

**REPORT TO: TAYSIDE VALUATION JOINT BOARD
GENERAL PURPOSES SUB COMMITTEE - 27 JUNE 2011**

**REPORT ON: UNAUDITED STATEMENT OF ACCOUNTS FOR THE YEAR ENDED
31 MARCH 2011**

REPORT BY: TREASURER

REPORT NO: TVJB 15-2011

1 PURPOSE OF REPORT

The purpose of this report is to provide some additional commentary on the unaudited Statement of Accounts for the year ended 31 March 2011 which is being submitted to the General Purposes Sub Committee along with this report.

2 RECOMMENDATIONS

The General Purposes Sub Committee is asked to:

- i. note the content of this covering report.
- ii. note the unaudited Statement of Accounts which has been submitted along with this report.
- iii. note that the Treasurer has submitted this Statement of Accounts to the Controller of Audit, Accounts Commission for Scotland.
- iv. note that the key assumptions underpinning the Actuary's IAS 19 Retirement Benefit calculations have been reviewed and accepted by Dundee City Council as administering authority.

3 FINANCIAL IMPLICATIONS

A net underspend of £81,000 was achieved and this will be returned to the Constituent Councils in due course. The General Reserve balance is therefore unchanged in 2010/2011, being £102,974 as at 31 March 2011.

4 MAIN TEXT

The relevant statutory provisions regarding the preparation of the Board's Accounts are contained in the Local Authority Accounts (Scotland) Regulations 1985, as amended by the Local Authority Accounts (Scotland) Amendment Regulations 1997. Section 4 of these regulations requires that "... all the accounts of the local authority are made up and balanced as soon as practicable after the end of each financial year and that sufficient copies of an abstract of the said accounts for each financial year are prepared ... and submitted to the authority and to the Controller of Audit not later than 30 June in the next financial year....".

The Statement of Accounts includes a detailed commentary on the figures contained therein, and it is not intended to repeat this in this covering report. It is, however, worth reiterating a few of the more salient points.

The Board approved a net Revenue Budget for 2010/2011 of £3,114,448 which was requisitioned from the three Constituent Councils. During the financial year the Board received quarterly revenue monitoring reports to keep members fully apprised as to actual spend-to-date and the projected outturn position. At its meeting on 23 August 2004, the Board agreed that the final underspend in any financial year should be returned to the Constituent Councils. The net underspend of £81,000 achieved in 2010/2011 will therefore be returned in due course.

Details of the areas of under and overspend are highlighted on page 10 of the Statement of Accounts. The main variances include an underspend of £23,000 on staff costs due to a number of staff changes including two employees leaving during the year and not being replaced, and the pay award being lower than budgeted. In addition an underspend of £20,000 on property costs was due to lower than budgeted rent charges. Supplies and Services show an overspend of £6,000, due to the purchase of computer software which was fully funded, the funding being part of the variance within 'Other Operating Income & Expenditure'. There were also underspends in legal fees, risk management premiums and health and safety budgets. Transport costs were £12,000 under budget due to lower than anticipated numbers participating in the Contract Car Hire Scheme and an overspend of £9,000 on Third Party Payments was due to more Valuation Appeals Committees than anticipated being held in the year.

On the income side, 'Other Operating Income & Expenditure' was £48,000 more than budgeted due to additional funding of £27,000 received from Angus Council & Perth & Kinross Council for Halarose computer software purchased in the year and additional income to cover an overspend of £6,000 in relation to Additional ER duties. Funds of £13,000 were also transferred to this budget head from the Capital Contributions Received in Advance Account to cover revenue expenditure on the GIS system. In addition, Miscellaneous Income was £2,000 more than anticipated, whilst interest on revenue balances was £1,000 less than anticipated due to lower interest rates

During 2010/2011 the Board incurred £37,700 of capital expenditure on computer equipment and associated communications networking. This expenditure was funded by the three Constituent Councils, being £20,000 received in year and £17,700 from capital contributions brought forward.

Under International Accounting Standard (IAS 19) (Employee Benefits), the Board is required to include figures in the Statements of Accounts relating to the assets, liabilities, income and expenditure related to the Tayside Superannuation Fund, the pension scheme for Tayside Valuation Joint Board employees. The Actuary has estimated that the Board had a net pension liability of £4,041,000 as at 31 March 2011, and the key assumptions underpinning the Actuary's calculations have been reviewed and accepted by Dundee City Council as administering authority.

In conclusion, it can be said that the Board's procedures for monitoring and managing its financial affairs have operated successfully during 2010/2011.

Copies of the enclosed Statement of Accounts have been submitted to the Controller of Audit at the Accounts Commission for Scotland. The Controller of Audit will, in due course instruct the Board's appointed external auditor (Mr Alasdair Craik FCCA, Senior Audit Manager, Audit Scotland) to commence his audit of the Accounts. The 2010/2011 audit process is due to be completed by no later than 30 September 2011 and the outcome of the audit will be reported back to the Board.

5 **POLICY IMPLICATIONS**

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

6 **CONSULTATIONS**

The Assessor has been consulted on the content of this report.

7 **BACKGROUND PAPERS**

None

**MARJORY STEWART
TREASURER**

25 AUGUST 2011

Tayside Valuation Joint Board

Annual report on the 2010/11 audit



Prepared for Members of the Tayside Valuation Joint Board and the Controller of Audit
October 2011

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

2010/11

In 2010/11 we looked at the key strategic and financial risks faced by the Tayside Valuation Joint Board (the board). We audited the financial statements and looked at aspects of governance, use of resources and performance. This report sets out our main findings, summarising key outcomes from the 2010/11 audit and the outlook for the period ahead.

We have given an unqualified opinion that the financial statements of Tayside Valuation Joint Board for 2010/11 give a true and fair view of the state of the affairs of the board as at 31 March 2011 and of the income and expenditure for the year then ended.

The general fund recorded a break-even for 2010/11 after the return of unused requisitions to constituent bodies, therefore maintaining the balance at £103,000 as at 31 March 2011.

Our review of the board's governance arrangements found that a number of internal management policies were subject to review during the year. We have, however, identified that the board could improve the openness and transparency through wider publication of agendas and papers prior to meetings.

The board has demonstrated mixed performance against their key performance indicators (KPIs) in 2010/11.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years.

The board face a considerable challenge in effectively delivering services with decreasing levels of income and the increased workload that has arisen from 2010 revaluation appeals. Members and officers have recognised these challenges and continue to take steps to make savings. The board's budget for 2011/12 shows a reduction in funding from constituent authorities of 4.71% in cash terms.

The co-operation and assistance given to us by board members and staff is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of the Tayside Valuation Joint Board and summarises the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The scope, nature and extent of the audit are set out in our Annual Audit Plan submitted to the board in April 2011.
2. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers 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 the board 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.
3. This report is addressed to the members of the Tayside Valuation Joint Board and the Controller of Audit and will be published on our website after consideration by the board.
4. The members and officers of the 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 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 misstatement, error, fraud or corruption
 - the board has proper arrangements for securing best value in its use of resources.
5. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. In this section we summarise the outcomes from our audit of the board's financial statements for 2010/11. We also summarise key aspects of the board's reported financial position and performance to 31 March 2011.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the Assessor's report, Treasurer's' report, statement on the system of internal financial control and the remuneration report. This section summarises the results of our audit on the financial statements.

Audit opinion

9. We have given an unqualified opinion on the financial statements of the Tayside Valuation Joint Board for 2010/11. Concluding that the financial statements:
 - give a true and fair view, in accordance with applicable law and the 2010/11 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), of the state of affairs of the board as at 31 March 2011 and of the income and expenditure of the board for the year then ended
 - have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code, and
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

10. We have also stated that in our opinion:
 - the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
 - the information given in the Assessor's Report and the Treasurer's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Legality

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

Statement on the system of internal financial control

12. We were satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the board to obtain assurances on the systems of internal financial control.
13. In preparing the Statement on the System of Internal Control assurance is drawn from a number of sources, including the work of internal audit. We note, however, that the board's Internal Auditor's Annual Report was not received until after the date the Statement on the System of Internal Control was signed.

Refer Action Plan No. 1

14. The board's corporate financial systems are provided by Dundee City Council under a service level agreement. The statement highlights that assurance was taken from the work done by Dundee City Council's internal audit service on these systems.

Accounts submission

15. The board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparations and working papers were generally good and this enabled the audit to progress smoothly.
16. The accounts were certified on 30 September 2011 and are now available for presentation to the board and publication.

Accounting issues

17. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
18. The 2010 Code required local authorities to prepare their financial statements under International Financial Reporting Standards ('IFRS'). This has resulted in some significant changes to the presentation of the financial statements
19. A further change was introduced by the Local Authority Accounts (Scotland) Amendment Regulations 2011 which introduced the requirement for a remuneration report to be included in the financial statements from 2010/11 onwards.

Prior year adjustments

20. 2010/11 is the first year that the local authority accounting Code has been based on international financial reporting standards (IFRS). The move to an IFRS based Code from a UK GAAP based SORP has resulted in a number of significant changes in accounting practice which, in turn, have resulted in the restatement of prior year balances. We have reviewed the board's arrangements for restating the prior year balances and found them to be satisfactory.

Pension costs

21. In the UK budget statement on 22 June 2010 the Chancellor of the Exchequer announced that with effect from 1 April 2011 public service pensions would be up-rated in line with The Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This had the effect of reducing the Joint Board's liabilities in the Local Government Pension Scheme as at 31 March 2011 by £1.806 million. This has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48 as the change is considered to be a change in benefit entitlement and does not impact on the General Reserve balance.

Outlook

Audit appointment for 2011/12

22. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for the board will be KPMG LLP. As this is the last year of our audit appointment, we would like to acknowledge the good working relationship that existed during our current appointment term with the board and thank officers and members of the board and Dundee City Council for their assistance during the last five years. We will be meeting with the incoming external auditors, KPMG LLP, as part of a managed changeover process.

Financial position

23. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
24. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
25. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

26. The board's surplus on the provision of services for 2010/11 was £1.537 million representing a net underspend of £0.163 million against budget. The underspend was attributable to lower than expected employee, property, supplies and services and transport costs and higher than expected income in relation to software purchases.

Financial position

27. The board's financial statements for the year ending 31 March 2011 showed a surplus of £1.537 million. After taking account of statutory adjustments and the return of requisitions of £0.087 million to constituent authorities a break even position was achieved leaving the general reserve balance unchanged at £0.103 million.

Outlook

2011/12 budget

28. A revenue budget of £2,967,703 was agreed for the 2011/12 financial year, a reduction in cash terms of 4.71% against the 2010/11 budget. Cost savings have been achieved mainly through a staffing restructure.
29. The board, like all public sector organisations, faces a very challenging financial climate with constraints on expenditure likely to increase significantly as the Government seeks to reduce its debt burden. The board will continue to face difficult decisions in the coming years to ensure that it manages its budget in the light of increasing financial pressures.

Governance and accountability

30. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
31. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
32. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
33. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

34. The board met 4 times in 2010/11 to consider reports and issues such as budget approval, budgetary control and performance. The board's membership consists of experienced senior councillors and meetings are generally well attended.
35. The board does not have an audit committee. Internal and external audit reports are considered by the full board as appropriate. .
36. Local authorities are increasingly using electronic media to communicate with stakeholders and service users. The internet provides a fast and low cost means of disseminating information to a broad range of service users and stakeholders. Using the board's website to distribute notices of meetings and provide access to minutes, agendas and reports would improve openness and accountability and enhance engagement with service users and stakeholders.

Refer Action Plan no. 2

Governance framework

37. Corporate governance is concerned with the 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 Board has many aspects of a sound governance framework in place.
38. We note that throughout 2010/11 the board approved some changes that reinforce its commitment to the principles of sound governance and good management.
 - financial regulations were reviewed
 - business continuity and risk management arrangements were reviewed

Internal control

39. 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.
40. Internal audit plays a key role in the board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. During 2010/11 the board changed its internal audit provider to Henderson Loggie a firm of Chartered Accountants with substantial experience in the public sector.
41. In their report for the year ended 31 March 2011 Henderson Loggie concluded that the board operates adequate and effective internal control systems as defined in the Audit Needs Assessment and that proper arrangements are in place to promote and secure Value for Money.
42. The board operates the corporate financial systems of Dundee City Council under a service level agreement. As the external auditors of the council we have been able to take assurance from our work on these systems.

Prevention and detection of fraud and irregularities

43. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
44. The board's strategy for the prevention and detection of fraud and irregularities is detailed in the Fraud Guidelines. This document sets out the roles and responsibilities of Members, Officers and staff, the internal control systems in place and the board's Fraud Response Policy. We note that this document was reviewed during 2011.

Best Value, use of resources and performance

45. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
46. 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.
47. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
48. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
49. 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.
50. This section includes a commentary on the Best Value/ performance management arrangements within the board. We also note any headline performance outcomes/ measures used by the board and comment on any relevant national reports.

Management arrangements

Best Value

51. The board has not been subject to a Best Value audit. The framework for achieving Best Value and delivering continuous improvement are detailed in the Service Plan 2008-2013.

Performance management

52. The main way the board measures performance is through the key performance indicators (KPIs) in the areas of non-domestic valuation roll amendments and appeals, and new council tax entries.
53. An annual performance report is presented to the board and is made available to the public.

Overview of performance in 2010/11

54. The board's performance in 2010/11 shows a mixed picture
55. The board did not meet their target of adding 90% of new council tax entries to the valuation list within 3 months and 98% within 6 months. In 2010/11 new council tax entries added to the valuation list within 3 months totalled 83% (2009/10 - 89%). A further 11% (2009/10 - 7%) of entries were added within 3-6 months. A total of 94%, less than the prior year total of 96% and less than the target of 98%.
56. For non-domestic rates the principle performance measure is the speed at which amendments are made to the valuation roll. This was achieved in 2010/11, delivering 68% (2009/10 - 58%) of amendments within 3 months, and 18% (2009/10 - 25%) within 3-6 months. A total of 86%, an improvement on the prior year total of 83% and just ahead of the target of 85%.
57. The current financial constraints on the public sector will make it harder to deliver continuous improvement or to maintain performance. The board will need to monitor the impact of financial savings on performance to ensure that any adverse impact on service users is kept to a minimum.

Refer Action Plan No. 3

National performance reports

58. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 1.

Exhibit 1: A selection of National performance reports 2010/11

- | | |
|---|--|
| <ul style="list-style-type: none"> Scotland's public finances: responding to the challenges Improving energy efficiency: a follow-up report | <ul style="list-style-type: none"> An overview of local government in Scotland 2010 The cost of public sector pensions in Scotland |
|---|--|

Source: www.audit-scotland.gov.uk

59. Officers should review national performance reports as they become available and consider the impact of the findings on the board.

Refer Action Plan no. 4

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	13	<p>Statement on the System of Internal Financial Control</p> <p>In preparing the Statement on the System of Internal Control assurance is drawn from a number of sources, including the work of internal audit. We note, however, that the board's Internal Auditor's Annual Report was not received until July 2011, after the date the Statement on the System of Internal Control was signed.</p> <p><i>Risk: there may not be sufficient assurance to fully support the assertions in the Statement on the System of Internal Financial Control.</i></p>	<p>An email from the board's Internal Auditor was received on 27th May 2011 which stated that they were not aware of any significant weaknesses or failures in the Board's system of internal financial control that could have a material effect on the operations of the Board.</p> <p>We will contact the Internal Auditor in due course to request that in future, the Annual Report be made available to us prior to the date on which the SSIFC is signed.</p>	Treasurer	June 2012
2	36.	<p>Processes and committees</p> <p>Using the board's website to distribute notices of meetings and provide access to minutes, agendas and reports would improve openness and accountability and enhance engagement with service users and stakeholders.</p>	<p>Minutes and reports are already provided on the Board's website.</p> <p>Consideration will be given to extending this to include the timetable of meetings and associated agendas.</p>	Assessor and Clerk	January 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		Risk: the board may be perceived as lacking openness and accountability in its decision making processes and fails to engage fully with stakeholders.			
3.	57	<p>Key Performance Indicators</p> <p>The current financial constraints on the public sector will make it harder to deliver continuous improvement or to maintain performance. The board will need to monitor the impact of financial savings on performance to ensure that any adverse impact on service users is kept to a minimum.</p> <p>Risk: service users may experience a diminished level of service.</p>	Performance Standards will continue to be monitored and evaluated.	Assessor	Ongoing
4.	59	<p>National performance reports:</p> <p>Officers should consider the impact of findings from national performance studies.</p> <p>Risk: the board does not take appropriate action to address relevant findings</p>	The findings of relevant reports will be considered in relation to how they might impact on the Board	Assessor and Treasurer	Ongoing