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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 2014

29 August 2014

Contents

The contacts at KPMG in connection with this report are:

David Watt
Director, KPMG LLP

Tel: 0141 300 5695
Fax: 0141 204 1584
david.watt@kpmg.co.uk

Keith Macpherson
Senior Manager, KPMG LLP

Tel: 0141 300 5806
Fax: 0141 204 1584
keith.macpherson@kpmg.co.uk

Ross Clarke
Audit In-charge, KPMG LLP

Tel: 0141 300 5521
Fax: 0141 204 1584
ross.clarke@kpmg.co.uk

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 and is made available to Audit Scotland and the Accounts Commission for Scotland (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

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 (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) 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.

Headlines

This report is presented in connection with our audit of Tayside Valuation Joint Board for the year ended 31 March 2014. Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code"). This specifies a number of objectives for the audit. In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance,* this report also summarises our work in relation to the financial statements for the year ended 31 March 2014.

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

Area	Summary observations	Analysis
Use of resources		
Financial position	For the year ended 31 March 2014 the Joint Board reported a net cost of services of £3.5 million. The outturn represented a £53,000 overspend on the budget approved for 2013-14 by the Joint Board, primarily as a result of increases in third party payments and supplies and services costs. The general fund balance as at 31 March 2014 was unchanged at £103,000. In approving the budget for 2014-15, £21,000 was taken from carried forward reserves. In addition the Joint Board has agreed with its constituent councils to retain the general fund balance at a minimum of £60,000 – reduced from £100,000 – to provide flexibility in managing any unexpected draw on resources. The forecast reduction in balance held in 2014-15 plus the utilisation of existing reserves enabled there to be no increase in the requisition from the constituent councils. The Joint Board had net liabilities at 31 March 2014 arising from the net pension liability. The financial statements are prepared on a going concern basis as the net liability will be met through future requisitions from the constituent councils.	Page 5
Financial statements and accounting		
Audit conclusions	We have issued unqualified audit opinions on the financial statements for 2013-14.	Page 7
Significant risks / audit focus areas	We have considered inherent significant risks that the ISAs would require us to raise with you covering risks in relation to revenue recognition and management override of controls and have satisfactorily concluded our work in these areas.	Pages 7 – 8
Year-end process	The unaudited financial statements were authorised for issue by the Treasurer of the Joint Board on 19 June 2014 and subsequently made available for public inspection, all in line with the statutory requirements. The unaudited financial statements were made available on a timely basis and were accompanied by work papers of an appropriate standard. There were no uncorrected misstatements arising from our audit work.	Page 9
Governance, narrative reporting and performance management		
Governance framework	Our review of governance arrangements did not identify any issues; corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision making.	Pages 11 – 12
Performance management	Our work has identified that the Joint Board's performance management arrangements are generally appropriate to its business objectives.	Page 13

Scope and responsibilities

Purpose of this report

The Accounts Commission for Scotland has appointed KPMG LLP as auditors of Tayside Valuation Joint Board ("the Joint Board") under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Joint Board and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the Joint Board at the outset of our audit for 2013-14.

Responsibilities

Audit Scotland's *Code of Audit Practice* ("the Code") sets out the Joint Board's and the Treasurer's responsibilities in respect of:

- preparation of financial statements;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements, but also consideration of areas such as financial performance and corporate governance.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified 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. 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.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members of the Joint Board, together with previous reports to the Joint Board throughout the year, discharges the requirements of ISA 260.

Use of resources

Our perspective on the Joint Board’s use of resources

Financial position

For the year ended 31 March 2014 the Joint Board reported a net cost of services of £3.5 million. The outturn represented a £53,000 overspend on the budget approved for 2013-14 by the Joint Board, primarily as a result of increases in third party payments and supplies and services costs.

Financial position

For the year ended 31 March 2014 the Joint Board reported a net cost of services of £3.5 million. The small increase over the prior year reflected the 1% pay award plus an increase in supplies and services costs.

The outturn represented a £53,000 overspend on the budget approved for 2013-14 by the Joint Board, which formed the basis for the requisitions from the three constituent councils. These costs arose primarily in third party payments and supplies and services.

This increase in expenditure was fully funded by £46,000 of grant income and a £7,000 increase in income from sales of registers.

After adjustments to reflect the different accounting basis and funding basis, the outturn for the year was breakeven, 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.

The Joint Board has total net liabilities as at 31 March 2014 of £8.09 million (*2012-13:* £5.66 million), represented primarily by a net pension liability of £8.16 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.

In setting the budget for 2014-15, £21,000 was taken from carried forward reserves. The Joint Board also approved a reduction in the minimum level of reserves required from the current £100,000 to £60,000. This reduction meant that there was no requirement to increase the level of requisitions required from the constituent councils in balancing the budget.

Comprehensive income and expenditure statement	2013-14	2012-13
	£000	£000
Net cost of service	3,518	3,277
Other operating income	(436)	(415)
Finance and investment income and expenditure	263	312
Taxation and non-specific grant income	(46)	-
Deficit on provision of services before requisitions	**3,299**	**3,174**
Requisition income	(2,865)	(2,713)
Recognised capital income	(23)	(26)
Deficit on provision of services	**411**	**435**
Other comprehensive income and expenditure, being actuarial losses / (gains) on pension scheme	2,020	(1,531)
Total comprehensive income and expenditure	**2,431**	**(1,096)**

Movement in reserves statement 2013-14	Usable reserves	Unusable reserves	Total reserves
	£000	£000	£000
Opening balance at 1 April	(103)	5,766	5,663
Total comprehensive income and expenditure	411	2,020	2,431
Adjustments between accounting and funding basis under regulations	(411)	411	-
Increase / (decrease) in reserves	**-**	**2,431**	**2,431**
Balance at 31 March carried forward	**(103)**	**8,197**	**8,094**

Financial statements and accounting

Our perspective on the preparation of the financial statements and key accounting judgements made by management

Audit conclusions

We have issued an unqualified audit opinion on the financial statements.

International Standards on Auditing require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk and that management override of controls is a significant risk. We have satisfactorily carried out audit work to address these risks.

Audit conclusions

Following approval of the financial statements by the Treasurer of the Joint Board, we have issued an unqualified opinion on the truth and fairness of the state of the Joint Board's affairs as at 31 March 2014, and of its expenditure and income for the year then ended. The financial statements have been properly prepared in accordance with the 2013-14 Code of Practice, and prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government Scotland Act 2003. There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed a mixture of substantive and controls testing to ensure an efficient approach that covers all the key risks;
- considered the work of the Joint Board's internal auditor and reviewed their reports to ensure all key risk areas having a potential financial statement impact have been considered;
- reviewed assumptions and judgements made by management and considered these for appropriateness; and
- considered if the financial statements may be affected by fraud through discussions with senior management and internal audit to gain a better understanding of their work in relation to prevention and detection of fraud with the potential to impact on the financial statements.

Significant risks

Revenue recognition	International Standard on Auditing (UK and Ireland) 240 requires us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. As the Joint Board's income is primarily received from the constituent local authorities, we did not regard the risk of fraud from this revenue recognition to be significant.
Management override of controls	To address this risk, we have performed testing of journal entries during the year and at the year end, undertaken a review of unusual transactions in the year, made enquiries with employees outside the corporate services department, incorporated audit tests of an unpredictable nature and undertaken testing of controls, including 'higher level' controls and reviewed management's accounting estimates for bias. Our work did not identify any matters that required adjustment in the financial statements or which require to be brought to your attention.

Audit conclusions (continued)

In addition to the significant risks identified as part of our audit, our audit planning also identified an area of audit focus around employee benefits valuation for participation in the Tayside Pension Fund.

Each of the assumptions used to value the Joint Board's net pension deficit are within an acceptable range of KPMG's expectations.

We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19(Revised).

Our work in this area has therefore been satisfactorily concluded.

Audit focus area

The Joint Board accounts for its participation in the Local Government Pension Fund in accordance with IAS 19: *Employee benefits* on a defined benefits basis using valuation information prepared by actuarial consultants. Our audit of the accounting for employee benefits includes evaluation of the actuarial consultants as a third party expert, consideration of the data underlying the actuarial report, including the level of contributions made during the year, the financial assumptions and membership data provided to the actuaries by the Joint Board, and estimates of the Joint Board's share of the pension fund assets.

We found that the actuarial consultants as a third party expert were objective and had the appropriate experience and expertise to provide the information for use by the Joint Board. The level of contributions made in the year is estimated based on data prior to the year end. It is important that this number is accurate as it is used to inform the calculation of the liabilities at the period end. Our testing included review of actual data against that used in the actuarial calculations. No issues were identified.

The actuaries use a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the period end date and assumptions on future salary increases. Using our own actuarial specialists, we have reviewed the assumptions and concluded that the overall assumptions proposed represented a balanced position for the net deficit within our expected range. Details of key assumptions are included opposite.

The Joint Board adopted IAS 19 (Revised) in 2013-14. Under previous IAS 19, interest cost on the defined benefit obligation and an expected return on plan assets were recognised in the statement of comprehensive net expenditure within interest payable. Under IAS 19 (R), these two amounts have been replaced by a single measure called 'net interest' calculated on the net defined benefit liability. The Joint Board has appropriately applied IAS 19 (Revised) in the financial statements. If the standard had been adopted early in 2012-13, the estimated change to finance costs would be £231,000 and there would have been no impact on the previously reported net asset position. The Joint Board has restated the prior year comparative information given in 2013-14 financial statements to provide consistency in the disclosure of information within the financial statements. Appropriate disclosure of the prior period adjustment is included in the notes to the financial statements.

Assumption	Joint Board	KPMG central	Comment
Discount rate	4.6%	4.4%	Acceptable – The proposed discount rate is within an acceptable range of KPMG's central rate as at 31 March 2014.
RPI inflation	3.7%	3.65%	Acceptable – The proposed RPI inflation rate is broadly in line with KPMG's central rates.
CPI inflation	2.9% RPI – 0.8%	2.65% RPI – 1%	Acceptable – The proposed CPI inflation rate is assumed to be the proposed RPI inflation rate less 0.8% which is consistent with last year.
Net discount rate (discount rate – CPI)	1.7%	1.75%	Acceptable – The proposed assumption is within an acceptable range of KPMG's central rate and therefore acceptable for IAS19 purposes.
Salary growth (long term)	5.1% 1.4% above RPI	0 -1.5% above inflation	Acceptable – The assumption reflects a long term view of public sector pay, with an assumption of RPI plus 1.4%.

Accounting framework; year end process; other matters

There have been no substantive changes to the financial reporting framework as set out in the Code of Practice.

The implementation of revisions to IAS 19: *Employee benefits* represented the only major change in financial reporting requirements for the Joint Board.

All other accounting policies have been applied consistently.

Financial reporting framework	■ The Joint Board prepared its financial statements in accordance with the Code of Practice which is based upon International Financial Reporting Standards ("IFRS"). ■ With the exception of the adoption of IAS 19 (Revised), during the year there have been no significant changes in financial reporting requirements, and consequently there are no other substantive changes to the Joint Board's accounting policies. We are satisfied that the accounting policies adopted remain appropriate. ■ No newly effective accounting standards are considered likely to have a material impact on the Joint Board's financial statements in the coming year.
Financial statements preparation	■ The unaudited financial statements were authorised for issue by the Treasurer of the Joint Board on 19 June 2014, and passed to us for audit on that day along with a completed disclosure checklist. This was in advance of statutory requirements and the agreed audit timetable. ■ In accordance with regulations, the unaudited financial statements were made available for public inspection from 14 July to 1 August 2014. No objections were received. ■ Good quality supporting documentation was made available in electronic format to support the unaudited financial statements.
Going concern	■ 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.
Other matters	■ Mandatory communications required by International Standards on Auditing are given in Appendix one. ■ There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content.

Governance, narrative reporting and performance management

Our overall perspective on your narrative reporting, including the remuneration report and annual governance statement

Update on controls findings from our audit

Our perspective on the Joint Board's performance management arrangements

Corporate governance and narrative reporting

We updated our understanding of the governance framework and did not identify any issues which require to be brought to your attention.

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 operates a 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 at each meeting throughout the financial year 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 published on the Joint Board's website to demonstrate openness and transparency of arrangements.
Annual governance statement	The Joint Board's annual governance compliance statement for 2013-14 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 36 point checklist completed by the Assessor. The self-assessment indicated full compliance by the Board in the four key governance areas covered. We have reviewed the annual governance statement and confirm that it is consistent with our understanding of the Joint Board's governance arrangements.
Remuneration report	In accordance with regulations, the Joint Board's remuneration report sets out the remuneration arrangements for members and senior management of the Joint Board. We are satisfied that this has been prepared in accordance with the requirements of the regulations and other relevant guidance issued by the Scottish Government.

Corporate governance and narrative reporting (continued)

Systems of internal control	The Joint Board utilises the systems of internal control 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. We undertook appropriate controls testing as part of our 2013-14 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.
Internal audit	The Joint Board has an outsourced internal audit provider. The work of internal audit included an review of the corporate governance arrangements of the Joint Board. Compliance was assessed and reported as good, in line with the Joint Board's self-assessment. We reviewed the internal audit reports prepared for the Joint Board, with no findings identified which impacted on our audit work, or approach, for the year.
Prevention and detection of fraud / arrangements for maintaining standards of conduct	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. The members of the Joint Board are drawn from the three constituent councils, and as such are bound by the respective codes of conduct of those councils. Administration of the financial records of the Joint Board is undertaken by Dundee City Council staff who are subject to that Council's policies on standards of conduct, fraud and corruption. We are satisfied that these arrangements are appropriate for the Joint Board's circumstances.

Corporate governance and narrative reporting (continued)

The Joint Board's performance management and Best Value and arrangements remain largely unchanged and we did not identify any issues which require to be brought to your attention.

Best Value and performance management	Achievement of Best Value depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily. The Local Government in Scotland Act 2003 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. No specific work was undertaken at the Joint Board during 2013-14. We also have a responsibility to review and report on the arrangements that the Joint Board has to prepare and publish performance information. 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. The Joint Board reports on its performance through the Assessor's annual public performance report, which is made available on its website. The Joint Board has reported that it exceeded its target of 88% for processing new or altered entries onto the non-domestic roll within six months, with actual performance recorded at 92.9%. The Assessor's report notes that the statutory date for disposal of all appeals lodged in 2010-2012 was 31 December 2013, and that all such appeals were satisfactorily resolved by that date. Performance in respect of the processing new entries in the Council Tax valuation roll was also above target and represented an increase in performance over the prior year. The Assessor also provides the Electoral Registration Service for Perth & Kinross Council and Angus Council. The Scottish Local Government elections were held in May 2012. The Electoral Commission has determined a set of standards against which the Electoral Registration Officers are assessed in the performance of their duties. The Assessor reports that the service provided to both Perth & Kinross Council and Angus Council met or exceeded all these standards in 2013-14.

Appendices

Mandatory communications

Mandatory communications regarding audit adjustments, auditor independence and representation letter content are given here.

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	There were no audit adjustments required to the unaudited financial statements which impacted on the net assets or the net expenditure for the year.	-
Unadjusted audit differences Audit differences identified that we do not consider material to our audit opinion	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you. There are no unadjusted audit differences.	-
Confirmation of Independence Letter issued by KPMG to the Audit Committee	We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of our Audit Director and audit staff.	Appendix two
Schedule of Fees Fees charged by KPMG for audit and non-audit services	Audit fees for 2013-14 were agreed with management in accordance with the range specified by Audit Scotland. No non-audit services were provided.	-
Draft management representation letter Proposed draft of letter to be issued by the Joint Board to KPMG prior to audit sign-off	There are no significant changes to the standard representations required for our audit from last year.	-

Auditor independence and non-audit fees

Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Joint Board.

We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.

Professional ethical standards require us to provide to you at the conclusion of an 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 letter 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. 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 Audit Directors 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 APB Ethical Standards.

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 members of the Joint Board.

Confirmation of audit independence

We confirm that as of 4 August 2014, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director 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 purpose.

Yours faithfully

KPMG LLP

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