

Tayside Valuation Joint Board

**Report to Members and the Controller of Audit on the
2008/09 Audit**

September 2009

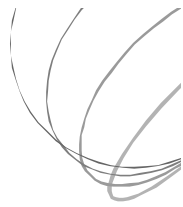


 AUDIT SCOTLAND



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Key Messages

In 2008/09 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 Joint Board) during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

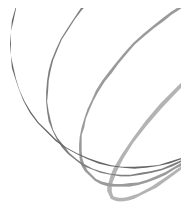
- An unqualified opinion has been issued on the financial statements for 2008/09
- The Statement on the System of Internal Financial Control included in the accounts complies with accounting requirements and is not inconsistent with audit findings.
- Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.
- Many aspects of a sound corporate governance framework are in place. A risk register and Business Continuity Plans were approved during the year.
- Fraud Guidelines are in place.

Dundee City Council internal audit services, the Joint 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 2009"

The Joint 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.

Global events may also have far reaching consequences for local authorities' pension funds. A key issue for the Joint Board in the future is the funding of pension liabilities. Whilst the latest triennial valuation of the Tayside Superannuation Funds reflects an improvement in the fund asset valuation and expects employers' contributions to remain at 18.5% for the next three years, the stock market performance continues to decline and could have an adverse effect on future valuations.

**Audit Scotland
September 2009**



Introduction

1. The members and officers of the Joint 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 Joint 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 Joint 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; and
 - the Joint 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 2008/09.



Financial statements

3. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2008/09, aspects of the Joint Board's reported financial position and performance to 31 March 2009, and provide an outlook on future financial reporting issues.

Auditor's report

4. We have given an unqualified opinion on the financial statements of Tayside Valuation Joint Board for 2008/09, concluding that the financial statements:
 - show a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, the financial position of the Joint Board as at 31 March 2009 and its income and expenditure for the year then ended; and
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
5. The Joint Board's balance sheet has an excess of liabilities over assets of £3.1 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 Joint 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 Joint Board are also liable to fund the Joint Board's liabilities as they fall due. We are satisfied that the process the Joint Board has undertaken to consider going concern is reasonable.

Financial position

7. The Joint Board's Income and Expenditure account shows a net surplus of £20,000 for the year compared to a budgeted surplus of £83,000. This figure measures the Joint 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 Joint 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 position for the year achieved breakeven. The Treasurer's report on pages 9 to 12 of the Statement of Accounts includes a summary of the main factors underlying the financial outcome.



The main factor impacting on the financial position this year related to a reduced level of requisitions largely as a result of underspends on staffing, supplies and service costs and transport costs.

8. The general reserve balance as at 31 March 2009 of £103,000 is in line with the minimum level of uncommitted reserves as set out in the Joint Board's approved policy.
9. Capital expenditure in the year was for computer equipment and networking which totalled £19,000. This was funded by contributions from constituent authorities and directly from the Joint Board's revenue resources.

Issues arising

10. The Joint Board's 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.
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'). No major changes were introduced by the 2008 SORP. Overall, we were satisfied that the Joint Board had prepared the accounts in accordance with the revised SORP.
12. Audited accounts were finalised prior to the target date of 30 September 2009 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 Joint 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 her knowledge and belief and having made appropriate enquiries of members and officials of Tayside Valuation Joint Board, the financial transactions of the Joint 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 (SSIFC)

15. Scottish authorities are required by the local authority SORP to include a statement on the system of internal financial control with their statement of accounts. The 2008/09 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 Joint Board's internal financial control system.
16. The Joint 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 Joint Board's internal audit service provider.
17. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.
18. The SORP states that authorities *may choose* to include a wider statement of internal control in place of a statement of internal financial control. The CIPFA framework document *Delivering good governance in local government* recommends that the review of the effectiveness of the system of internal control should be reported in an annual governance statement. LAAP bulletin 71 *The Annual Governance Statement* clarifies that authorities are encouraged (but not required) to include an annual governance statement with their accounts. The Joint Board may wish to consider moving to an Annual Governance Statement in future years.

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 accounting for pensions, Financial Reporting Standard 17 (Retirement of 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 a very large future liabilities being recognised on the face of annual accounts.
20. The Joint 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 Joint Board's scheme net liabilities at 31 March 2009

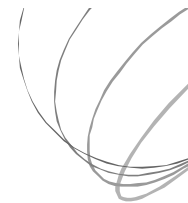


are £3.1 million, an increase of £1.3 million from the previous year largely as a result of actuarial losses. This is due to adjustments to actuarial assumptions in light of the current economic condition.

21. A full actuarial valuation of the Tayside Superannuation Fund was carried out as at 31 March 2008 which showed an increase in the funding level, calculated as the ratio of fund assets to past service liabilities, increasing from 91% as at March 2005 to 97.6% as at March 2008. This is mainly due to the fund achieving a better rate of investment return than had been anticipated in the previous valuation and better statistical outcomes than assumed in 2005, for example, lower number of retirements and less death in service. The actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities as from April 2009 to maintain the solvency of the fund. The current 3-year assessment shows that budgeted contributions will remain constant at 18.5% of pensionable payroll.

22. In 2006/07 changes to the pension regulations allowed individuals to elect to receive a larger lump sum payment in return for a reduced annual pension. An assumption that 50% of retirees would opt to take the larger lump sum in return for a reduced annual pension was made and Dundee City Council, the administering authority for the pension fund, had agreed to have this assumption monitored over time against the actual take up of the higher lump sum. Last year, Joint Board officials advised us that this assumption would be monitored at each triennial valuation rather than annually. However, we are not aware of any confirmation of the accuracy of this assumption, or indeed, any other being undertaken as part of the latest valuation. We would highlight that actuarial reports are only advisory and the Joint Board should confirm it is satisfied with the assumptions/rates used in these reports.

Key risk area 1



Corporate governance

23. In this section we comment on key aspects of the Joint Board's governance arrangements during 2008/09 and provide an outlook on future governance issues.

Overview

24. 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 Joint Board has many aspects of a sound corporate governance framework in place and have reached the same conclusion this year. A risk register has been developed along with Business Continuity Plans and these were submitted to the January 2009 Joint Board meeting for approval. Internal audit regularly monitor this aspect of corporate governance and we note from their work that business continuity plans will be subject to testing in the near future.
25. Internal audit plays a key role in the Joint 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 has provided an internal audit service to the Joint Board during 2008/09.

Anti-fraud and corruption arrangements

26. The Joint Board has arrangements in place to prevent and detect fraud and corruption including the councillors' Code of Conduct, Fraud Guidelines and a whistle-blowing policy.

Systems of internal control

27. 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 March 2009".
28. 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 Joint Board and noted that:
- *Non-Domestic Rates* – a sound system of control was in place and the report included four recommendations to tighten controls further;



- *Follow up review on Corporate Governance, Asset Management, Council Tax/Information and IT* – whilst some action had been taken to address weaknesses identified in the original reports on the first two areas there were some recommendations outstanding. All points raised in relation to council tax/information and IT had, however, been addressed.
- *Recruitment & Selection* - generally the report highlighted a sound system of control is in place and recommended a recruitment and selection policy be developed and key members of staff should receive refresher training to keep them abreast of changing legislation and good practice.
- *Creditors/Procurement* – the main area commented on in the report was that the Board does not currently participate in any of the national or local procurement initiatives (such as Scotland Excel or the Tayside Procurement Initiative) and consideration should be given to whether participation in these initiatives could be beneficial to the Joint Board.

29. The Joint Board operates the corporate financial systems of Dundee City Council under a service level agreement. As external auditors of the Council, we have been able to take assurance from our work on these systems. We have also undertaken audit testing focussing on the high level controls in place at the Joint Board within the following systems:

- payroll – no issues identified
- accounts payable – no issues identified
- council tax valuations – we were advised that informal checks are undertaken to verify that the details held on the council tax valuation list agree to details on the Corporate Address Gazetteer. Controls could be strengthened by formalising this process.
- non domestic rates valuations – businesses are required to submit annual Land Valuation Returns. The processing of these returns provides some assurance that the valuation roll is complete and that amendments have been recorded. We noted that there is currently no process in place to follow up any outstanding returns although there is an intention to scan returned documents into the system to make it easier to identify and follow up any outstanding forms which would strengthen this control.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	22	<p>In accounting for pensions, Financial Reporting Standard 17 (Retirement of 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 a very large future liabilities being recognised on the face of annual accounts. An actuarial calculation of the FRS17 impact is provided to the Joint Board each year however no review of the assumptions or rates applied by the actuary is carried out to ensure the Joint Board is satisfied that these are appropriate to local circumstances.</p> <p><i>Risk: FRS 17 pension costs, assets and liabilities are based on inaccurate or inappropriate assumptions.</i></p>	<p>The FRS 17 report rolls forward from the triennial valuation whose assumptions are fully discussed with Dundee City Council as administering authority. The Fund uses a common contribution rate which acknowledges there should be no significant local differences between member bodies. The financial assumptions are derived from a standard methodology which has been agreed and accepted in the past by the administering authority. There has not yet been sufficient retirement history in the Board to vary the lump sum assumption.</p> <p>Notwithstanding the above comments, it is agreed that the Board should be asked to note the key assumptions underpinning the actuary's FRS17 calculations each year, as set out in the Unaudited Statement of Accounts. Further, the Board will be asked to note that these key assumptions have been reviewed and accepted by Dundee City Council as administering authority.</p>	Treasurer	30 June 2010