

# Tayside Valuation Joint Board

**Report to Members and the Controller of Audit  
on the 2009/10 Audit**

**October 2010**



 **AUDIT SCOTLAND**





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# Key Messages

In 2009/10 we have audited the financial statements and looked at aspects of governance within Tayside Valuation Joint Board. This report sets out our main findings.

Overall, we found the financial stewardship of Tayside Valuation Joint Board (the joint board) during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- an unqualified opinion has been issued on the financial statements for 2009/10
- the statement on the system of internal financial control included in the accounts complies with accounting requirements and is not inconsistent with audit findings
- final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly
- many aspects of a sound corporate governance framework are in place
- a fraud strategy and written procedures for investigating suspected fraud are in place.

The Dundee City Council internal audit services, the joint board's internal auditor concluded that "... reasonable assurance can be placed upon the adequacy and effectiveness of the board's internal control system in the year to 31 March 2010."

The joint board operates the corporate financial systems of Dundee City Council under a service level agreement. As external auditor of the council, we have also been able to take assurance from our work on these systems.

The financial challenges facing the public sector are well documented, with public sector bodies facing deep and prolonged cuts in funding. Whilst there remains uncertainty about the impact of these cuts on the joint board it will not be immune from them and will need to identify ways of delivering services with decreasing levels of income.

The co-operation and assistance given to us by Tayside Valuation Joint Board members, officers and staff is gratefully acknowledged.



# Introduction

1. This report summarises our findings from our 2009/10 audit of the Tayside Valuation Joint Board. The scope of our audit was set out in our audit plan issued in February 2010.
2. The financial statements of the board are the means by which it accounts for its stewardship of the resources available to it and its financial performance in the use of those resources. It is the responsibility of the board to prepare financial statements that give a true and fair view of the financial position and expenditure and income of the board 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 joint 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 joint 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 joint board has proper arrangements for securing best value in its use of resources.



# Financial statements

## Introduction

4. In this section we summarise key outcomes from our audit of the board's financial statements for 2009/10 and aspects of the joint board's reported financial performance, and provide an outlook on future financial reporting issues.

## Audit Opinion

5. We have given an unqualified opinion on the financial statements of Tayside Valuation Joint Board for 2009/10, concluding that the statements:
  - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of the joint board as at 31 March 2010 and its income and expenditure for the year then ended
  - have been prepared properly in accordance with Local Government (Scotland) Act 1973.
6. The joint board's balance sheet has an excess of liabilities over assets of £7.8 million due to the accrual of pension liabilities in accordance with accounting standards. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets.
7. The joint board has considered it appropriate to adopt a going concern basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employer's contribution rate to meet the fund's commitments. The constituent authorities of the joint board are also liable to fund the board's liabilities as they fall due. We are satisfied that the process the joint board has undertaken to consider going concern is reasonable.

## Financial position

8. The joint board's Income and Expenditure Account shows a net deficit of £105k compared to a budgeted deficit of £106k. This figure measures the joint board's financial results in the year under Generally Accepted Accounting Principles. The movement on the General Reserve balance is also an important aspect of the joint board's stewardship and adjustments are made to the net deficit figure to take account of expenditure that statutory and non-statutory proper practice requires to be charged or credited to the general reserve. Following these adjustments both the budgeted and actual general reserve position for the year achieved break even. The Treasurer's report on pages 9 to 12 of the



Statement of Accounts includes a summary of the main factors underlying the financial outturn. The main factors impacting on the financial position this year relate to underspends in property and supplies and services costs.

9. The general reserve balance at 31 March 2010 of £103k is unchanged from the previous year and is in line with the minimum level of uncommitted reserves as set out in the joint board's approved policy.
10. Capital expenditure of £37,000 in the year was for computer equipment and associated communications networking. This was funded by contributions from constituent authorities.

## Issues arising

11. The joint board's financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.
12. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). Overall we were satisfied that the joint board had prepared the accounts in accordance with the SORP.
13. Audited accounts were finalised prior to the target date of 30 September 2010 and are now available for presentation to the joint board and publication.

## Legality

14. Through our planned audit work we consider the legality of the joint board's financial transactions. In addition the Treasurer confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of the members and officers of Tayside Valuation Joint Board, the financial transactions of the joint board were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## Statement on the system of internal financial control

15. Scottish authorities are required by the local authority SORP to include a statement on the system of internal financial control with their statement of accounts. The 2009/10 financial statements include a Statement on the System of Internal Financial Control which highlights the Treasurer's and Assessor's view that the board can place reliance upon the effectiveness of the board's financial systems.
16. The joint board operates the corporate financial systems of Dundee City Council under a service level agreement. The statement highlighted that assurance had been taken from the work done by Dundee City Council's internal audit service on these corporate financial systems. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.



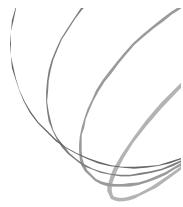


## Financial reporting outlook

### Financial planning

17. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated at £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.
18. There remains uncertainty about what the financial implications for the Tayside Valuation Joint Board will be. The UK Government published its comprehensive spending review on 20 October and the Scottish Government will publish the results of its own review in mid November. A key issue will be the extent to which some priority services, particularly health, may be protected from budget reductions. The settlement for local government is not expected to be finally known until January 2011.
19. Current projections are that a 14% real terms reduction will be experienced by Scottish councils over 2011/14, heavily weighted towards 2011/12 reflecting the deferral of the 2010/11 cuts. In cash terms this is equivalent to annual reductions in grant of 4%, 1.7% and 1.7% respectively.
20. It has previously been the joint board's practice to determine a 3 year revenue budget with years 2 and 3 being provisional. In light of the current economic climate and the anticipated reduction in councils' funding levels beyond 2010/11 the board decided at its meeting in February 2010 to focus on setting a budget for 2010/11 only. The board's revenue budget for beyond 2011/12 is being developed as the broader funding position becomes clearer.
21. The joint board will not be immune from the financial pressures upon its constituent councils. It will need robust information about activity, costs and performance to identify ways of more effectively delivering services with decreasing levels of income. The joint board may wish to consider developing a "recession impact action plan" to help address the future funding difficulties.

***Action plan 1***



# Corporate governance

22. In this section we comment on key aspects of the joint board's governance arrangements during 2009/10 and provide an outlook on future governance issues.

## Overview

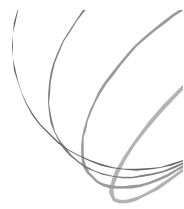
23. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. In previous years we have concluded that the joint board has many aspects of a sound corporate governance framework in place and we have reached the same conclusion this year.
24. In February 2010 the Assessor presented his first annual report on risk management and business continuity. The report highlighted that the board's Governance Group, chaired by a Depute Assessor, is responsible for implementation of risk management and business continuity. The group meets regularly and reports to the management team. Copies of the risk register and Business Continuity Plan have been circulated to relevant officers for operational purposes and also to all staff to allow them to familiarise themselves with the plan, in particular their individual areas of responsibility.
25. During the year the board's internal auditors undertook a review of the risk management and business continuity arrangements concluding that arrangements were generally sound. Some scope for improvement was identified and an action plan has been agreed to implement the necessary actions.
26. Internal audit plays a key role in the joint board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Dundee City Council's internal audit service has provided an internal audit service to the joint board during 2009/10.

## Anti-fraud and corruption arrangements

27. The joint board has arrangements in place to prevent and detect fraud and corruption including the councillor's Code of Conduct, Fraud Guidelines and a whistle blowing policy.

## Systems of internal control

28. Dundee City Council internal audit service, the joint board's internal auditors, concluded that "...reasonable assurance can be placed upon the adequacy and effectiveness of the board's internal control system in the year to 31 March 2010".



29. During the year we reviewed the Internal Audit structure and function in accordance with International Standard on Auditing 610 and concluded that Dundee City Council's internal audit service was well managed and operated to acceptable standards. We reviewed the following internal audit reports submitted to the board and noted that:

- *Follow-up review of creditors/procurement* – the actions taken by management have addressed the control weaknesses identified.
- *Follow-up review of Non-Domestic Rates* – the actions taken by management have addressed the control weaknesses identified.
- *Budgetary Control* – a sound system of control is in place and the report included one recommendation to improve internal controls.
- *Council Tax* – a sound system of controls is in place and these are being consistently applied.
- *Electoral Register* – a sound system of controls is in place and these are being consistently applied.

30. The joint board operates the corporate financial systems of Dundee City Council under a service level agreement. As external auditors of the council, we have been able to take assurance from our work on these systems. We have also undertaken audit testing focussing on the high level controls in place at the joint board within the following systems:

- payroll – no issues identified
- accounts payable – no issues identified
- council tax valuation – no issues identified
- non-domestic rates – no issues identified.



# 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	21	<p><b>Financial planning</b></p> <p>The joint board will not be immune from the financial pressures upon its constituent councils. It will need robust information about activity, costs and performance to identify ways of more effectively delivering services with decreasing levels of income.</p> <p><b><i>Risk: the joint board is unable to meet expenditure commitments from available income.</i></b></p>	<p>The Assessor and Treasurer are currently reviewing the Joint Board's budgets with a view to bringing forward cost reduction options as part of the 2011/12 Revenue Budget preparation.</p>	<p>Assessor and Treasurer</p>	<p>March 2011</p>