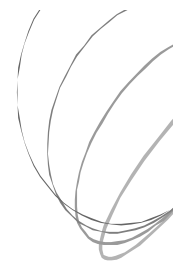


Tayside Valuation Joint Board

Report to Members on the 2005/06 Audit

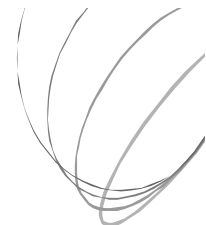
October 2006





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Key Messages

In 2005/06 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 during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified audit opinion has been issued on the financial statements for 2005/06
- 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 and a fully documented risk management strategy is expected to be in place by December 2006
- Fraud Guidelines are in place.

Henderson Loggie, the Board's internal auditors, concluded that "...the Board operates adequate and effective internal control systems as defined in the Audit Needs Assessment. Proper arrangements are in place to promote and secure Value for Money".

The 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.

Key issues for the Board in the future include the increasing cost of pension contributions, financial reporting changes introduced by the 2006 SORP and the need to improve procedures for accounting for fixed assets.

This is the final year of our current appointment to the audit of the Board. From 2006/07, however, Audit Scotland will remain as the Board's appointed auditor and Pearl Tate will continue as the engagement lead. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board over the five years of our audit appointment.

**Audit Scotland
October 06**

Introduction

1. 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 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;
 - the Board has proper arrangements for securing best value in its use of resources.

2. This report summarises the most significant issues arising from our work during 2005/06.

Financial statements & financial position

3. In this section we summarise key outcomes from our audit of the Board's financial statements for 2005/06, aspects of the Board's reported financial position and performance to 31 March 2006, and provide an outlook on future financial prospects and financial reporting issues.

Auditor's report

4. We have given an unqualified opinion on the financial statements of Tayside Valuation Joint Board for 2005/06, concluding that:
 - the financial statements present fairly the Board's financial position at 31 March 2006 and income and expenditure during the year;
 - the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
5. The Board's balance sheet has an excess of liabilities over assets of £3.3 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.
6. The 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 Board are also liable to fund the Board's liabilities as they fall due. We are satisfied that the process the Board has undertaken to consider going concern is reasonable.

Financial position

7. The Board's budgeted and actual deficit for the year was £50,000. A net underspend against budget of £136,000 was achieved, but this has been returned to constituent authorities. The Treasurer's report on pages 7 to 9 of the Statement of Accounts includes a summary of the main factors underlying the financial out-turn.
8. Capital expenditure in the year was for computer equipment and networking which totalled £14,000. This was funded by contributions from constituent authorities.

Issues arising

9. The Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.
10. Audited accounts were finalised prior to the target date of 30 September 2006 and are now available for presentation to the Board and for publication. The financial statements are an essential means by which the Board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.
11. 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'). There were no adjustments made to the figures in the unaudited accounts made available for public inspection.
12. One further matter arising from the audit of the financial statements requires to be brought to the attention of members and is summarised below.

Fixed Assets

13. Officers have maintained details of all fixed assets purchased by the Board since 1996. This record does not, however, include details of any disposals made over the years. Whilst officers are confident that the net book value of fixed assets in the Balance Sheet is accurate it was acknowledged that the gross book values and accumulated depreciation figures in Note 1 to the Balance Sheet would be overstated.

Action point 1

Legality

14. Each year we request written confirmation from the Treasurer that the 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 members and officials of Tayside Valuation Board, the financial transactions of the Board were in accordance with the relevant legislation and regulations governing its activities.
15. 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

16. The 2005/06 financial statements include a Statement on the System of Internal Financial Control which highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal financial control system.
17. The 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 their corporate financial systems and also work done by the Board's contracted internal audit service provider. We highlighted last year that whilst the Board's internal auditors submitted a final internal audit report for the year there was no similar report from Dundee City Council's internal auditors. This was the case again in 2005/06.
18. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Future outlook

Pension liabilities

19. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In addition there are proposals to amend the Local Government Pension Scheme which are designed to reduce the ongoing cost, although these have not yet been implemented. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.
20. The Board participates in the Local Government Superannuation Scheme (Tayside Superannuation Fund), a defined benefits scheme administered by Dundee City Council. Note 11 to the Balance Sheet highlights that the Board's net liabilities at 31 March 2006 total £3.46 million, a decrease of £0.14 million from the previous year. Although the Board's estimated pension liabilities increased by £2.3 million in the year this was offset by its pension fund assets increasing by £2.4 million as a result of improved stock market conditions.
21. The full triennial actuarial valuation of the Tayside Superannuation Fund was reported in early 2006. Factors such as the volatile stock market and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 97% as at March 2002 to 91% as at March 2005. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from April 2006 to maintain the solvency of the fund.

The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. The current 3-year assessment shows that budgeted contributions are expected to rise from 275% of employee contributions to 315% by 2008/09.

Financial reporting

22. A number of changes have been made to the 2006 SORP, including:
- replacement of the consolidated revenue account with a traditional income and expenditure account;
 - a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit;
 - replacement of the statement of total movement in reserves with a statement of total recognised gains and losses.
23. 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. The Board should take this opportunity to review the presentation of its budget and summary financial results to members and the wider public to ensure that financial planning and activity is fully transparent.

Action point 2

Governance



24. In this section we comment on key aspects of the Board's governance arrangements during 2005/06 and provide an outlook on future governance issues.

Overview


25. 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 Board has many aspects of a sound corporate governance framework in place and have reached the same conclusion this year. The Board anticipates it will have a fully documented risk management strategy in place by December 2006, with action being taken to fully embed risk management into activities.
26. 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. Henderson Loggie, Chartered Accountants, have provided an internal audit service to the Board during 2005/06. We carry out an annual review of the Board's internal audit arrangements and, in 2005/06, concluded that these were well managed and operated to the highest standards.
27. We note that, with effect from 2006/07, Dundee City Council's internal audit service will be the internal auditors for the Board.

Anti-fraud and corruption arrangements

28. The Board has appropriate arrangements in place to prevent and detect fraud and corruption. These arrangements include the Councillors' Code of Conduct, Fraud Guidelines and a whistle blowing policy.

Systems of internal control

29. Henderson Loggie concluded that "...the Board operates adequate and effective internal control systems as defined in the Audit Needs Assessment. Proper arrangements are in place to promote and secure Value for Money".
30. We reviewed the following internal audit reports submitted to the Board and were pleased to note that:
- *Follow Up Reviews* found that action had been or was being taken to implement the majority of actions agreed in 2004/05;

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- *Payroll and Personnel* concluded that reasonable assurance was obtained to confirm key controls were in place;
 - *Budgetary Control* also found reasonable assurance that key controls were effectively operated.

31. The 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.

Future outlook

32. Internal audit forms an important part of the Board's internal control arrangements and in ensuring appropriate monitoring of risks and controls takes place. Internal audit arrangements have changed recently, with Dundee City Council's internal audit service taking over from Henderson Loggie. We will undertake a review of the Board's new internal audit service and the work they undertake in the year with a view to placing reliance on the internal audit work carried out.

