

**REPORT TO:** TAYSIDE VALUATION JOINT BOARD – 24 JANUARY 2022

**REPORT ON:** INTERNAL AUDIT

**REPORT BY:** ASSESSOR

**REPORT NO:** TVJB 1-2022

**1 PURPOSE OF REPORT**

- 1.1 To present to the Board the following Internal Audit Report which is attached as an appendix to this report:-

Internal Audit Report 2022/03 - Budgetary Control

**2 RECOMMENDATIONS**

- 2.1 The Joint Board is asked to note the contents of this Report and attached Audit Report.

**3 FINANCIAL IMPLICATIONS**

- 3.1 The cost of Internal Audit Services is provided for in the Assessor's Revenue Budget.

**4 POLICY IMPLICATIONS**

- 4.1 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.

**5 BACKGROUND**

- 5.1 Henderson Loggie, Chartered Accountants, were appointed to provide an Internal Audit Service in respect of the financial years 1 April 2019 to 31 March 2022. Audit work has proceeded in accordance with the Audit Needs Assessment and Strategic Plan for the period 2019 to 2022 as approved by the Joint Board on 26 August 2019.

- 5.2 Internal Audit Report 2022/03 - Budgetary Control - is attached as Appendix 1 to this report. It has been prepared by Internal Audit following discussion with the Assessor. The overall conclusion of the report is that the level of assurance is good and that the system meets the control objectives. No significant weaknesses were identified.

**6 CONSULTATIONS**

- 6.1 The Clerk and Treasurer to the Joint Board have been consulted on this report.

**7 BACKGROUND PAPERS**

- 7.1 None.

**ALASTAIR KIRKWOOD**

Assessor

January 2022

## LEVEL OF ASSURANCE

Good

# Tayside Valuation Joint Board

## Budgetary Control

**Internal Audit report No: 2022/03**

**Draft issued:** 17 December 2021

**Final issued:** 17 December 2021



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### Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

<b>Good</b>	System meets control objectives.
<b>Satisfactory</b>	System meets control objectives with some weaknesses present.
<b>Requires improvement</b>	System has weaknesses that could prevent it achieving control objectives.
<b>Unacceptable</b>	System cannot meet control objectives.

### Action Grades

<b>Priority 1</b>	Issue subjecting the organisation to material risk and which requires to be brought to the attention of the Joint Board.
<b>Priority 2</b>	Issue subjecting the organisation to significant risk and which should be addressed by the Assessor.
<b>Priority 3</b>	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.



## Management Summary

### Overall Level of Assurance

<b>Good</b>	System meets control objectives.
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### Risk Assessment

This review focused on the controls in place to mitigate the following risks on the Tayside Valuation Joint Board ('the Board') Strategic Risk Register:

- 2.2 – Unexpected expenditure leading to cash flow problems (risk rating: low); and
- 2.3 – Unauthorised expenditure (risk rating: low); and
- 2.4 – Fraud (risk rating: low)

### Background

As part of the Internal Audit programme at the Board for 2021/22, we carried out a review of the Board's budgetary control arrangements. Our Audit Needs Assessment identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Joint Board and Assessor that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

The Board's budgeted revenue income for 2021/22 totals £3.568 million, with the majority of this figure comprising of £2.765 million local authority requisitions. Budgeted expenditure for 2021/22 totals £3.594 million, which includes staff costs of £2.950 million. A net revenue expenditure position of £0.026 million has been budgeted for 2021/22 which, if realised, will be met from general reserves. The revenue monitoring report for the six months to September 2021, reported to the Joint Board on 21 November 2021, showed a favourable variance in net expenditure with a fully balanced budget forecast at the year end.

The Board's capital plan for 2021/22 budgeted £0.023 million for capital expenditure during 2021/22. This relates to replacement of IT equipment, which is fully funded from contributions from the three constituent local authorities.

The Board has a service level agreement with Dundee City Council (DCC) for the delivery of several financial services, including general ledger, financial monitoring and budgetary control. The agreed service agreement includes assistance with the preparation of revenue and capital budgets; the regular monitoring of revenue expenditure and preparation of budgetary control statements; and monitoring of capital expenditure and preparation of capital monitoring statements.



## Budgetary Control

### Scope, Objectives and Overall Findings

This audit included a review of the processes and controls in place for budget setting and budgetary control within the Tayside Valuation Joint Board.

The table below notes each separate objective for this review and records the results:

Objective	Findings			
		1	2	3
The specific objectives of the review were to obtain reasonable assurance that:		No. of Agreed Actions		
1. budgets are set and approved in accordance with the Financial Regulations and Procedures.	Good	0	0	0
2. budgets are controlled and monitored in accordance with the Financial Regulations and Procedures.	Good	0	0	0
3. budget information is available to management which is up-to-date and in a format that can be easily understood.	Good	0	0	0
4. budget holders have the necessary skills for managing budgets.	Good	0	0	0
5. budget variations are reported and acted upon.	Good	0	0	0
6. senior management and the Board regularly review the overall financial position.	Good	0	0	0
Overall Level of Assurance	Good	0	0	0
		System meets control objectives		

### Audit Approach

We assessed whether the above objectives have been met by documenting the systems and controls through interviews with the Assessor and the Administration Manager and by review of regulations, procedures and guidance issued to budget setters and holders. We reviewed the information provided to budget holders and the budget reports used internally and submitted to the Board. We also established whether the expected key controls are in place by reference to good practice.

Finally, we performed compliance testing where necessary to determine whether these controls are working effectively.



## **Summary of Main Findings**

### **Strengths**

- The Board's financial regulations clearly set out responsibilities for budget setting, approval and monitoring and our testing indicates that these regulations are followed in practice;
- Assumptions used in developing budgets and financial projections are reasonable and are clearly communicated to the Board;
- Budget information, which is easy to understand and sufficiently detailed, is provided by Dundee City Council to the Assessor each month on a timely basis;
- The Assessor, and other Board staff involved in financial monitoring, have the necessary skills and experience required to be able to effectively manage the allocated budgets;
- There are clear responsibilities and processes for identifying and acting upon variations between budgeted and actual spend; and
- Appropriate budget monitoring information is provided to the Board and is reviewed on a quarterly basis.

### **Weaknesses**

- No significant weaknesses were noted during our review.

## **Acknowledgment**

We would like to thank Board staff for the co-operation and assistance we received during our review.



## Main Findings

### **Objective 1: Budgets are approved, controlled and monitored in accordance with the Financial Regulations and Procedures.**

In accordance with the Board's Financial Regulations: '*The Assessor shall prepare estimates of income and expenditure on revenue accounts covering the specified period and shall provide the Treasurer with all necessary information regarding requirements on a timeous basis*', and '*The Treasurer shall review the Revenue Budget and submit a report to the Board for detailed consideration*'.

The detailed form of the Capital Budget is determined by the Treasurer in accordance with the general directions of the Assessor and the Board. The Assessor identifies the Board's capital requirements, with the Treasurer preparing a medium and long-term capital budget. Annually, the Treasurer submits the draft medium-term Capital Budget to the Board which describes the Board's proposed capital programme and showing how it will be financed.

The Financial Regulations also sets out that the '*primary responsibility for detailed monitoring and control of the Board's revenue and capital expenditure lies with the Assessor*' and also that '*The Treasurer shall report periodically to the Board on its actual and projected revenue and capital expenditure for each financial year*'.

From our discussions with staff, and review of evidence obtained, we concluded that the Financial Regulations are being followed in practice.

### **Objective 2: The short, medium- and longer-term financial projections are based on sound information and assumptions.**

Information on key financial assumptions, and other factors impacting on budgets, is provided by the Assessor to DCC and to the Treasurer as part of the development of revenue and capital budgets and this provides ample opportunity for scrutiny of embedded assumptions. We noted that key assumptions, and other significant factors, are reported by the Treasurer to the Board as an integral part of the budget approval process. Any amendments to assumptions, or any variations made to approved budgets during the year, are reported to the Board.



## Budgetary Control

### **Objective 3: Information is available to management which is up-to-date and in a format that can be easily understood.**

Good practice in relation to budget monitoring includes regular reporting of financial information to budget holders using a monthly or 4-weekly reporting periods showing:

- Committed expenditure and income to date;
- Variance against projected spend / income to date using, where appropriate, budget profiling; and
- Projected outturn (expected and, where relevant, income).'

Budget monitoring reports should be in a format that is 'user friendly' and issued as soon after the relevant reporting period as is practicable, to provide adequate opportunity for scrutiny and for any effective corrective action to be taken, where necessary. To facilitate this, reports should automatically highlight major variances (both under and over-spends) to direct the budget holder's attention to the expenditure or income headings where action may be required.

A Service Level Agreement is in place between the Board and DCC which provides three-monthly budget information on both revenue and capital budgets to the Board's primary budget holder, the Assessor.

Three-monthly management reports, which are issued by DCC to the Assessor, highlight for each revenue budget heading: the cumulative actual spend; full year budget and remaining balance; along with projected outturn against budget. The equivalent information is included in the Treasurer's quarterly reports to the Joint Board. Summary financial information is reported monthly by the Assessor to the senior management team.

From review of budget information produced and discussions with staff we concluded this information is easy to understand.

### **Objective 4: Budget holders have the necessary skills for managing budgets.**

The Assessor has been in post for several years and has significant experience in managing financial performance, including budget responsibility, in both his current role and in previous roles. The Assessor is supported in managing the Board budget, and interpreting revenue and capital monitoring reports, by an experienced Administration Manager, by the DCC finance team, and by the Treasurer, as required.

Based on our review of the Board's financial performance reported to the Board in recent years (including the audited financial statements) we have concluded that the Assessor has the necessary skills, experience and support structure to allow budgets to be managed effectively.



## Budgetary Control

**Objective 5: Budget variations are reported and acted upon; and**

**Objective 6: Management and the Joint Board regularly review the organisation's overall financial position.**

In accordance with the Board's Financial Regulations, revenue and capital expenditure shall be restricted to that included in the appropriate Budget unless proposals for additional expenditure have been approved by the Board.

The Board's Financial Regulations allow virements to be carried out to fund expenditure if underspends are identified elsewhere. Virements must be discussed with the Treasurer to determine the overall impact on the Board's revenue budget performance, and where necessary may require formal approval from the Board.

The revenue budget position is reviewed quarterly by the Board, with the capital budget position reviewed annually. We reviewed the information provided to the Board and noted that it provides an appropriate summary of the organisation's financial position and explains all variances of actual expenditure against budgeted expenditure for the Board. The impact of any overall overspend or underspend against budget on reserves is also noted.

From the evidence available we have concluded that budget variances are reported and acted upon and that the overall financial position is regularly and appropriately monitored by the Assessor, senior management and the Board.



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