



Dunbartonshire and Argyll & Bute Valuation Joint Board

Annual audit report to
Members and the
Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed Elaine Boyd as the external auditor of Dunbartonshire and Argyll & Bute Valuation Joint Board (the Board) for the period 2011/12 to 2015/16.

This report has been prepared for the use of Dunbartonshire and Argyll & Bute Valuation Joint Board and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Board. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Contents

Key messages.....	4	Best Value.....	15
Introduction.....	5	Appendix I – Significant audit risks	17
Audit of the 2014/15 financial statements	6	Appendix II.....	18
Financial management and sustainability.....	8	Appendix III.....	19
Governance and transparency.....	12	Appendix IV	20

Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified auditor's report on the 2014/15 financial statements.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Although a deficit of £0.049m was anticipated, the Board operated within resource budgets for 2014/15, returning a surplus of £0.126m.• The Board's Balance Sheet as at 31 March 2015 discloses a net liability of £4.744m, with Net Cost of Services showing an increase of £0.159m from £2.785m to £2.944m.• Good financial management remains a priority to ensure the continued financial sustainability of the Board.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The Board's financial transactions are processed through West Dunbartonshire Council's financial systems. Our review of these systems found no material weaknesses and that internal controls were operating as intended.• The Board also utilise the Council's internal audit function. We found that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including work on internal controls.
 <p>Outlook</p>	<ul style="list-style-type: none">• The Board met the significant challenge of implementing Individual Electoral Registration in 2014/15 and providing registers for the Scottish Independence Referendum and European Parliamentary elections.• However we note that the Board's net pension liability continues to increase. This should be monitored going forward to ensure the Board is able to continue as a going concern.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Dunbartonshire and Argyll & Bute Valuation Joint Board (the Board). The report is divided into sections which reflect our public sector audit model.
2. The management of the Board is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Dunbartonshire and Argyll & Bute Valuation Joint Board, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Dunbartonshire and Argyll & Bute Valuation Joint Board understands its risks and has arrangements in place to manage these risks. The Board should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none">We have completed our audit and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none">The financial statements of the Board have been prepared on the going concern basis. The increasing net pension liability should be monitored to ensure the Board is able to continue as a going concern.
Other information	<ul style="list-style-type: none">We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Submission of financial statements for audit

9. We received the unaudited financial statements on 28 May 2015, in accordance with the agreed timetable. The working papers were of a good standard and staff from the Board and West Dunbartonshire Council provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Board in June 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the

significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Dunbartonshire and Argyll & Bute Valuation Joint Board we set our planning materiality for 2014/15 at £0.030m (1% of gross expenditure). We report all misstatements greater than £1,500. Performance materiality was calculated at £0.024m, to reduce to an

acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

17. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

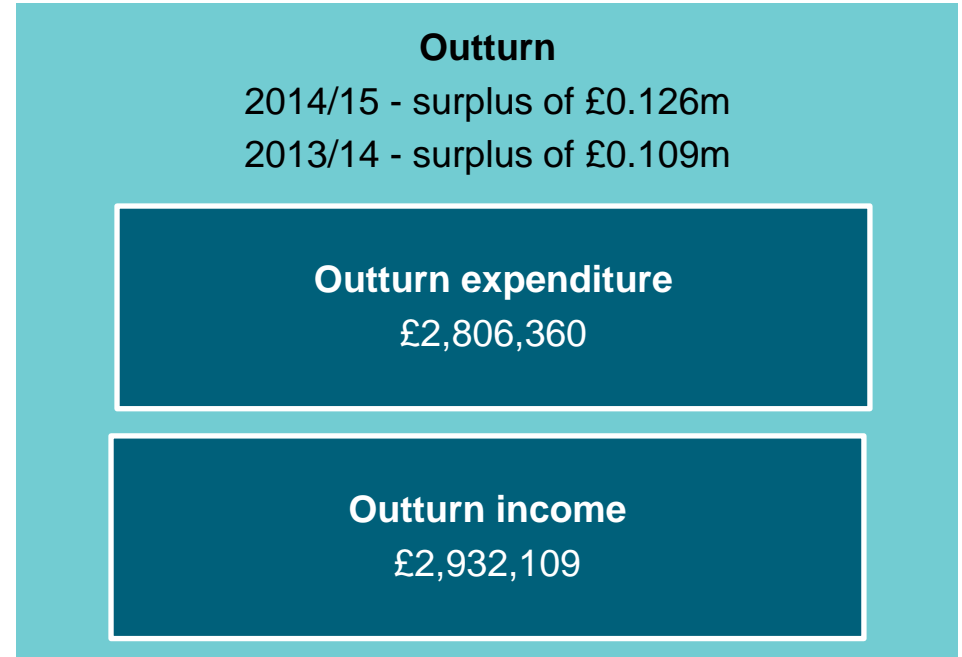
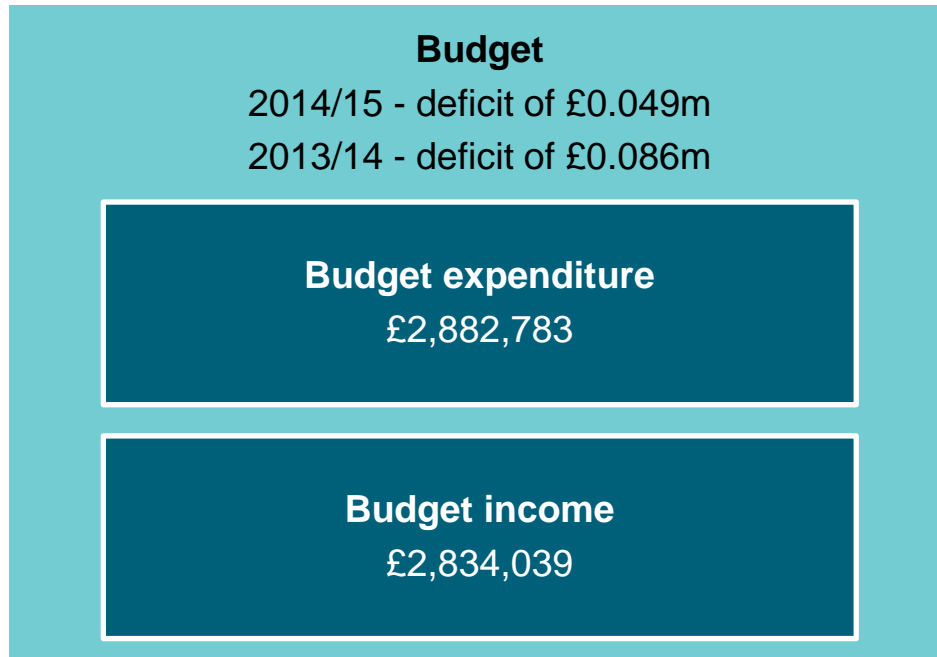
Evaluation of misstatements

18. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements. There were no unadjusted errors.

Significant findings from the audit

19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
20. There are no matters, other than those set out elsewhere in this report, to which we wish to draw your attention.

Financial management and sustainability



Financial management

21. In this section we comment on the Board's financial outcomes and assess the financial management arrangements.
22. The Board sets an annual budget to meet its commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

23. The Board returned a surplus of £0.126m for the financial year 2014/15, compared to a budgeted position which anticipated a planned deficit of £0.049m to be funded from reserves.
24. The surplus as presented in the management commentary (and in the table above), of £0.126m is different to that disclosed in the accounts as it is prior to statutory financial adjustments arising such as pension and accrued employee benefits. As the budget is prepared and monitored in this way, it is appropriate for the management commentary details to be presented as such.
25. The Board's Net Cost of Services from the Comprehensive Income & Expenditure statement shows an increase of £0.159m from £2.785m to £2.944m. The main contributory factor was a £0.151m increase in Employee Costs as a result of Individual Electoral Registration (IER) roll out and additional resource pressures in the lead up to the Scottish Referendum.

26. When compared to budget, the Board's expenditure was lower than expected, resulting in the year end surplus position. Underspends recorded against Employee Costs, Property and Supplies & Services were added to by an increase in income relating to higher than anticipated grant funding. This increase was also due to the implementation of IER and the Scottish Independence Referendum.
27. A reserves policy introduced by Members of the Board in recent years has led to the Board being able to accumulate and hold reserves. As with previous years, actual spend in year has come in below budget, allowing the Board to increase usable reserves by £0.108m.
28. As at 31 March 2015 the Board held total usable reserves of £0.647m, of which £0.051m relates to unapplied capital reserves. The remaining balance comprises revenue reserves of £0.596m of which £0.083m is earmarked and £0.513m is general reserves. In generating future budgets, management and the Board should consider the appropriate level of budget setting.

Action Plan 1

Financial management arrangements

29. As auditors, we need to consider whether the Board have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - financial regulations are comprehensive, current and promoted within the Board

- reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance.
30. We reviewed the Board's financial regulations and concluded that they are comprehensive and current. The financial regulations are available on the Board's website.
31. Revenue budget monitoring reports are submitted to the Board on a biannual basis. As well as providing comments on income and expenditure to date, the reports forecast the year-end outturn.

Financial sustainability

32. Financial sustainability means that the Board has the capacity to meet the current and future needs of its users.
33. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.

Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Financial planning

34. Looking ahead, it is clear that the financial climate for public services for the period 2015/16 to 2016/17 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 established performance targets. The Board will again need to be prepared to face the challenging financial environment ahead. The Board anticipates that, given the increased workload and the forecasted reduction in funding for local government, future levels will fall and will require careful monitoring to ensure the Board remains operational.

Pension liability

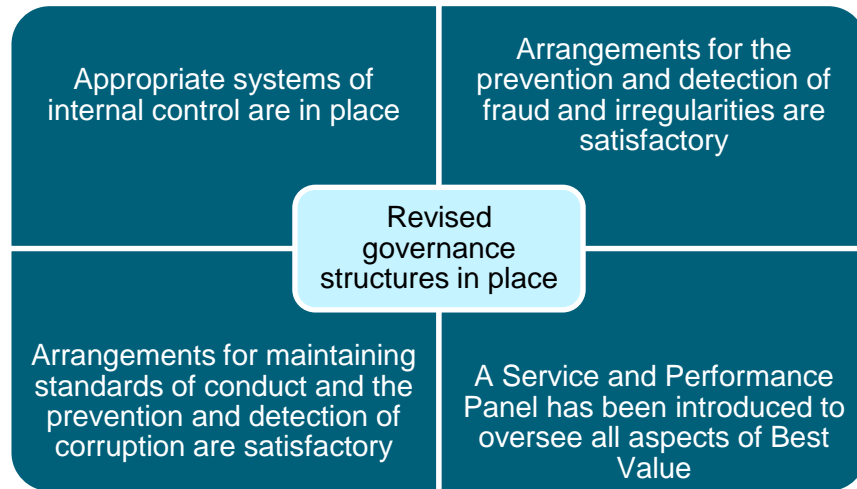
35. The net liability on the Board's balance sheet increased by £1.454m, from £3.290m in 2013/14 to £4.744m in 2014/15. The main reason for this increase is a £1.571m increase in the net pension liability. This increase is driven by changes in pension actuary's assumptions, mainly by the reduction in the net discount rate over this period.
36. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost.
37. A material net liability can highlight a potential going concern issue however we recognise that the appointed actuary is of the view that the asset holdings and contributions from employees and employers together with increases in contributions provide security over future

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

Outlook

38. It is recognised that over the medium term the funding position of local government across Scotland is likely to involve a further period of contraction in available resources. The level of any contraction has yet to be established and is unlikely to emerge until December 2015. It is anticipated that future planned draws on the reserves may be required to ensure that a balanced budget is delivered for 2015/16 onwards given this forecast and the increasing workload to the Board.
39. It is currently forecast that the Board will be required to address a budget gap of £0.284m by 2016/17, depending on local government settlement levels.

Governance and transparency



40. Members and management of the Board are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the Board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
41. Citizens should be able to hold the Board to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources. Overall we concluded that the Board is open and transparent.

Corporate governance

42. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and we found that the Board has satisfactory governance arrangements in place. In 2014/15 a number of policies and procedures were reviewed. These include the Board's Financial Regulations and Standing Orders, Code of Conduct for employees and Confidential Reporting policy.

Internal control

43. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
44. Financial transactions are processed through West Dunbartonshire Council's financial systems. It is therefore the responsibility of the Council's management to maintain adequate financial systems and associated internal controls.
45. Our review of these systems was conducted as part of the 2014/15 audit of West Dunbartonshire Council and supplemented by specific

work on the Board's financial statements. No material weaknesses in the accounting and internal controls system were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

46. Internal audit is an important element of the Board's governance structure. Our review established that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including internal controls. This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

Arrangements for the prevention and detection of fraud

47. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the overall arrangements for the prevention of fraud within the Board are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

48. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring

compliance with standards and codes of conduct, standing orders and instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Transparency

49. When assessing transparency we consider if:
- Meetings are held in public.
 - Papers and corporate documents are available online and there is only limited use of taking papers in private.
 - Financial statements are clearly presented and budget monitoring papers are concise and clear.
50. Meetings of the Board are held in public and papers available from the website. The website also publishes information on corporate policies, targets and performance. We concluded that the financial statements are clear and actual expenditure and income clearly linked to budgeted figures, as described in the commentary.

Campbeltown Connectivity Issues

51. The Board's Campbeltown office experienced broadband connectivity issues throughout 2014/15. Delays within the West Dunbartonshire Council ICT 'Modernisation Programme' have impacted on service delivery throughout the year. However, the Board have taken action to resolve this issue by installing three additional broadband lines. Once tested, these lines will be

connected to the 'Viprinet' device which connects the broadband lines and the servers/services.

Individual Electoral Registration (IER)

52. IER has resulted in changes to all operational procedures and processes and incurred higher operational costs than traditional registration. Further preparation is required for the May 2016 Scottish Parliamentary Election where 16 and 17 year olds may have the right to vote. This presents a significant risk to the Board as 2015/16 grant funding from the Cabinet Office falls below the expected requirement and no commitment to fund IER has been made beyond March 2016.

Action Plan 2

Best Value

53. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The Board should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Performance management

54. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
55. New performance management reports were introduced in 2014/15 to improve focus on performance throughout the year. The Board recognises that there is scope to increase the effectiveness of these reports by improving the presentation and we welcome this commitment to enhanced performance monitoring.
56. The Management Commentary in the Board's 2014/15 annual report provides a comprehensive and balanced review of the Board's performance for the year ended 31 March 2015. 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.

Overview of performance targets in 2014/15

57. The Board have published a Public Performance Report for 2014/15 which is available on the Board's website (<http://www.dab-vjb.gov.uk>). Due to the Public Performance Report being extensive and publically available we have limited the information in this section of the report to key issues.
58. In particular the Assessor notes that the Board:
- Achieved its target of 95% of banding notices being issued within three months of the date of occupation/completion and achieved the six month target of 98%.
 - Achieved its target of 80% for issuing the Valuation Notice within three months of the effective date of alteration.
 - Narrowly missed the six month target of 94% for issuing the Valuation Notice within six months of the effective date of alteration, although this did improve from 2013/14.

National performance audit reports

59. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which covered local government topics. These are outlined in appendix III.

Equalities

60. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
61. The Board published an equalities report in April 2015. This report details the steps the Board are taking to achieve equality of service provision. An Equality Impact Assessment was carried out on behalf of Unison following the completion of the Pay Modernisation processes for the Board's staff. It was concluded that the new pay scheme is consistent with the principles of equal pay for work of equal value and reduces the overall pay gap. There is currently a predominance of men in higher grades and women in lower grades and the Board is planning to address this going forward, through recruitment and promotion, when the appropriate opportunities arise.

Running Roll Appeals

62. The Board has experienced some delays in concluding negotiations on outstanding 'Running Roll' appeals relating mostly to Mobile Telecommunication Networks. This resulted in only 13 of 39 outstanding appeals being resolved during 2014/15.

Outlook

63. The Board has met the significant challenge of the introduction of the IER in the 2014/15 financial year and providing registers for the Scottish Independence referendum and European Parliamentary elections. The Board continues to monitor the changes to welfare reform and to manage the impact on the volume of appeals and associated costs in dealing with appeals.
64. We confirm the financial sustainability of the Board on the basis of its financial position. Operation of the Board is dependent on Local Authority funding. As their funds are projected to decrease in the next few years this may have a negative impact on funding available to the Board. It is important that the Board secures funding to support service needs and monitors this closely against expenditure. As local government bodies are facing a funding environment which is subject to sustained pressure to deliver more with less this may also impact on Board funding and service delivery.

Action Plan 3

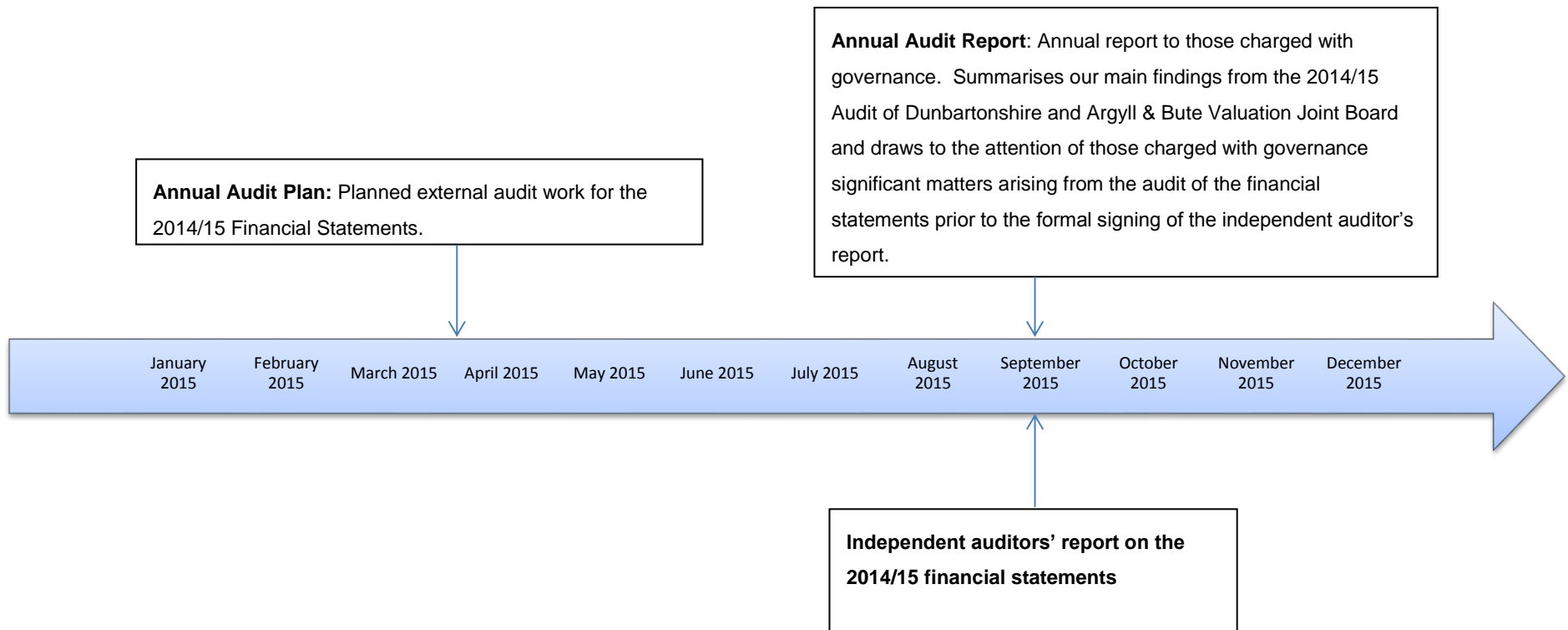
Appendix I – Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Management override of controls</p> <p>As stated in ISA 240, management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Risk</p> <p>Management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates for bias. • Evaluating significant transactions that are outside the normal course of business. 	<p>No issues have arisen as part of our audit work that would indicate management override of controls affecting the outturn or year-end position.</p>
<p>Local Authority Accounts (Scotland) Regulations 2014</p> <p>There is a risk that the Joint Board does not comply with the requirements of the new regulations.</p> <p>Risk</p> <p>The Board may not be operating in accordance with the new regulations.</p>	<ul style="list-style-type: none"> • Testing of the Board’s compliance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014. 	<p>No issues were identified during audit testing that would indicate that the Board are not operating in accordance with the new regulations.</p>

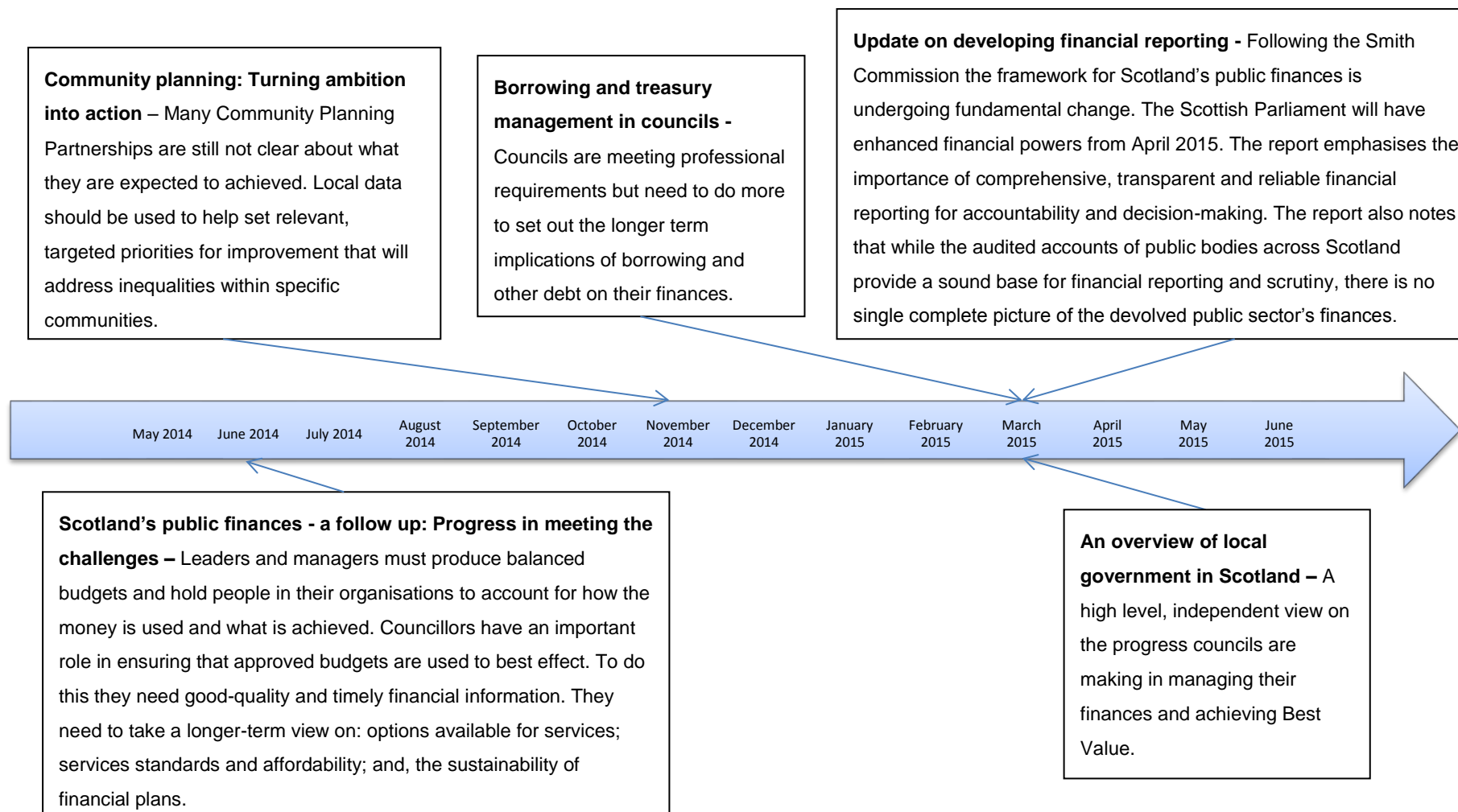
Appendix II

Summary of Dunbartonshire and Argyll & Bute Valuation Joint Board local audit reports 2014/15



Appendix III

Summary of Audit Scotland national reports 2013/14



Appendix IV

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 9/28	<p>Budget Setting</p> <p>The Board has delivered services under budget over consecutive years and consequently increased its revenue reserves. Management and the Board should consider the appropriate level of budget setting to ensure that contributions made to the Board by the constituent authorities are set at appropriate levels.</p> <p>Risk</p> <p>Budgets are not aligned to projected expenditure.</p> <p>Recommendation</p> <p>Prior year financial results should be considered routinely as part of the budget setting process to ensure that significant underspends do not continue.</p>	<p>The budget process for 2014/15 took a much harder line in respect of contingencies and operational needs but despite this an underspend occurred. This was due to savings made through the year along with grant funding being available for issues which had been included in budget planned. Such a combination of circumstances is unlikely to occur again. As in previous years, the prior year financial results will be considered when setting budgets for future years.</p>	Assessor/ Treasurer	November 2015

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 14/52	<p>Individual Electoral Registration (IER)</p> <p>IER has resulted in changes to all operational procedures and processes and incurred higher operational costs than traditional registration. Further preparation is required for the May 2016 Scottish Parliamentary Election where 16 and 17 year olds may have the right to vote.</p> <p>Risk</p> <p>There is a risk that 2015/16 grant funding from the Cabinet Office may fall below the expected requirement as no commitment to fund IER has been made beyond March 2016.</p> <p>Recommendation</p> <p>The Board should ensure a contingency plan is in place should grant funding fall below the expected requirement.</p>	<p>The Electoral Registration Officer (ERO) will make a needs led funding bid to the Cabinet Office if appropriate. The Cabinet Office have confirmed that they will fund any shortfall arising directly from the IER process.</p> <p>In the meantime, the ERO is investigating ways of streamlining processes and reducing the amount of outgoing mail associated with the Electoral Registration/ IER functions.</p> <p>In the worst case scenario, reserves could, with Board approval, be used to fund any funding shortfall.</p>	Electoral Registration Officer	Ongoing (Justification led bid likely to be submitted in Dec 15/ Jan16)

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
<p>3 16/62</p>	<p>Running Roll Appeals</p> <p>The Board has experienced some delays in concluding negotiations on outstanding 'Running Roll' appeals relating mostly to Mobile Telecommunication Networks. This resulted in only 13 of 39 outstanding appeals being resolved during 2014/15.</p> <p>Risk</p> <p>There is a risk that the Board will be unable to resolve outstanding appeals if delays continue to be experienced.</p> <p>Recommendation</p> <p>The Board should monitor this issue and take appropriate action to resolve appeals in a timely manner.</p>	<p>Valuation staff will pursue settlement of these appeals. This should have very little implication on resources or expenditure.</p>	<p>Assessor</p>	<p>March 2016</p>