



# Tayside Valuation Joint Board

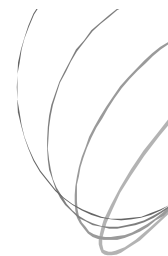
Report to Members and the Controller of Audit on the 2006/07 Audit

September 2007



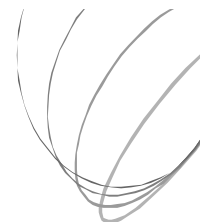
Audit Scotland, on behalf of the Accounts Commission for Scotland, is responsible for:

- providing independent reports to the Commission and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements



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# Key Messages

In 2006/07 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 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 2006/07
- The Statement on the System of Internal Financial Control included in the accounts complies with accounting requirements & is not inconsistent with audit findings
- Capital expenditure has been funded through contributions from constituent authorities and directly from the Board's revenue resources
- Final accounts preparation procedures & 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 risk management strategy was approved in April 2007 and the development of Business Continuity Plans is being progressed
- Fraud Guidelines are in place

Dundee City Council internal audit service, the 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 March 2007".

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.

In line with many other bodies, the key issue for the Board in the future is the increasing cost of pension contributions.

# 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 2006/07.

# Financial statements

3. In this section we summarise key outcomes from our audit of the Board's financial statements for 2006/07, aspects of the Board's reported financial position and performance to 31 March 2007, 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 2006/07, concluding that:
  - the financial statements present fairly the Board's financial position at 31 March 2007 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 £2.3 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 Income & Expenditure account shows a net surplus of £141,000 for the year compared to a budgeted surplus of £215,000. This figure measures the 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 Board's stewardship and adjustments are made to the net surplus figure to take account of expenditure that statute and non-statutory proper practice require to be charged to the general reserve. Following these adjustments both the budgeted and actual general reserve deficit for the year was £50,000. The Treasurer's report on pages 8 to 11 of the Statement of Accounts includes a summary of the main factors underlying the financial out-turn. The majority of the variances related to underspends on staffing, property, supplies and service costs and refunded requisitions.

8. Capital expenditure in the year was for computer equipment and networking which totalled £34,000. This was funded by contributions from constituent authorities and directly from the Board's revenue resources.

## Issues arising

9. The Board's unaudited 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.
10. 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'). The 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:
  - replacement of the consolidated revenue account with a traditional income and expenditure account. This shows the income receivable and expenditure incurred in the year and is compiled in line with UK Generally Accepted Accounting Practice (UK GAAP);
  - a new statement of movement on the general fund balances that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit. Income and expenditure charged to the general fund are determined by statute and non-statutory proper practices rather than being in accordance with UK GAAP;
  - replacement of the statement of total movement in reserves with a statement of total recognised gains and losses.
11. Overall, we were satisfied that the Board had prepared the accounts in accordance with the revised SORP. There was only one adjustment made to the figures included in the unaudited accounts provided for public inspection, however this had no impact on the surplus for the year or the net liabilities on the balance sheet. The adjustment related to the treatment of the Board's contribution to the National Assessors Portal which had been incorrectly treated as capital expenditure and resulted in the following accounting adjustments being made to the unaudited accounts provided for public inspection:
  - the Income & Expenditure account was amended to accurately reflect the portal contribution costs and the corresponding government grant as revenue amounts;
  - the Balance Sheet was amended to reflect both the current and prior year effects of reclassifying the portal costs as revenue;
  - Cash Flow Statement was amended to reflect the portal costs as revenue rather than capital.

- relevant notes to the core financial statements report were also amended to reflect the above changes.
12. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the Joint Board and for 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.

## Legality

13. 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.
14. 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. The 2006/07 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.
16. 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 internal audit service provider.
17. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.



## Future outlook

### *Pension liabilities*

18. 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. There are further 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 on the face of annual accounts.
19. The Board participates in the Local Government Superannuation Scheme (Tayside Superannuation Fund), a defined benefits scheme administered by Dundee City Council. Note 10 to the Core Financial Statements highlights that the Board's scheme net liabilities at 31 March 2007 are £2.4 million, a decrease of £1.06 million from the previous year partly as a result of changes to the pension regulations which allows individuals to elect to receive a larger lump sum payment in return for a reduced annual pension. The actuary assessed the overall effect of this as a reduction in the pension liability of £0.246 million. This was based on the assumption that 50% of retirees would opt to take the larger lump sum in return for a reduced annual pension. Dundee City Council, the administering authority for the pension fund, will arrange to have this assumption monitored over time against the actual take up of the higher lump sum.
20. The full 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.

# Corporate governance

21. In this section we comment on key aspects of the Joint Board's governance arrangements during 2006/07 and provide an outlook on future governance issues.

## Overview

22. 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 approved its risk management strategy in April 2007 and action is ongoing to fully embed risk management into activities. We noted that Business Continuity plans have not yet been finalised.

23. 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. Dundee City Council's internal audit service have provided an internal audit service to the Board during 2006/07.

## Anti-fraud and corruption arrangements

24. 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

25. 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<sup>st</sup> March 2007."

26. 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:

- *Electoral Register* - a sound system of control was in place and the report included three recommendations to tighten controls further.

- *Asset Management* – weaknesses in the system were highlighted and improvement actions agreed will be implemented by December 2007.

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