

Dunbartonshire and Argyll & Bute Valuation Joint Board

Annual report on the 2011/12 audit



Prepared for Members of Dunbartonshire and Argyll & Bute VJB and the Controller of Audit
October 2012

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Key messages

Financial statements

In 2011/12, we audited the financial statements and looked at aspects of governance within Dunbartonshire and Argyll & Bute Valuation Joint Board (the Board). This report sets out our main findings.

Overall, we found the financial stewardship of 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 2011/12.
- Final accounts preparation procedures and working papers were of a good standard and this enabled the audit to progress smoothly.
- The Board has a sound corporate governance framework.

Financial performance and position

The Board had budgeted to spend £2.835 million in 2011/12 with this being funded through constituent contributions of £2.719 million and £0.116 million of cumulative surplus balance brought forward from prior years. The outturn for 2011/12 was net expenditure of £2.520 million resulting in an in year favourable variance of £0.199 million when compared to the constituent contributions. A cumulative surplus of £0.315 million has been carried forward into 2012/13.

The Board's net liabilities have increased by £1.543 million in the 2011/12 financial year to £1.856 million due predominantly to a £1.604 million rise in the Board's net pension liability.

Governance

West Dunbartonshire Council (WDC) provide internal audit services to the Board. The Statement on the System of Internal Financial Control (SSIFC) for the year 2011/12, signed by the Treasurer and the Assessor & Electoral Registration Officer (the Assessor), concluded that the Board has in place a sound system of internal financial control with no identified material weaknesses. Our audit work on the Board resulted in findings consistent with that opinion. Weaknesses were identified in the WDC SSIFC, we do not consider these weaknesses to have a material impact on the fairness of the financial statements, and they do not affect our overall audit opinion.

Performance

Although the Board narrowly missed its target to issue Non-Domestic rates valuation notices within three months of the date that amendments to the valuation roll become effective we note that it exceeded the target for a similar measure in relation to Council Tax, met the statutory deadline to publish the electoral register and has maintained high levels of customer

satisfaction. We have been impressed by the Board's balanced approach to performance reporting and encouraged by the fact that, where targets have been met, they have been increased for 2012/13.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The Board will continue to face financial constraints which may increase the pressure on them to deliver their statutory duties and meet their established performance targets.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Board. The nature and scope of the audit were outlined in the Audit Plan presented to management in January 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising.
2. Appendix A is an action plan setting out the higher level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Board understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
3. The members and officers of the Board are responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

4. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
5. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income (except for local government bodies).
6. Auditors review and report on, as appropriate, other information published with the financial statements, including the assessor's report, treasurer's report, statement on the system of internal financial control and the remuneration report. This section summarises the results of our audit on the financial statements.

Audit opinion

7. We have given an unqualified opinion on the financial statements of the Board for 2011/12, concluding that the financial statements:
 - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2011/12 Code, of the financial position of the Board as at 31 March 2012 and its income and expenditure for the year then ended
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Legality

8. Through our planned audit work we consider the legality of the Board's financial transactions. In addition the Treasurer has confirmed that, to the best of his knowledge and belief the financial transactions of the Board were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Going concern

9. The net liability of the Board has increased by £1.55 million from £0.31 million at 31 March 2011 to £1.86 million at 31 March 2012. The increase is predominantly due to a £1.6 million rise in the Board's net pension liability. A material net liability can highlight a potential going concern issue however we do recognise that the appointed actuary is of the view that the asset holdings of the Strathclyde Pension Scheme and the contributions from employees and employers together with planned increases in contributions provide sufficient security over

future liabilities. In light of these factors, it is reasonable that the accounts are prepared on a going concern basis.

Statement of the system of internal financial control

10. We are satisfied with the disclosures made in the SSIFC and the adequacy of the process put in place by the Board to obtain the necessary assurances. The statement reports that the Board has in place a sound system of internal financial control which is in line with findings from our tests of controls and also with the findings of internal audit. Our audit work on the Board resulted in findings consistent with that opinion. Weaknesses were identified in the WDC SSIFC, we do not consider these weaknesses to have a material impact on the fairness of the financial statements, and they do not affect our overall audit opinion.

Remuneration report

11. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant Board officers.

Accounting issues

12. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011 Code). We are satisfied that the Board prepared the 2011/12 financial statements in accordance with the 2011 Code.

Accounts preparation & submission

13. The Board's financial statements were submitted to the Controller of Audit by the deadline of 29 June 2012.
14. Final accounts preparation procedures and working papers were generally of a good standard. The audit resulted in mainly presentational and other minor changes. The most significant of these were in relation to the presentation of the Movement in Reserves Statement (MIRS). This did not result in a change to the value of reserves held by the Board. As this required a prior year adjustment to the 2010/11 MIRS an explanatory note to the accounts has been added.
15. Two other presentational changes were:
 - Re-designation of an item of income in the Comprehensive Income & Expenditure Account which was originally titled '(Surplus) / Deficit arising from revaluations of fixed assets'. This income actually relates to contributions by the constituent authorities toward capital expenditure and therefore the current designation is considered inappropriate.
 - Disclosure within the balance sheet of the bank balance held by WDC on behalf of the Board as a debtor rather than a cash balance.

16. All errors identified during the audit have been corrected and therefore there are no unadjusted misstatements to bring to your attention.
17. We issued our report on the audit of the financial statements (in compliance with the International Auditing Standard 260) on 11 September 2012 which indicated our intention to give an unqualified opinion on the financial statements for the Board. The audit certificate was duly signed off on 25 September 2012.

Financial position

18. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
19. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
20. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the Board.

Financial results

Budgetary control

21. In 2011/12 the Board generated a surplus on the provision of services of £153,511. The surplus as presented in the Treasurer's Foreword in the financial statements of £199,292 is different because it is prior to items such as pension adjustments and interest earned on revenue balances. As the budget is prepared without these adjustments it is appropriate for the analysis in the foreword to be presented in this way. The surplus of £199,292 compares to a budgeted break even which was constructed using £115,730 of brought forward balances. Therefore the overall underspend against budget is £315,022. This has arisen largely due to employee costs being lower than anticipated due to vacancies not being filled and reductions in costs relating to property, travel and supplies & services.

Financial position

22. As detailed at paragraph 9, the Board's balance sheet at 31 March 2012 reflected net liabilities of £1.86m, a deterioration of £1.55m over the previous year mainly due to the movement in the pension liability during 2011/12.

23. The Treasurer's Foreword discloses unearmarked resources carried forward of £388,446 which comprises:

Item	Balance
2010/11 balance carried forward	£298,844
2011/12 surplus	£199,292
Utilised in 2012/13 budget	(£56,690)
Earmarked for future employee costs	(£53,000)
2011/12 carried forward balance	£388,446

25. As the Board has, historically, no authority to hold revenue reserves this carried forward revenue balance is disclosed in the balance sheet as a creditor due to the three constituent authorities. An agreement has been reached with the Board that, as of 2012/13 a general fund reserve can be disclosed pending the Board approving a formal reserves strategy.

Action Plan 1

Outlook

2012/13 budget

26. The Treasurer's Foreword states that £56,690 worth of funds carried forward would be used during 2012/13. The 2012/13 budget has been set at:
- Gross expenditure £2,802,700
 - Gross income £26,550
 - Net expenditure £2,776,150
27. After adjusting for the £56,690 funds carried forward the contribution from constituent authorities was set at £2,719,460.
28. As at 31 August 2012 the Board are projecting a year end net expenditure outturn of £2,640,884 against the 2012/13 budget. This represents a favourable variance of £135,266 (4.9%). The majority of this (£102,848) results from savings on employee costs with some additional savings identified in property, supplies and services, administration and loan charge costs.

Governance and accountability

29. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on work carried out by ourselves during the risk assessment stage of our audit, we acknowledge that the Board has in place a number of plans, policies and procedures (such as the 3-year service plan, risk register, financial regulations and procedural standing orders).
30. In our Annual Audit Plan issued in January 2012 we highlighted concerns regarding member representation on sub-committees and availability of Board minutes on the Board website. We received assurances that the website would be updated and that membership of the Board and sub-committees would be reviewed after the May 2012 elections. We note that Board membership has been refreshed and there is appropriate representation across the three constituent authorities. A review of the website in September 2012 suggested that representation on the sub-committees of Argyll & Bute members was still to be advised however we have now received confirmation that appointments were made in July 2012 and the website had not been updated. We further noted that as at September 2012 the minutes from the January Board meeting were not on the website however this has since been corrected.

Internal control

31. 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. In 2011/12 Internal Audit reviewed the Board's council tax and non-domestic rates valuation process. This review concluded that no adverse points arose during the audit.
32. Internal audit also reviewed WDC's payroll, main accounting, and creditors processes (which are all used by or have an impact for the Board) and found these to be satisfactory.
33. We have also reviewed WDC's main financial systems as part of our annual work. In our governance report issued to the Executive Director of Corporate Services in May 2012 we concluded that although there were important areas where improvements could be made there are adequate controls operating over the main financial systems.

Relationship with host authority

34. WDC is the host authority for the Board, and as such provides various support services (such as finance, human resources, Information Communication Technology (ICT), legal and administration). WDC in turn charges the Board for the provision of these services. Some progress has been made to draft a Service Level Agreement (SLA) between the Board and

WDC in relation to the provision of ICT support however this appears to have stalled. There is no SLA in place, whether draft or otherwise, for other support services.

Action Plan 2

Performance

35. The Assessor's report in the Board's 2011/12 annual report provides a comprehensive and balanced review of the Board's performance of the year ending 31 March 2012. Key performance indicators (KPI) have been established to facilitate performance monitoring with suitably challenging performance targets established. Balanced performance reporting is a cornerstone of public performance reporting and is a key element of public accountability. We welcome the Board's approach to performance reporting.
36. Due to the Assessor's report being extensive and publicly available we have limited the information in this section of the report to key issues. Further detail can be obtained by reading the Assessor's report which will be available on the Board's website (<http://www.dab-vjb.gov.uk/>).
37. In particular the Assessor notes that the Board:
- Narrowly missed its target (80%) to issue Non-Domestic Rates valuation notices within three months of the date that amendments to the valuation roll become effective. The Board achieved 77.8% for this KPI across the whole Board area however performance varied with Argyll & Bute achieving 79.2%, East Dunbartonshire 75.5% and West Dunbartonshire 72.6%. We note that the Board have agreed to retain the 80% target in 2012/13.
 - Exceeded its target (92%) to issue Council Tax banding notices within three months of the date that amendments to the valuation list become effective. The Board achieved 96% for this KPI across the whole Board area with all three areas exceeding the target. We note that the Board have agreed to increase the target to 93% in 2012/13.
 - Completed the annual canvass on schedule and met the statutory deadline to publish the electoral register by 1 December 2011.
 - Maintained high levels of customer satisfaction as evidenced through their annual customer satisfaction survey.
38. During the Scottish Parliament elections held in May 2011, misunderstandings relating to the 2010 Boundary Commission Review resulted in voters in an area of Argyll voting in the West Dunbartonshire constituency rather than the Argyll & Bute one. The Assessor has confirmed that this had no impact on the outcome of any of the affected poll and has provided assurances in his annual report that corrective action has been taken to ensure such an error does not occur again.

Non-Domestic Rates running roll appeals

39. In his report the Assessor makes reference to the downturn in the economy resulting in a material increase in the volume of running roll appeals received in both 2010/11 and 2011/12. Specifically he highlights the significant impact this will have on the workload of valuation staff

in the period to December 2013 and possibly beyond. Consideration should be given to the impact this might have on the delivery of the Board's statutory duties.

Action Plan 3

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	25	<p>Reserve Strategy</p> <p>An agreement has been reached with the Board that they can disclose a general fund reserve as of 2012/13 however this requires a formal reserves strategy to be approved by the Board.</p> <p><i>Risk - Carried forward general fund balances are not used for purposes approved by the Board.</i></p>	A Reserve strategy will be prepared for consideration at the Board meeting on 16 November 2012.	Treasurer	16 November 2012
2	34	<p>Service Level Agreements (SLAs)</p> <p>There are no SLAs in place to define the support services provided to the Board by West Dunbartonshire Council.</p> <p><i>Risk - there is insufficient clarity over issues such as service definition, performance measurement, duties, warranties and termination of agreement.</i></p>	The need for a Service Level Agreement will be considered and, if appropriate, action will be taken to implement an agreement prior to 1 April 2013	Treasurer / Assessor & ERO	1 April 2013
3	39	<p>Running Roll Appeals</p> <p>An increase in the number of running roll appeals is considered likely to impact on the workload of valuation staff.</p>	A significant number of running roll appeals have been disposed of since the time of the audit leaving the Assessor & ERO	Assessor & ERO	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>Risk - the Board might find it difficult to deliver its statutory duties and achieve the targets it has set for its key performance indicators.</i>	confident that, by planning resources and scheduling VAC hearings, the workloads are manageable within current resource levels		