

# Dunbartonshire and Argyll & Bute Valuation Joint Board

**Report to Members on the 2005/06 Audit**



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# Key Messages

## Introduction

In 2005/06 we audited the financial statements and we looked at aspects of performance management and governance. This report sets out our key findings, summarising key outcomes in 2005/06 and the outlook for the period ahead.

## Key outcomes from 2005/06 audit

We have given an **unqualified** opinion on the financial statements of Dunbartonshire and Argyll & Bute Valuation Joint Board for 2005/06.

The Joint Board's financial transactions are processed through West Dunbartonshire Council's financial systems. As part of our 2005/06 audit of the Joint Board we have carried out a review of the key controls operating within the main financial systems focusing on those authorisation procedures carried out at Board level. We also reviewed these systems as part of the audit of West Dunbartonshire Council. Overall there were no material issues of concern concerning the operation of the main financial systems and the Board's transactions.

The Joint Board achieved a surplus of £47,789 in 2005/06 and had an accumulated surplus of £ 144,639. In setting the 2006/07 budget, £ 95,560 was applied from brought forward balances. This leaves £49,079 available as a contingency for unforeseen future costs. Future cost pressures are likely to come from the implementation of the single status agreement, increased pension contributions and the implications of the Electoral Administration Act 2006.

The Joint Board has continued to develop its arrangements for ensuring the provision of best value services. Particular achievements to date include the approval of service plans, the introduction of regular customer satisfaction surveys and the approval of a risk register and priority action plan.

## Outlook for future audits

Changes to accounting rules will have an impact on the presentation of the 2006/07 annual financial statements which will require to be more consistent with the accounts of other public and private sector organisations.

This is the final year of our current appointment to the audit of the Dunbartonshire and Argyll & Bute Valuation Joint Board. From 2006/07 the Joint Board's auditors will be KPMG.

**Audit Scotland  
October 2006**



# Introduction

1. This report summarises the findings from our 2005/06 audit of the Dunbartonshire and Argyll & Bute Valuation Joint Board. Information on the integrity and objectivity of the audit engagement lead and audit staff, were outlined in the Audit Risk Analysis and Plan submitted to West Dunbartonshire Council's Audit and Performance Review Committee on 8<sup>th</sup> March 2006 and in the Code of Audit Practice prepared by Audit Scotland in July 2001. The nature and scope of the audit of the Joint Board were outlined in the audit fee letter issued 16<sup>th</sup> January 2006.
2. The financial statements of the Joint Board are the means by which it 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 fairly its financial position and the income and expenditure for the year.
3. 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 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 Board has adequate corporate 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 mis-statement, error, fraud or corruption; and
  - the Board has proper arrangements for securing best value in its use of resources.



# Performance

## Introduction

4. In this section we summarise key aspects of the Joint Board's reported performance.
5. It is the Joint Board's responsibility to ensure that proper arrangements are in place to secure the economy, efficiency and effectiveness in the use of its resources. My audit does not include detailed reviews in this area. However, from carrying out other aspects of my audit, including a review of the minutes, I am able to report on aspects of the Joint Board's arrangements to manage its performance.

## Overview of performance in 2005/06

6. We have reported in previous years that it is clear that the Joint Board is committed to the Best Value agenda and ensuring continuous improvement in services. Progress in improving the arrangements for Best Value are regularly reviewed by the management team and reported to members. As reported to the Joint Board, particular achievements to date include the approval of three year and one year service plans, an increase in the number and scope of the performance management reports considered by the management team and the introduction of regular customer satisfaction surveys.
7. The Joint Board has continued to develop its risk management arrangements and approved in June 2005 a risk register and priority action plan.
8. The main measure of the Joint Board's performance is by key performance indicators which relate to maintaining the valuation roll and council tax list. As reported to the Joint Board in June 2006, the time taken to make amendments to the valuation roll improved considerably from 2004/05, with 80% of amendments being made within a three month period compared with 66.5% in the previous year. The time taken in 2005/06 to enter new dwellings in the council tax valuation list within 3 months of occupation fell slightly to 89% in 2005/06 from 91.5 % in 2004/05.



# Financial position

## Introduction

9. In this section we summarise key aspects of the Joint Board's reported financial position and performance to 31 March 2006, providing an outlook on future financial prospects, including our views on potential financial risks.

## Revenue Account

### Revenue performance 2005/06

10. In his foreward to the financial statements the Treasurer highlights that the 2005/06 budget was constructed to breakeven after applying approximately £70,000 of balances. The final position shows however that the Joint Board had an overall favourable variance against the 2005/06 budget of £118,000, resulting in the Board achieving a surplus of £47,789 in 2005/06. The main reason for the budget underspend was savings in employee costs resulting from the non filling of senior vacancies, savings in overtime and a review of the administrative functions. The accumulated surplus for the Board at 31 March 2006 was £ 144,639. As the Joint Board does not have the statutory powers to hold reserves, this balance is shown in the financial statements within creditors as amounts due to constituent councils.

## Financial outlook

### Current budget

11. The 2006/07 revenue estimates were approved by the Joint Board at the meeting of December 2005. In setting the 2006/07 budget, £95,560 was applied from brought forward balances. This leaves £49,079 available as a contingency for unforeseen future costs.

### Single Status

12. In 1999 a single status agreement was reached between Scottish local authorities and trades unions which would harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers covering pay, working hours, leave and negotiating mechanisms. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, this was extended by agreement between local authorities and unions to April 2004.



13. It has been agreed that the processes used for job evaluation and the principles applied to grades, scales and conditions by West Dunbartonshire Council will be adopted in the main by the Joint Board. However it will be a matter for the Joint Board to determine the parameters of their own pay model structures and application. At West Dunbartonshire Council discussions are continuing with trade unions over the evaluation scheme to be applied, prior to agreement on the scheme to be implemented. Until a local agreement is concluded the initial and continuing costs to the Joint Board cannot be reliably estimated. It is noted that an increase of 1.5% to the Joint Board's paybill has been built into the 2006/07 revenue estimates for the implementation of single status. It is important that the progress made in finalising the single status agreement is kept under review by the Joint Board, in particular the impact on future costs. As reported to the Joint Board in June 2006, a specific project plan was to be developed between West Dunbartonshire Council and management of the Joint Board to allow an effective approach to applying a single status agreement to the Board's employees.

#### **Action Plan 1**

### **Electoral Administration Act 2006**

14. The new provisions of the Electoral Administration Act 2006 will impact on current workloads and costs of the electoral registration function. The Joint Board has considered the potential impact of the Bill and has agreed to convene a special meeting should the requirements of the Act have a significant impact on operations and costs.

#### **Action Plan 2**

### **Pension disclosures**

15. The Joint Board participates in the Local Government Pension Scheme ( Scotland ) which is administered by the Strathclyde Pension Fund. To comply with Financial Reporting Standard 17 (Retirement Benefits) the financial statements account for retirement benefits at the point at which the Joint Board commits to paying them, even if the actual payment will be made years into the future. This accounting requirement results in very large future liabilities being recognised in the face of the annual accounts. The Joint Board's estimated pension liabilities at 31 March 2006 exceeded its share of the assets in the Strathclyde pension Fund by £ 487,000. In common with similar public bodies, the future financing of these pension liabilities will be met by increased pension contributions. The actuary is required to make a 3 year assessment of the contributions that should be paid by employing authorities as from 1 April 2006 to maintain the solvency of the pension fund. The contributions are expected to rise from 260% of employee contributions in 2006/07 to 280% by 2008/09. This will be a future cost pressure for the Joint Board.



# Governance

## Introduction

16. In this section we comment on key aspects of the Joint Board's governance arrangements during 2005/06.

## Overview of arrangements in 2005/06

17. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. The Joint Board has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. As auditor I have a responsibility to report on the Joint Board's corporate governance arrangements.

18. A Statement on the System of Internal Financial Control is included within the annual financial statements, and states the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal financial control system.

19. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

## Systems of internal control

20. The Joint Board's financial transactions are processed through West Dunbartonshire 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 the significant financial systems and the associated internal controls, both for the purpose of giving an opinion on the statement of accounts, and in order to report on the adequacy of such systems and controls.

21. Audit's review of these systems was conducted as part of the audit of West Dunbartonshire Council and supplemented by specific audit work on the Joint Board's financial statements. In addition, as part of our 2005/06 audit of the Joint Board we have carried out a review of the key controls operating within the main financial systems focusing on those authorisation procedures carried out at Board level. We also followed up the progress made against the recommendations agreed in our 2004/05 audit report. Overall there were no material issues of concern concerning the operation of the main financial systems and the Board's transactions. Good progress has been made against our previous report with all recommendations now implemented.





## **Prevention and detection of fraud and irregularities**

22. The Board has in place its own fraud prevention strategy and management have agreed that it will be formally approved by members of the Board and be communicated to staff by December 2006. The manager of audit has confirmed that there were no frauds identified within the Joint Board in 2005/06.



# Financial statements

## Introduction

23. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2005/06. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
24. We audit the financial statements and give an opinion on:
- whether they present fairly the financial position of the Joint Board and its expenditure and income for the period in question; and
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
25. We also review the Statement on the System of Internal Financial Control by:
- considering the adequacy of the process put in place by the Joint Board to obtain assurances on systems of internal control; and
  - assessing whether disclosures in the Statement are consistent with our knowledge of the Joint Board.

## Overall conclusion

26. We have given an **unqualified** opinion on the financial statements of Dunbartonshire and Argyll & Bute Valuation Joint Board for 2005/06.
27. The Joint Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June 2006. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly.
28. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the Joint Board and publication. The financial statements are an essential 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 those resources.



## Accounting practice

29. The Joint Board is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom — A Statement of Recommended Practice (the 'SORP'). Only a number of minor presentational changes were made to the unaudited accounts provided for public inspection.
30. It has been the practice to date to show only fixed assets relating to land and buildings on the Joint Board's balance sheet, mainly because the purchase of assets such as computer equipment have either been valued below the deminimis level or have been written off fully in the year of purchase. The Joint Board are however starting to incur more ICT expenditure which has a useful life of more than one year. It was noted that the new EROS II computer system was purchased during the year at a cost of approximately £68,000. Consideration should be given to disclosing assets such as computer systems and software licences in the balance sheet of the 2006/07 accounts.

### Action Plan 3

## Group accounts

31. The Joint Board has been treated as an associate in the constituent councils' group accounts.

## Legality

32. Each year we request written confirmation from the Treasurer that the Joint Board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the members of the Joint Board, the financial transactions of the Joint Board were in accordance with the relevant legislation and regulations governing its activities.
33. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## Financial reporting outlook

34. Overall the Joint Board is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements.
35. A number of changes have been made to the 2006 SORP. These include changes to the single entity statement of accounts which include the replacement of the Revenue Account with a traditional Income and Expenditure Account; and the replacement of the Statement of Total Movement in Reserves with a Statement of Total Recognised Gains and Losses.



36. These changes will have a significant impact on the presentation of the 2006/07 annual financial statements to make them more consistent with the accounts of other public and private sector entities.

### **Change of external auditor**

37. Regular rotation of auditors is required by auditing standards and is an important component in guarding against perceived or actual threats to auditors' objectivity and independence. Audit Scotland's policy is to rotate auditors at least once every five years. Where the audit is carried out by Audit Scotland staff rather than a private firm, the engagement lead and other key staff will be rotated.
38. This is the final year of our current appointment to the audit of Dunbartonshire and Argyll & Bute Valuation Joint Board. From 2006/07 KPMG will become the Joint Board's appointed auditor.



# Final Remarks

39. The members of Dunbartonshire and Argyll & Bute Valuation Joint Board are invited to note this report. We would be pleased to provide any additional information that members may require.
  
40. The co-operation and assistance given to us by Argyll & Bute Valuation Joint Board members and officers and the relevant officers within West Dunbartonshire Council, over the five years of our audit appointment is gratefully acknowledged.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	There are possible delays in the implementation of a single status agreement with employees of the Valuation Joint Board.	Job overviews completed Project board established.  Project plan with relevant milestones to be completed and presented to Board meeting.  Implement single status agreement.	Depute Assessors Project Board/Project Manager ( WDC )  Assessor	December 2006  March 2007
2	There is a lack of available resources to fund the potential additional costs resulting from the implementation of the Electoral Administration Act 2006.	Additional funds have been made available to the constituent councils during 2006/07 and will be passed to the Valuation Joint Board via additional requisitions.  Ongoing funding requirements to be contained in 2007/08 revenue budget bid to the Board.	Treasurer/Depute Assessor	December 2006
3	The accounting treatment applied to ICT expenditure should be reviewed.	A review of the accounting treatment in relation to all IT equipment will be carried out during 2006/07.	Treasurer	March 2007