



INFRASTRUCTURE, GOVERNMENT &  
HEALTHCARE

# Dunbartonshire and Argyll & Bute Valuation Joint Board

Annual audit report to the  
members of Dunbartonshire and  
Argyll & Bute Valuation Joint  
Board and the Controller of Audit  
2007-08

31 October 2008

AUDIT



# Contents

---

Executive summary	1
Introduction	2
Financial statements audit	3
Financial position	5
Corporate governance	6
Appendix 1: Action plan	8

---

**Notice: About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the Code').

It is for the benefit of only Dunbartonshire and Argyll & Bute Valuation Joint Board and is made available to the Accounts Commission and Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introductory section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

© 2008 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. The KPMG logo and name are trademarks of KPMG International.



# Executive summary

This report summarises our work for the 2007-08 year and our findings in relation to our audit of the financial statements, corporate governance and performance management arrangements.

## **Financial statements**

On 30 September 2008 we issued an audit report giving our unqualified opinion on the financial statements of Dunbartonshire and Argyll & Bute Valuation Joint Board for the year ended 31 March 2008.

## **Financial position**

The Joint Board's balance sheet shows total assets of £1,551,673 comprised primarily of the pension asset and operational land & buildings held. The Joint Board's net operating expenditure in 2007-08 was £2,686,296 leading to a deficit on the income and expenditure result for the year of £25,103. After adjustment for the net additional amount required by statute and non-statutory practices to be applied to the general fund balance, the Joint Board produced the required break-even result on its general fund

## **Corporate governance**

The 2007-08 statement on internal financial control prepared by management does not disclose any major weaknesses.

The Joint Board's financial systems are the same as those operated by West Dunbartonshire Council. The reviews of these systems were conducted simultaneously to those carried out as part of the Council's audit. Appropriate checking of the draft financial statements back to these systems was undertaken at the year end. No audit findings relating uniquely to the Joint Board were identified during work carried out at the Council.

The Joint Board's financial plan aimed to breakeven utilising £152,000 of constituent local authority balances. The financial outturn showed a favourable variance against budget of £86,000. The Council Tax and non-domestic rates administration key performance indicators have been achieved other than the target to process processing of rates amendments within a six month period which was not achieved due to the ongoing workload.

# Introduction

## **Audit framework**

This was the second year of our five-year appointment as external auditors of Dunbartonshire and Argyll & Bute Valuation Joint Board ("the Joint Board"). This report to the members of the Joint Board and the Controller of Audit outlines our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland's *Code of Audit Practice* ("the Code"), the scope of the audit was to:

- provide an opinion on the Joint Board's financial statements;
- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland) the:
  - the Joint Board's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and its financial position;
  - the Joint Board's arrangements to achieve Best Value;
  - other aspects of the Joint Board's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources; and
  - arrangements for preparing and publishing statutory performance information.

Given the relative size of the Joint Board and the way in which its activities are undertaken, we have taken reliance from our audit work on corporate governance and other arrangements undertaken at West Dunbartonshire Council ("the Council") where it was appropriate to do so.

## **Basis of information**

External auditors do not act as a substitute for the Joint Board's own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and to make arrangements to secure Best Value.

## **Acknowledgement**

We wish to place on record our appreciation of the co-operation and assistance extended to us by staff during the second year of our work in the discharge of our responsibilities.

# Financial statements audit

## Reporting arrangements and timetable

In accordance with the management's timetable, draft financial statements were available for audit on 30 June 2008. This allowed for completion of the audit and consideration and approval of the financial statements by the Treasurer and Assessor on 30 September 2008.

## Audit opinion

On 30 September 2008 we issued an audit report expressing an unqualified opinion on the financial statements of Dunbartonshire and Argyll & Bute Valuation Joint Board for the year ended 31 March 2008.

We wish to bring the following issues to your attention.

## Significant accounting / auditing issues identified

### Accounting for retirement benefits

In accordance with financial report standard 17 *retirement benefits* ("FRS 17") the Joint Board is required to obtain actuarial valuation of its participation in the Local Government Pension Scheme. In 2006-07 the actuarial report for FRS 17 purposes calculated the Joint Board's share of the scheme assets and liabilities as a net asset of £158,000. Following correspondence with the scheme actuaries on the nature of the net asset, and in accordance with FRS 17, it was concluded in 2006-07 that this asset was not recognisable.

In 2007-08, the actuarial FRS 17 report calculated an increased net pension asset as at 31 March 2008 of £931,000. Management did not recognise this asset in the unaudited financial statements. However, following consultation with the actuaries the asset was now considered recognisable and the finalised financial statements were adjusted to reflect this.

### Accounting for fixed assets

The unaudited financial statements included fixed asset enhancements of £27,323 which had then been impaired to £nil. Review of the nature of this expenditure identified that it was valid capital expenditure in accordance with the SORP. An audit adjustment to capitalise these assets was processed. The total increase in net assets for these adjustments was £18,872 due to the depreciation applied to the buildings improvements expenditure.

We recommend that management review the capital programme to ensure that valid capital expenditure is capitalised and that an appropriate estimated useful economic life is allocated to fixed asset additions. It is recommended that management ensure that there is an appropriately detailed fixed asset register to record fixed asset transactions ensuring there is an effective audit trail.

*Recommendation 1*



### **Report to those charged with governance**

On 30 September 2008 and in accordance with International Standard on Auditing 260 we have produced a report to those charged with governance. This report had no other significant matters that we wish to bring to your attention in this annual audit report.

## Financial position

### General fund

The Joint Board reported a net operating expenditure of £2,686,296, with a break-even result for the year on the general fund.

	<b>Actual - £</b>
<b>Income and expenditure result</b>	
Net operating expenditure	2,686,296
Income from constituent authorities	(2,711,399)
<b>(Surplus) / deficit to be met from balances b/forward</b>	<b>(25,103)</b>
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	25,103
<b>Result for the year: (Increase) / decrease on general fund balance</b>	<b>nil</b>
General fund balance brought forward	nil
<b>General fund balance carried forward</b>	<b>nil</b>

The Joint Board's net expenditure represented an underspend against budget of £86,011. The Joint Board holds a sum of £118,823 within creditors representing amounts payable to its constituent authorities which may be either repaid in future years or deducted from future contributions.

### Reserves and balances

The Joint Board does not hold a general fund balance at the year end. Its total assets as at 31 March 2008 are £1,551,673 represented primarily by a pension asset of £931,000 and operational fixed assets of £616,720. Net current assets of £18,332 are offset by long term borrowing of £14,379 due to constituent authorities.

The net assets of the Joint Board have increased by £942,573 which is primarily as a result of the recognition of an actuarial gain on the pension asset of £931,000, representing the pension reserve.



# Corporate governance

## Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

The executive director of corporate services at the Council acts as the treasurer of the Joint Board, and has been appointed by the Joint Board as the responsible officer for the administration of its affairs.

The responsibilities of the Joint Board and the treasurer for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements are outlined in the Statement of Responsibilities within the financial statements.

The *Code* requires auditors to review and report on the Joint Board's corporate governance arrangements as they relate to:

- the Joint Board's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

## Statement of internal financial control

The Joint Board's statement describes the component parts of the internal financial control framework and the process by which the treasurer has reviewed the effectiveness of the internal financial control system enabling him to conclude that reasonable assurance can be placed on the adequacy and effectiveness of the internal financial control system. The statement prepared by the Joint Board expresses its framework of control and is consistent with our understanding of the established framework.

The Joint Board financial transactions are processed by West Dunbartonshire Council. The reviews of these systems were conducted simultaneously to those carried out as part of the Council's audit. Appropriate checking of the unaudited financial statements back to these systems was undertaken at the year end.

No audit findings relating uniquely to the Joint Board were identified during the work carried out at the Council, however, a number of recommendations to improve the overall control environment within the Council were accepted by management.



### **Prevention and detection of fraud and irregularity**

During 2007-08 we had regard to Statement of Auditing Standards 110: *Fraud and Error* and International standards on Auditing 240: *The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements* when completing our audit work in this area.

From discussion with management and completion of our audit procedures, we have not identified any suspected or actual fraud.

### **Standards of conduct**

The members of the Joint Board are comprised of elected members from each of the constituent authorities. Members of the Council are subject to the Code of Member Conduct which sets out the standards of conduct expected of each member in carrying out their duties.

### **Performance management**

The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors. No performance audit studies were identified by Audit Scotland for the Joint Board during 2007-08.

The Joint Board continues to demonstrate its commitment to Best Value through the approval of three year and one year service plans, audit action plans, performance reporting to the management team and development of its risk management procedures. Performance in relation to its key performance indicators is reported on its website and through publication of the Joint Board's annual performance report.

The 2007-08 financial plan aimed to breakeven utilising £152,000 of constituent local authority balances. The financial outturn showed a favourable variance against budget of £86,000 primarily related to savings in payroll costs due to a number of vacancies, reduced use of temporary staff and reduced administration costs.

The Joint Board has key performance indicators over non-domestic and Council Tax valuation , with performance being measured as the time taken from the date from the on which amendments to the valuation roll / list are effective to the date a valuation / banding notice in respect of that change is issued.

The Joint Board has achieved its three month target for the processing of Valuation Roll amendments. However, due to the ongoing workload of appeals and a higher number than expected of Council Tax proposals and appeals, the six month target has not been achieved. The Council tax targets have been achieved and the high level of performance achieved in 2006-07 has been maintained.

## Appendix 1: Action plan

Priority rating for performance improvement observations raised		
<p><b>Grade one:</b> Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>Grade two:</b> Issues that have an important effect on internal controls, but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.</p>	<p><b>Grade three:</b> Issues that would, if corrected, improve the internal control in general, but are not vital to the overall system. These are generally issues of best practice that we feel would be of benefit to you if introduced.</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
1	<p>We recommend that management review the capital programme to ensure that valid capital expenditure is capitalised and that an appropriate estimated useful economic life is allocated to fixed asset additions.</p> <p><i>(Grade two)</i></p>	<p>Management will review the Joint Board's capital policy to ensure that all areas of potential impairment are identified and that all expenditure capitalised falls within appropriate definitions.</p>	<p>Treasurer 31 March 2009</p>

[kpmg.co.uk](http://kpmg.co.uk)