on the 2011/12 Statement of Accounts and concluded that proper arrangements were in place to secure economy, efficiency and effectiveness in the use of resources.

In response to questions by Members about the problems experienced in relation to the revaluation of investment properties, the District Auditor confirmed that it was accepted that the arrangements for obtaining the valuations had not gone to plan, and he had requested information from the External Valuers to enable him to make a judgement as to the reasonableness of the outcomes. Having considered their response and the assurances given by the Council in the revised Letter of Representation, he had concluded that he had sufficient information to give an unqualified opinion on the audit. The Director of Regeneration and Communities reiterated that she was satisfied that the information provided by the Council to the External Valuers to enable them to carry out their work was accurate and comprehensive. The problems which occurred related to the length of time it took the External Valuers to provide the required information and respond to the Council's concerns.

The Committee was reminded that it was a recommendation of the Action Plan contained within the Annual Governance Report that a review be undertaken of the arrangements in place for ensuring that revaluations carried out by the Council's Valuers are reliable, complete and provided within an acceptable timescale. This recommendation had been accepted as a high priority, and the outcome of the review would be reported to the Audit Committee as the Committee responsible for the adequacy and robustness of the accounts, and followed up as part of the post statements audit of the 2012/13 accounts. Although Members accepted that the Council had fulfilled its obligations in relation to the annual revaluation of investment properties required under accounting standards, they were concerned about the actuality of the valuations provided, and felt that the issue should be referred to the Corporate Services Overview and Scrutiny Committee for consideration, with any recommendations arising from its review being reported direct to the Cabinet.

RECOMMENDED: That the Corporate Services Overview and Scrutiny Committee consider the Audit Committee's concerns regarding the actuality of the valuations provided by the Council's External Valuers for inclusion in the accounts and report any recommendations arising from its review direct to the Cabinet.