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# Tayside Valuation Joint Board

Annual audit report to the members of Tayside Valuation Joint  
Board and the Controller of Audit

Audit: Year ended 31 March 2012

28 September 2012



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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 Tayside Valuation Joint Board ("the Joint Board") and is made available to Audit Scotland and the Accounts Commission for Scotland (together "the beneficiaries"). It 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.

We also draw your attention to the following:

- Tayside Valuation Joint Board's treasurer is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems;
- weaknesses or risks identified by us are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist; and
- communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve Tayside Valuation Joint Board's treasurer and management from their responsibility to address the issues raised and to maintain an adequate system of control.



## Executive summary Headlines

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

We set out in our audit strategy document to you in our approach to the audit of the Joint Board for 2011-12.

In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance*, this report summarises our work in relation to the financial statements.

We wish to record our appreciation of the co-operation and assistance extended to us by staff during the course of our work.

Financial statements	
<p>The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 ("the Code") did not include any major amendments which impacted on the preparation of the Joint Board's financial statements.</p> <p>All accounting policies have been applied consistently.</p> <p>We have issued an unqualified opinion on the financial statements for 2011-12.</p> <p>Good quality financial statements were prepared for audit. There are no unadjusted audit differences to report.</p>	Pages 3- 4
Use of resources	
<p>The net deficit on provision of services for 2011-12 represented a £214,000 underspend against budget, primarily arising from a saving in staff costs during the year.</p> <p>After requisition income received, and adjustments between the accounting and funding basis are made, the general fund balance as at 31 March 2012 was unchanged at £103,000.</p> <p>The Joint Board has net liabilities at 31 March 2012, arising from the net pension liability. The financial statements are prepared on a going concern basis as the pension liability will be met through future requisitions from the constituent councils.</p>	Page 5
Governance	
<p>Over-arching and supporting corporate governance arrangements provide a sound framework for organisational decision-making. An updated local code of corporate governance was approved shortly after the financial year end. A self-assessment of the effectiveness of corporate governance arrangements was undertaken during 2011-12, and identified a high level of compliance.</p> <p>Internal audit reported that the Joint Board had adequate and effective internal control systems. Appropriate arrangements are established in respect of standards of conduct and prevention and detection of fraud and irregularity.</p> <p>The Joint Board monitors its performance against key performance indicators, and reports this performance within its financial statements.</p>	Page 6-8
Mandatory communications	
<p>We are required by ethical standards to formally confirm our independence you.</p> <p>We draw your attention to the responsibilities of the Joint Board under Audit Scotland's <i>Code of Audit Practice</i>.</p>	Appendices one and two



## Financial statements

# Accounting policies; audit opinion

The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 did not include any major amendments which impacted on the preparation of the Joint Board's financial statements.

All accounting policies have been applied consistently.

We have issued an unqualified opinion on the financial statements for 2011-12.

### Code of practice on Local Authority Accounting in the United Kingdom 2011-12 ("the Code")

The 2011-12 Code has a number of amendments from the 2010-11 version and management considered the reporting requirements for the financial statements. The amendments included:

- applicability of FRS 30 *Heritage Assets (as above)*;
- additional guidance in respect of leases;
- additional disclosure requirements in respect of exit packages; and
- a requirement for a specific statement in the annual governance statement / statement on the system of internal financial control on whether financial management arrangements conform with the governance requirements of the statement on "the role of the chief financial officer in local government."

The Joint Board has referred appropriately to the role of the chief financial officer within its annual governance statement, and provided required additional disclosure in respect of exit packages. Neither of the other matters above had any impact on the Joint Board in the year.

### Accounting policies

There have been no changes to the accounting policies in 2011-12, and these remain appropriate for the activities and transactions of the Joint Board.

### Audit opinion

The Local Government (Scotland) Act 1973 requires us to provide an opinion on the Joint Board's financial statements on completion of our audit. Our opinion, which is unqualified, states that the financial statements:

- give a true and fair view of the state of the affairs of the Joint Board as at 31 March 2012 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government Scotland Act 2003.



## Financial statements

# Preparation of financial statements

**Good quality financial statements were prepared for audit.**

**There are no unadjusted audit differences to report.**

### Preparation of financial statements

The unaudited financial statements were authorised for issue by the Treasurer of the Joint Board on 12 June 2012, and passed to us for audit on 25 June 2012 along with a completed disclosure checklist. This was in advance of statutory requirements and the agreed audit timetable.

Good quality supporting documentation was made available in electronic format to support the unaudited financial statements.

There was one re-classification adjustment arising from our audit procedures which had no impact on either the result for the year or the Joint Board's net assets. We are required under International Standard on Auditing 260 '*Communication with those charged with governance*' to report any unadjusted errors identified during the course of our audit. There are no unadjusted audit differences to report.

The net deficit on provision of services for 2011-12 represented a £214,000 underspend against budget, primarily arising from a saving in staff costs during the year.

The general fund balance was unchanged at £103,000.

The Joint Board has net liabilities at 31 March 2012, arising from the net pension liability. The financial statements are prepared on a going concern basis as the pension liability will be met through future requisitions from the constituent councils.

**Financial position**

For the year ended 31 March 2012 the Joint Board reported a net deficit on provision of services before requisitions of £2.7 million. This outturn represented a £214,000 underspend on the budget approved for 2011-12 by the Joint Board, which formed the basis for the requisitions from the three constituent councils. This saving arose primarily in staff costs, which were underspent by £186,000 as a result of retirements and a delay in filling vacant posts.

At year end the Joint Board had creditor balances of £207,000, representing amounts due to be returned to the constituent councils.

Comprehensive income and expenditure statement	
	£000
Net cost of service	3,265
Other operating income	(430)
Finance and investment income and expenditure	(111)
<b>Deficit on provision of services</b>	<b>2,724</b>
Requisition income	(2,754)
Recognised capital income	(35)
<b>(Surplus) on provision of services</b>	<b>(65)</b>
Other comprehensive income and expenditure (being actuarial losses on pension scheme)	2,848
<b>Total comprehensive income and expenditure</b>	<b>2,783</b>

After adjustments to reflect the different accounting basis and funding basis, the outturn for the year was £nil resulting in no change to the general fund balance.

**Reserves**

The Joint Board holds an unchanged general fund balance at the year end of £103,000. This balance is held by the Joint Board under agreement to hold a minimum level of uncommitted balances of £100,000.

The Joint Board has total net liabilities as at 31 March 2012 of £6.76 million (2010-11: £3.98 million), represented primarily by a net pension liability of £6.84 million.

The financial statements have been prepared on a going concern basis as the statutory funding arrangements mean that the pension liability, which does not fall due in any one year, will be met through future requisitions from the constituent councils.

**Over-arching and supporting corporate governance arrangements provide a sound framework for organisational decision-making.**

**An updated local code of corporate governance was approved shortly after the financial year end.**

**A self-assessment of effectiveness of corporate governance arrangements was undertaken during 2011-12 and identified a high level of compliance.**

**Corporate governance and internal control arrangements**

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 responsibilities of the Joint Board and its 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 Joint Board approved an updated local code of corporate governance, drawing on all aspects of its governance arrangements, to consolidate these into a framework which is in line with the principles of the CIPFA / SOLACE publication ‘Delivering Good Governance in Local Government.’ The local code of corporate governance focuses on four key areas of Joint Board activity, namely structures and governance; service delivery arrangements; internal control and risk management; and stakeholder focus.

The revenue and capital budgets for the year are approved by the Joint Board, who also receive regular monitoring reports to allow them to exercise and demonstrate stewardship and accountability for the use of their resources. Standing orders, financial regulations and tender procedures are approved, and have been made available on the Joint Board’s website to demonstrate openness and transparency of arrangements.

**Annual governance statement**

The Joint Board has prepared an annual governance compliance statement for the first time during 2011-12. The statement discloses that, in line with best practice, the Joint Board undertook a self-assessment review of the effectiveness of its arrangements during the year, using a 31-point checklist completed by the Assessor. The self-assessment indicated a high-level of compliance. Two areas were identified for further improvement:

- review and updating of the service plan on an annual basis; and
- budget monitoring to be added as a specific standing item on the agenda of the Assessor’s management team meetings.

These matters demonstrate the Joint Board’s commitment to continuous improvement.

We have reviewed the annual governance statement and can confirm it is consistent with our understanding of the Joint Board’s activities.

**Internal audit reported that the Joint Board had adequate and effective internal control systems.**

**Appropriate arrangements are in place in respect of standards of conduct and prevention and detection of fraud and irregularity.**

<p><b>Internal audit</b></p>	<p>The Joint Board has an outsourced internal audit provider. The Joint Board received its annual report from its internal auditor at its meeting in June 2012, before approval of the unaudited financial statements. This addressed the implementation of a recommendation made by the previous external auditors, as part of their 2010-11 annual audit report.</p> <p>The internal audit annual report concluded that <i>“the Board operates adequate and effective internal control systems as defined in the audit needs assessment, with proper arrangements in place to promote and secure value for money.”</i></p> <p>In undertaking their work for the year, internal audit noted that while risk management arrangements were good, there was still scope to embed this further to improve the overall effectiveness of arrangements. Follow-up work undertaken indicated that management had taken action to address the majority of recommendations outstanding from previous internal audit reports.</p>
<p><b>Standards of conduct and prevention and detection of fraud and irregularity</b></p>	<p>The members of the Joint Board are drawn from the constituent councils, and as such are bound by the respective codes of conduct of those councils.</p> <p>The Joint Board utilises the key financial systems of Dundee City Council under service level agreement. Administration of the financial records of the Joint Board is, therefore, undertaken by Council staff who are subject to Council policies on standards of conduct, fraud and corruption.</p> <p>We undertook appropriate systems audit work as part of our 2011-12 audit of Dundee City Council, with any findings reported to Council management. No audit findings relating uniquely to the Joint Board were identified during the audit work carried out at the Council.</p> <p>The Joint Board has approved fraud guidelines which set out its strategy for the prevention and detection of fraud and irregularities, and outlines the responsibilities of members, officers and staff. We are satisfied that these are appropriate for the Joint Board’s circumstances.</p>
<p><b>Management representation letter</b></p>	<p>In accordance with International Standards on Auditing (UK &amp; Ireland), management is required to provide us with representations on specific matters such as your financial standing, application of accounting policies, and whether the transactions in the financial statements are legal and unaffected by fraud.</p> <p>There are no specific representations, other than those required under auditing standards, which we are requesting from management.</p>



The Joint Board monitors its performance against key performance indicators, and reports this performance within its financial statements.

**Performance management**

The Joint Board continues to demonstrate its commitment to Best Value through its service plan. The existing service plan covering the period 2008-13 was recently updated and a revised 2012-15 service plan approved in June 2012. The Joint Board measures its performance through key performance indicators in respect of 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 notices, in respect of that change, are issued.

Performance in respect of amendments to the non-domestic rate valuation roll fell back in 2011-12. Management identified this as being due to staff being focussed on dealing with appeals arising from the 2010 revaluation, as these have to be disposed of by 31 December 2013. Performance in respect of the council tax valuation roll increased over 2010-11, although falling marginally below the targets set for the year.

Non-domestic valuation roll performance			
Period	Actual 2010-11	Target 2011-12	Actual 2011-12
Within 3 Months	68%	65%	54.7%
Within 6 months	86%	85%	78.5%
> 6 months	14%	15%	21.5%

Council tax valuation roll performance			
Period	Actual 2010-11	Target 2011-12	Actual 2011-12
Within 3 months	83%	90%	88%
Within 6 months	94%	98%	97.5%
> 6 months	6%	2%	2.5%



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# Appendices



## Appendix one

# Auditor's Independence

**We are required by ethical standards to formally confirm our independence you.**

**There are no specific matters which have impinged on our independence.**

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships, (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Joint Board for professional services provided by us during the reporting period. There were no fees payable other than in respect of our audit.

We are satisfied that our general procedures support our independence and objectivity.

### **General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through:

- instilling professional values;
- communications;
- internal accountability;
- risk management;
- independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Joint Board.

### **Confirmation of audit independence**

We confirm that as of 17 September 2012, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of Stephen Reid and audit staff is not impaired.

This report is intended solely for the information of the Joint Board and should not be used for any other purposes.

Yours faithfully

**KPMG LLP**

**Financial statements**

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. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

**Systems of internal control**

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

**Prevention and detection of fraud and irregularities**

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and

- participating, when required, in data matching exercises carried out by Audit Scotland.

**Standards of conduct and arrangements for the prevention and detection of bribery and corruption**

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

**Financial position**

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

**Best Value**

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.



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