



INFRASTRUCTURE, GOVERNMENT AND 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

Year ended 31 March 2009

12 October 2009

AUDIT

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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").

This report is for the benefit of only the 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 scope and objectives 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.

Financial statements

On 30 September 2009 we issued an audit report expressing an unqualified opinion on the financial statements of the Dunbartonshire and Argyll & Bute Valuation Joint Board ("the Joint Board") for the year ended 31 March 2009.

The Joint Board recorded an accrual for the anticipated cost of single status. The amounts accrued for single status meet the definition of a provision and therefore has been disclosed in a separate note to the financial statements.

Use of resources

The financial statements show a total liability position in the balance sheet of £46,161. This is principally due to the net pension liability of £746,000 (2008: pension asset of £931,000). The Joint Board's net share of assets and liabilities in the Strathclyde Pension Fund was significantly affected by the current economic climate, with actuarial losses of £1,677,000 experienced during the year.

The Joint Board's net cost of service in 2008-09 was £2,647,102. After adjustment for the net additional amount of £113,014 required by statute and non-statutory practices to be applied to the general fund balance, the Joint Board deficit for the year was £46,258. The Joint Board produced its break-even result on its general fund following a transfer of £46,257 from the year end constituent authorities contributions balance. The year end position represented an overall favourable position against budget of £110,254.

Corporate governance

The statement of internal financial control does not disclose any significant weaknesses in the Joint Board's systems of internal financial control. The content of the statement of internal financial control is consistent with our understanding.

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 our 2008-09 audit of the Council. No audit findings relating uniquely to the Joint Board were identified as a result of this work.

Performance management

The Joint Board has in place key performance indicators to measure performance, which are reviewed regularly by the management team and reported on the Joint Board's website.

Management's consideration of Best Value is demonstrated through the continued use of a three year and one year service plans, audit action plans, performance reporting to the management team and risk management procedures.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for our audit.

The Accounts Commission appointed KPMG LLP as auditors of Dunbartonshire and Argyle & Bute Valuation Joint Board ("the Joint Board") under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2006-07 to 2010-11, inclusive. This document summarises our responsibilities as external auditors for the year ended 31 March 2009 and our approach to issues impacting the Joint Board's activities in that year.

We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board ("APB") and the wider responsibilities embodied in Audit Scotland's *Code of Audit Practice* ("the *Code*"). Under this *Code* auditors address and comment upon a number of objectives, together with complying with a number of obligations. The *Code* also places a number of obligations on the Joint Board.

Auditors' objectives in relation to the *Code* are to:

- provide an opinion whether the financial statements present a true and fair view, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice ("SORP 2008") and whether the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- review and report on (as required by relevant legislation, the *Code* and any guidance issued by Audit Scotland):
 - 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; their financial position.
 - other aspects of the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and significant accounting matters and decisions;
- **use of resources**, including financial outturn for the year ended 31 March 2009 and financial plans for 2009-10 and beyond;
- arrangements around **governance and accountability**, including risk management, systems of internal control, partnership working and our consideration of the work of internal audit; and
- **performance management arrangements**.

Responsibilities of the Joint Board and its auditors

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, through the accountable officer, to make arrangements to secure Best Value.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff.

Financial statements

We have issued an unqualified opinion on the financial statements of the Joint Board for the year ended 31 March 2009.

One issue arose from our audit of the financial statements. The Joint Board recorded an accrual for the anticipated cost of single status. The amounts accrued for single status meet the definition of a provision and therefore has been disclosed in a separate note to the financial statements.

Recommendations

We did not identify any significant recommendations for development of arrangements over financial statements preparation.

Audit opinions and key issues

Reporting arrangements and timetable

In accordance with the Joint Board's timetable, unaudited financial statements were available for audit on 30 June 2009. Following our audit recommendation in 2007-08, the Joint Board arranged a meeting of its finance sub-committee on 23 September 2009. This allowed the audited financial statements, along with our report to those charged with governance, to be considered by members of the sub-committee before their approval by the Assessor and Electoral Registration Officer and the Treasurer.

Other than as set out below, our report to those charged with governance had no other significant matters that we wish to bring to your attention in this annual report.

Audit opinion

On 30 September 2009 we issued an audit report expressing an unqualified opinion on the financial statements of Dunbartonshire and Argyll & Bute Joint Board for the year ended 31 March 2009.

Key issues arising during our audit of the financial statements

Our audit work identified some key risk areas. We have concluded our work in these areas and summarise the results throughout this report. One risk related to the financial statements and our conclusion is summarised below.

Key risk area	Conclusions
Provisions	The unaudited financial statements included an accrual for the single status provision of £99,284. Review of the nature of this accrual identified that in accordance with financial reporting standard 12 <i>Provisions, Contingent Liabilities and Contingent Assets</i> ("FRS 12") this amount should be disclosed separately in the notes to the financial statements. The Joint Board adjusted their financial statements accordingly.

We did not identify any other risk areas during our audit of the financial statements.

Implementation of International Financial Reporting Standards

CIPFA/LASAAC announced a new governance framework for the Code of Practice on Local Authority Accounting which will require financial statements to be prepared under International Financial Reporting Standards (“IFRS”) for the first time in 2010-11.

CIPFA/LASAAC has now also issued the IFRS-based code of practice on local authority accounting – update 3 and an exposure draft for comment. On 23 April 2009, CIPFA/LAAP issued a bulletin which set out some key issues in respect of preparing for IFRS which advised that bodies reporting under the local government framework:

- collect information on untaken annual leave and other short-term employee benefits at 31 March 2009 as part of their 2008-09 close-down arrangements.
- collect the necessary information to allow leases to be split between land and buildings as soon as possible, bearing in mind that non-finance staff (e.g. valuers and legal staff) are likely to have an essential role in this process.
- discuss with their valuers which assets are likely to have a material difference between their current carrying value and their fair value, and ensure a programme to identify those assets is in place. It should be noted that the draft Code of Practice on Local Authority Accounting does not require separate components to be identified in the opening IFRS balance sheet and comparative figures (except where authorities have already separately identified components under the SORP). Separate components will need to be identified, however, where these are significant and have a different asset life to the rest of the asset, as assets and components are acquired, enhanced and revalued from 1 April 2010 onwards.

Date	Publications
3 March 2009	CIPFA/LAAP bulletin 80 sets out a detailed project plan and timetable for the implementation of IFRS.
23 April 2009	CIPFA/LAAP bulletin 81 on closure of 2008-09 accounts includes advice on preparing for implementation of IFRS
11 May 2009	CIPFA/LASAAC issued IFRS-based code of practice on local authority accounting update 3 together with draft code in respect of a number of accounting areas.
16 July 2009	CIPFA/LASAAC issued IFRS-based code of practice on local authority accounting – exposure draft

Management have put in place a plan and timetable to ensure the Joint Board is ready for the conversion to IFRS and that key accounting judgements are considered early.

Use of resources

The financial statements show a total liability position in the balance sheet of £46,161. This is principally due to the net pension liability of £746,000 (2008: pension asset of £931,000). The Joint Board's net share of assets and liabilities in the Strathclyde Pension Fund was significantly affected by the current economic climate, with actuarial losses of £1,677,000 experienced during the year.

The Joint Board's net cost of service in 2008-09 was £2,647,102. After adjustment for the net additional amount of £113,014 required by statute and non-statutory practices to be applied to the general fund balance, the Joint Board deficit for the year was £46,258. The Joint Board produced its break-even result on its general fund following a transfer of £46,257 from the year end constituent authorities contributions balance. The year end position represented an overall favourable position against budget of £110,254.

Recommendations

We did not identify any significant recommendations for development of the Joint Board's arrangements to manage the use of resources.

Financial management

Financial position and budgetary control

The Joint Board reported net operating expenditure of £2,647,102 and a break-even result for the year on the general fund.

	Budget - £	Actual - £
Net operating expenditure		2,647,102
Net additional amounts required by statute and non-statutory practices to be debited or credited to the general fund balance for the year		113,014
Net expenditure	2,870,370	2,760,116
In-year constituent authority contribution	(2,713,858)	(2,713,858)
Overall (surplus) / deficit	156,512	46,258
Transfer from brought forward constituent contributions balance	(156,512)	(46,258)
Net expenditure / (income)	-	-

The Joint Board's net expenditure represented an underspend against budget of £110,254. This was primarily as a result of savings in employee costs of £36,226 due to a reduction in anticipated usage of temporary staff and an underspend in other operating costs of £48,491 due to more efficient ways of working. Additional income was also received by the Joint Board for specific work projects.

Following the application of £46,258 of brought forward constituent authority balances, the Joint Board still holds a sum of £72,564 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. It has total liabilities as at 31 March 2009 of £46,161, represented primarily by a pension liability of £746,000 and operational fixed assets of £705,649. The financial statements have been prepared on a going concern basis as the statutory funding arrangements mean that the pension liability will be met as it falls due through requisitions from the constituent authorities.

The Joint Board's net assets decreased by £1,597,834 primarily as a result of the recognition of an actuarial loss on the pension asset of £1,677,000.

Governance and accountability

The statement of internal financial control does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding of the Joint Board.

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 our 2008-09 audit of the Council. No audit findings relating uniquely to the Joint Board were identified as a result of this work.

Recommendations

We did not identify any significant recommendations for development in respect of the Joint Board's governance and accountability arrangements.

Corporate governance arrangements

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 service 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 in the financial statements.

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

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

Statement on internal financial control ("SIFC")

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 her 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's 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.

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

Risk management

The Joint Board has an approved risk action plan and risk register in place. The risk register is reviewed annually by the Joint Board and the management team regularly reviews progress against the approved risk action plan.

Internal audit

Internal audit services are provided by West Dunbartonshire Council's internal audit function. No specific review of Joint Board's operations was performed in 2008-09. During 2008-09, a review of the Joint Board's non-domestic and council tax procedures was carried out by the Council's internal audit function, which concluded that systems were generally operating satisfactorily. The report identified recommendations which were all accepted by management.

Risk management; internal audit; prevention and detection of fraud and irregularity

Fraud and irregularity

During 2008-09, 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 the audit in this area.

Management did not identify any significant instances of fraud or irregularity during the year.

Standards of Conduct

The members of the Joint Board are comprised of elected members from each 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.

The Joint Board has in place key performance indicators to measure performance, which are reviewed regularly by the management team and reported on the Joint Board's website.

Management's consideration of Best Value is demonstrated through the continued use of a three year service plan, audit action plans, performance reporting to the management team and risk management procedures.

Recommendations

We did not identify any significant recommendations for development in respect of the Joint Board's performance management arrangements.

Performance management and Best Value arrangements

The terms of appointment from Audit Scotland include the 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 2008-09.

The Joint Board continues to demonstrate its commitment to Best Value through the approval in June 2008 of a three year service plan, audit action plans, performance reporting to the management team and 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 2008-09 financial plan aimed to breakeven utilising £156,512 of available balances. The financial outturn showed favourable variance against budget of £110,254 primarily related to savings in payroll costs due 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 which amendments to the valuation roll / list are effective to the date valuation / banding notice, in respect of that change, is issued.

Non-domestic valuation roll performance				Council tax valuation roll performance			
Period	Target 2008-09	Actual 2008-09	Actual 2007-08	Period	Target 2008-09	Actual 2008-09	Actual 2007-08
0-3 Months	80%	80%	82%	0-3 Months	92%	87%	93%
3-6 months	10%	13%	12%	3-6 months	5%	11%	6%
> 6 months	10%	7%	6%	> 6 months	3%	2%	1%

Non-domestic valuation roll performance, as indicated in the table above, has met the target set for 2008-09, although management note a slight drop in the performance of 0-3 months since 2007-08.

Additional demands on resource resulting from the increased number of council tax appeals and revaluation preparation has resulted in performance against council tax valuation list KPIs decreasing from 2007-08, as shown. The Joint Board note that a higher than normal number of council tax proposals resulting from a block of appeals from Hardgate / Duntocher area of Clydebank prevented the achievement of this target.

Electoral registration performance

The Electoral Administration Act 2006 gave the Electoral Commission powers to set standards of performance for Electoral Registration Officers (EROs) , Returning Officers and Referendum Counting Officers in Great Britain. EROs were required to assess their own performance against each of the ten standards using guidelines set by the Electoral Commission. The Joint Board was also subject to a follow-up audit which examined the documentation supporting the self-assessment.

The Joint Board submission showed that they had been assessed as before 'above the standard' in eight out of ten standards, and having 'met the standard' for the remaining two.