

# Dunbartonshire and Argyll & Bute Valuation Joint Board

2018/19 Annual Audit Report



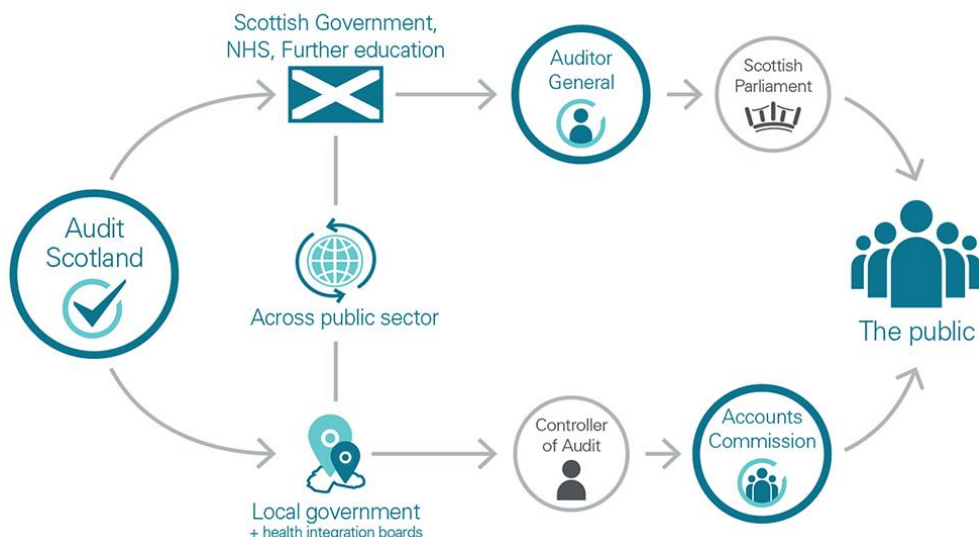
 AUDIT SCOTLAND

Prepared for the Dunbartonshire and Argyll & Bute Valuation Joint Board and the Controller of Audit  
25 September 2019

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2018/19 annual accounts

- 1** The financial statements of Dunbartonshire and Argyll & Bute Valuation Joint Board (DABVJB) give a true and fair view of its financial position for the year ended 31 March 2019.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.
- 3** We have issued an unqualified independent auditor's report on the Annual Accounts for 2018/19.

## Financial management and sustainability

- 4** While the DABVJB achieved financial balance in 2018/19, a funding gap of £162,000 is projected in 2019/20 to be met from reserves. It is recommended that financial plans for future years consider other funding solutions and that the balance held in reserves is closely monitored.
- 5** Implementing the recommendations of the Barclay Review will place an additional strain on the resources of the Joint Board.

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# Introduction

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1. This report summarises the findings from our 2018/19 audit of the Dunbartonshire and Argyll & Bute Valuation Joint Board (DABVJB).

2. We aim to add value to the DABVJB through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides, and
- providing clear and focussed conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Scope of our audit

3. The scope of our audit was set out in our [Annual Audit Plan](#) presented to the meeting of the Joint Board on 1 March 2019. This report comprises the findings from:

- the audit of the DABVJB annual accounts, including the issue of an independent auditor's report setting out our opinions, and
- our consideration of the financial management and financial sustainability of the DABVJB.

## Ethical considerations

4. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £7,320 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

## Responsibilities and reporting

5. The DABVJB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

6. The DABVJB is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK.

8. As public-sector auditors we give independent opinions on the annual accounts. The [Code of Audit Practice 2016](#) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the

appropriateness of the disclosures in the governance statement and the financial management and sustainability of the body and its services. As highlighted in our 2018/19 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2018/19 audit of DABVJB.

**9.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

**10.** The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**11.** An agreed action plan is included at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

**12.** This report is addressed to both the Joint Board and the Controller of Audit and will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

## **Acknowledgement**

**13.** We would like to thank all management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual accounts



### Main judgements

The financial statements of Dunbartonshire and Argyll & Bute Valuation Joint Board (DABVJB) give a true and fair view of its financial position for the year ended 31 March 2019.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

We have issued an unqualified independent auditor's report on the Annual Accounts for 2018/19.

### Audit opinions on the annual accounts

14. The annual accounts for DABVJB for the year ended 31 March 2019 were approved by the Joint Board on 25 September 2019. We reported, within our independent auditor's report our opinion that:

- the financial statements give a true and fair view and were properly prepared, and
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements, and properly prepared in accordance with the relevant regulations and guidance.

15. We have nothing to report in respect of misstatements in the information accompanying the financial statements, the adequacy of accounting records, or the information and explanations we received during the audit.

### Submission of annual accounts for audit

16. We received the unaudited annual accounts on 31 May 2019 which was in advance of the agreed audit timetable set out in our 2018/19 Annual Audit Plan.

17. The unaudited annual accounts provided for audit were complete and of a good standard, and finance and other staff provided excellent support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Risks of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

19. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

**Dunbartonshire and Argyll & Bute Valuation Joint Board's annual accounts are the principal means by which it accounts for the stewardship of resources and its performance in the use of those resources.**

## Materiality

**20.** 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 perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law). In forming our opinion on the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**21.** Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit and was based on the gross expenditure reported in the 2017/18 audited annual accounts. These levels were reported in our Annual Audit Plan presented to the Joint Board 1 March 2019.

**22.** On receipt of the unaudited annual accounts we recalculated our materiality levels based on the actual gross expenditure for the year ended 31 March 2019. Our final materiality levels are summarised in [Exhibit 1](#).

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## Exhibit 1 Materiality levels

Materiality level	Amount
<b>Overall materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2019.	£50,200
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 80% of overall materiality.	£40,100
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 4% of overall materiality.	£2,000

Source: Audit Scotland

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## Significant findings from the audit (ISA 260)

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**24.** The significant findings are summarised in [exhibit 2](#).



## Exhibit 2

### Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. Software licences</b></p> <p>The unaudited accounts included intangible assets with a carrying value £2,177 for software licenses dating back to 2014/15 and 2015/16. During the audit we established that these licenses had been added to the asset register with an asset life of 5 years rather than the actual length of the license. As the period covered by the licenses had ended we requested that the carrying value of these assets was written down to zero.</p>	<p>The audited annual accounts have been amended to reduce the value of intangible assets in the balance sheet by £2,177 and to increase the depreciation, amortisation &amp; impairment charge to the comprehensive income and expenditure statement by £2,177. This adjustment increased the net liabilities reported in the balance sheet by £2,177.</p>
<p><b>2. Revised pension liability</b></p> <p>Two distinct legal rulings, affecting Local Government Pension Schemes, have impacted upon the pension liability at 31 March 2019 disclosed in the Joint Board's accounts.</p> <p>The first of these was the Guaranteed Minimum Pension case which related to sex discrimination on guaranteed minimum pension rights.</p> <p>The other ruling was the McCloud case challenging age discrimination on pension scheme transitional protection.</p> <p><i>Further details on both of these cases is included in the 'Impact of legal rulings on pension liability' section at paragraphs <a href="#">27-33</a> below.</i></p>	<p>As these rulings had a material impact on the pension liability at 31 March 2019, management obtained a revised actuarial report and made an adjustment to the audited accounts to reflect the revised pension liability figure. This resulted in the pension liability figure in the balance sheet, and the deficit on provision of services figure in the comprehensive income and expenditure statement, both increasing by £396,000.</p>

### How we evaluate misstatements

**25.** There were no material adjustments to the unaudited financial statements arising from our audit and the misstatement of £2,177 (issue 1 in [exhibit 2](#)) was the only error which exceeded our reporting threshold of £1,700. It is our responsibility to request that all misstatements above the reporting threshold are corrected and management has amended this in the audited financial statements.

### Other issues

#### Minor audit changes

**26.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

#### Impact of legal rulings on pension liability

**27.** Two distinct legal rulings, affecting Local Government Pension Schemes, have impacted upon the pension liability at 31 March 2019 disclosed in the Joint Board's accounts.

#### Guaranteed Minimum Pension (GMP) case relating to sex discrimination on guaranteed minimum pension rights

**28.** Contracting out of the state earnings related pension scheme (SERPS) became possible in April 1978. This provided for reduced employer and employee National Insurance contributions in return for members receiving a GMP from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they are built up at different rates, reflecting the earlier payment age for women.

**29.** In October 2018 the High Court (England) held that pension schemes must equalise the discriminatory effects of GMPs. The Court's judgement will be applicable across all affected public sector defined benefit pension schemes. An interim method of calculating costs in respect of persons retiring from April 2016 and April 2021 has been agreed. However, the issue is a long standing one and the many complexities of dealing with it have meant that there is, as yet, no agreed solution to calculating the liabilities of pension schemes.

**30.** The assessed impact of this ruling on the pension liability of the Joint Board was not reflected in the *IAS19 – Employee Benefits* report provided by the actuary, Hymans Robertson, which was used in preparation of the unaudited accounts. Management therefore obtained a revised IAS19 actuarial report reflecting the impact of this ruling and made the required adjustment in the audited accounts.

#### McCloud case challenging age discrimination on pension scheme transitional protection

**31.** In March 2011 the Independent Public Services Pension Commission published a review of Public Sector Pensions, the Hutton Report. It recommended wholesale public sector pension reform in order to place public sector pensions on a more sustainable footing. The Government largely accepted the recommendations of the report and enacted pension reforms through the Public Service Pensions Act 2013. The main changes introduced were that:

- pensions are now based on career average earnings rather than final salary
- retirement ages have been aligned with state pension eligibility age, and
- rates of the annual accrual of pension benefits have changed.

**32.** The reforms included transitional protection for scheme members approaching retirement age. In December 2018, the Court of Appeal ruled that the transitional protection provided to some members of the judiciary and fire fighters schemes amounted to unlawful age discrimination. On 28 June this judgement was upheld by the Supreme Court. Although this (McCloud) case related to specific schemes the principle also applies to Local Government Pension Schemes which have made similar changes.

**33.** Due to the timing of the Supreme Court ruling, the assessed impact of this case on the pension liability of the Joint Board was not reflected in the *IAS19 – Employee Benefits* report provided by the actuary, Hymans Robertson, which was used in preparation of the unaudited accounts. Management therefore obtained a revised IAS19 actuarial report reflecting the impact of this ruling and made the required adjustment in the audited accounts.

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### Good Practice

The management commentary in the 2018/19 accounts provides readers of the accounts with a clear summary of the Joint Board's annual performance across the 3 statutory functions: NDR, Council Tax and Electoral Registration. This includes tables and graphs showing performance against target, and trend analysis over time, across the three local authority areas served by DABVJB. The Assessor has advised that they intend to further improve the management commentary in future years to make the accompanying narrative more concise and include national performance comparators where available.

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### Going concern

**34.** The financial statements of DABVJB have been prepared on the going concern basis. No issues were identified with the assessment of going concern.

## Follow up of prior year recommendations

**35.** The DABVJB has made good progress in implementing our prior year audit recommendations. For the ongoing action reported in 2017/18, an update on the current position is set out in [Appendix 1](#).

## Objections

**36.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. DABVJB complied with the regulations. There were no objections to the accounts.

# Part 2

## Financial management and sustainability



### Main judgements

While the DABVJB achieved financial balance in 2018/19, a funding gap of £162,000 is projected in 2019/20 to be met from reserves. It is recommended that financial plans for future years consider other funding solutions and that the balance held in reserves is closely monitored.

Implementing the recommendations of the Barclay Review will place an additional strain on the resources of the Joint Board.

### Budgetary monitoring and control

37. Budgets are approved by the Joint Board and budget monitoring updates are provided at each meeting of the board. The budget monitoring updates provide details on variances against the budget and forecast year-end positions. This allows members and officers to consider actions to mitigate projected over-spends.

### Financial performance in 2018/19

38. In March 2018 the DABVJB approved its budget for 2018/19. This included expenditure of £2.832 million and income was £2.676 million, primarily relating to funding contributions from Argyll & Bute Council, East Dunbartonshire Council and West Dunbartonshire Council of £2.611 million. This resulted in a forecast funding gap of £0.157 million to be met from a transfer from usable reserves.

39. Actual outturn for the year was expenditure of £2.685 million (£0.147 million less than budget) and income of £2.686 million (£0.010 million more than budgeted). This resulted in a surplus of £1,000 for the year and no transfer from reserves was required during the year. The main elements contributing to this underspend were lower than anticipated employee costs (£0.059 million), supplies and services expenditure (£0.049 million) and property costs (£0.026 million).

40. It should be noted that the surplus of £1,000 reported in the management commentary differs from the deficit of £0.756 million reported in the Comprehensive Income and Expenditure Statement (CIES) due to the statutory accounting adjustments required for items such as pension benefits and depreciation. A reconciliation has been included in the 'Financial Performance' section of the management commentary in the annual accounts showing the impact of these adjustments.

### Financial planning for 2019/20

41. The budget set for 2019/20 included expenditure of £2.898 million and income of £2.736 million, comprising funding contributions of £2.611 million from the constituent councils and anticipated Scottish Government funding of £0.125 million to implement the recommendations of the Barclay Review (see paragraphs 48-52 for details). This resulted in a forecast funding gap of £0.162 million to be met from a transfer from usable reserves.

Financial management is about the financial capacity and budgetary processes of the Joint Board while financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services in the future.

**42.** The 2019/20 budget also included a range of planned efficiency savings to offset increasing costs. These include reducing staff numbers and managerial structures, and, where vacancies arise, replacing qualified staff with trainees. Management should ensure that any impact of these staffing changes is carefully managed to minimise the impact on operations.



#### [Recommendation 1 \(Appendix 1 - Action Plan\)](#)

### Medium to long term financial planning

**43.** In June 2018, the DABVJB approved a Service Plan for 2018-2021 which reflected the strategic aims, and operational and legislative requirements of the organisation over that period.

**44.** The DABVJB also updated their Financial Strategy which includes a high level financial plan and indicative budgets, presenting a number of scenarios over a 10 year period. This is a positive step in aiding the DABVJB to identify savings and efficiencies moving forward.

**45.** We noted that in each year of the plan the DABVJB is required to achieve efficiency savings to balance its budget with the budget gap projected to be £0.292 million in 2020/21 and £0.441 million in 2021/22. In recent years, the DABVJB has had a good track record in achieving its savings targets, however, achieving future savings targets will be a challenge. It should also be noted that the use of reserves to balance the annual budget will not be sustainable in the longer-term.



#### [Recommendation 2 \(Appendix 1 - Action Plan\)](#)

**46.** A member/officer short-life working group has been established to consider the options available to address the structural funding gap. It is planned for this group to meet again in December 2019, with a view to informing the budget setting process for 2020/21 and beyond. In the meantime, it is planned for services to continue to be reviewed with a view to achieving further efficiencies. The DABVJB is proactively working towards reducing budget deficits and identifying savings, where possible.

**47.** The DABVJB is facing medium to long-term financial challenges, however, it is taking a proactive approach towards financial sustainability.

### The Barclay Review

**48.** The recommendations from the Barclay review of non-domestic rates could have far reaching implications on the Joint Board. This recommends that Assessors across Scotland should provide more transparency and consistency of approach.

**49.** The Barclay Review recommended a number of changes to the rating system which will impact on the operations of the DABVJB. The recommendation to move to three-yearly revaluation cycles (from the current position of five years) has been accepted by the Scottish Government and represents the most significant change for Assessors. It will have a major impact on the Assessors' resources, requiring structural changes to manage the information gathering, valuation and appeal stages within a reduced timeframe.

**50.** In February 2019 the Minister for Public Finance and Digital Economy announced the outcome of the consultation exercise undertaken, and confirmed the provisions that would be included in the draft Non-Domestic Rates (Scotland) Bill. On 25 March 2019 the Scottish Government introduced the bill, with further secondary legislation planned to implement the detail of the bill.

**51.** As many of the details of the forthcoming legislation are not yet known, it remains difficult to fully assess the specific consequences of the legislation. However, it is clear that delivery of three-yearly revaluations, and the various other miscellaneous changes, can only be achieved through investment in people and development of ICT systems.

**52.** The DABVJB has established an internal NDR Reform Project Team, which will establish a project plan and risk register(s) for delivery of three-yearly revaluations, appeals system reform and all Barclay recommendations taken forward.



### [Recommendation 3 \(Appendix 1 - Action Plan\)](#)

## EU Withdrawal

**53.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**54.** An assessment of the risks associated with the UK's withdrawal from the EU as originally scheduled on 29 March 2019 was carried out by the Joint Board in December 2018. This identified risks or uncertainties arising from the planned withdrawal, managing and mitigating these where required. This included: communicating with staff about the potential impact of EU withdrawal, considering long-term workforce planning implications, effects on service delivery and any financial or regulatory risks.

**55.** The Management Team concluded that the risks to the Joint Board were generally low and could be managed or mitigated. The subsequent extensions to the UK's membership did introduce the need for the UK to take part in elections to the European Parliament on 23 May 2019. This was an additional burden on the registration service, however this was managed within existing resources.

**56.** There clearly remains uncertainty as to the detail behind the UK's withdrawal from the EU. However, in our view, the DABVJB has taken reasonable action to prepare for the impact of the UK's withdrawal from the EU. As part of our 2019/20 audit, we will continue to monitor the body's preparations for, and response to, EU withdrawal.

## Dependency on key suppliers

**57.** The collapse of Carillion has had a significant impact across the public sector. This has brought into focus the risk of key supplier failure and underperformance of suppliers that are experiencing difficult trading conditions. As part of our 2018/19 audit we assessed the arrangements in place at the DABVJB to mitigate the financial and operational risks of the collapse of a key supplier.

**58.** Due to the nature of the Joint Board's operations their exposure to the risks associated with the collapse of a key supplier are lower than many other public sector organisations. However, the DABVJB have identified its reliance on the electoral management system, as well as printing and mail contractors, as being

critical to the day-to-day operation of the organisation. Management advised of the business continuity arrangements in place to mitigate any short-term risks and advised that, in the medium to longer-term, there are a number of competitor companies which could provide similar services to the DABVJB if required.

**59.** Based on our discussions with management, and our understanding of the key suppliers of the Joint Board, we are satisfied that appropriate risk management and business continuity arrangements are in place.

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Delivery of 2019/20 efficiency savings</b></p> <p>The 2019/20 budget includes a range of planned efficiency savings to off-set increasing costs. These include reducing staff numbers and managerial structures, and, where vacancies arise, replacing qualified staff with trainees.</p> <p><b>Risk:</b> There is a risk that the delivery of the planned efficiency savings will have a detrimental effect on operational activity.</p>	<p>Management should ensure that any impact of these staffing changes is carefully managed to minimise the impact on operations.</p> <p>Paragraphs <a href="#">41</a> and <a href="#">42</a></p>	<p>Future budget reports to the Board will continue to be clear on any risks to the performance of the service</p> <p><b>Responsible officer:</b> Treasurer</p> <p><b>Agreed date:</b> 31 March 2020</p> <p>Performance across all areas of operation will continue to be monitored and reported to the Board</p> <p><b>Responsible officer:</b> Assessor and ERO</p> <p><b>Agreed date:</b> Ongoing</p>
2	<p><b>Financial sustainability</b></p> <p>As in prior years, it is anticipated that net expenditure will exceed constituent contributions for 2019/20. The Board is budgeting to use £162,000 from reserves.</p> <p><b>Risk:</b> There is a risk in routinely planning to use reserves to balance the budget. This could result in insufficient levels of reserves being maintained in the longer term if recurring cost efficiencies are not identified or funding levels are not increased.</p>	<p>The joint board should ensure that financial plans for future years consider other funding solutions and that the balance held in reserves is closely monitored.</p> <p>Paragraph <a href="#">43-47</a></p>	<p>Future budget reports will continue to provide the Board with information on potential funding solutions</p> <p><b>Responsible officer:</b> Treasurer</p> <p><b>Agreed date:</b> 31 March 2020</p>





No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>Barclay review on NDR</b></p> <p>The Barclay Review recommended a number of changes to the rating system which will impact on the operations of DABVJB.</p> <p><b>Risk:</b> The change to three yearly revaluations will increase the workload of the DABVJB and there is a risk that there will be insufficient resources to meet the operational needs of the Joint Board. A significant investment in people and development of ICT systems is required.</p>	<p>The Joint Board should ensure that the project plan and risk register for delivery of 3-yearly revaluations, appeals system reform and all Barclay recommendations are developed and used moving forward to manage the resultant changes from the Barclay Review.</p> <p>Paragraphs <a href="#">48-52</a></p>	<p>Future budget reports will continue to provide the Board with information on potential funding solutions</p> <p><b>Responsible officer:</b> Treasurer</p> <p><b>Agreed date:</b> 31 March 2020</p>
<b>Follow up of prior year recommendation</b>			
4	<p><b>VER/VS exercise</b></p> <p>Expressions of interest in Voluntary Early Release and Voluntary Severance are being sought in 2018/19.</p> <p><b>Risk:</b> There is a risk that service delivery is adversely impacted as consequence of staff being released.</p>	<p>Whilst considering the potential efficiencies derived from the VER/VS exercise, DABVJB should ensure that service delivery requirements continue to be met.</p>	<p>Two employees who expressed an interest in VER, had their applications rejected after a cost/benefit analysis was undertaken. Any future interest will be fully considered by the DABVJB, and its effect on service delivery, before any decisions are made.</p> <p><b>Responsible officer:</b> Assessor and ERO</p> <p><b>Agreed date:</b> Ongoing.</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course</li> </ul>	<p>Our audit procedures did not uncover evidence of management override of controls.</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on expenditure streams.</li> <li>• Detailed testing of expenditure transactions, focusing on the areas of greatest risk.</li> </ul>	<p>Our audit procedures did not uncover evidence of fraud over expenditure.</p>
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and IAS 19. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>IAS 19 – Employee Benefits requires all organisations to disclose information on pension liabilities in their financial statements. Due to significant fluctuations in the stock market in 2018, a material difference was noted between the estimated and actual pension asset figures last year. There is a risk this will reoccur in</p>	<ul style="list-style-type: none"> <li>• Review the work completed by officers and obtain assurances received.</li> <li>• Review actuarial reports when available.</li> </ul>	<p>We reviewed the work of the actuary and assessed the appropriateness of the actuarial assumptions.</p> <p>We confirmed that the pension valuations provided by the actuary were correctly reflected in the 2018/19 financial statements. However, a late revision to the pension valuations was required in respect of two legal rulings that impacted upon the pension liability of the Joint Board. This is reported at point 2 in <a href="#">exhibit 2</a>.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>2018/19, particularly taking account of Brexit.</p>		
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		
<p><b>4 Financial sustainability</b></p> <p>Budget monitoring reports as at 3 January 2019 show that net expenditure will exceed constituent contributions for the 2018/19 financial year and beyond. Currently, reserves are being used to fill the budget gaps.</p> <p>There is a risk of insufficient levels of reserves being maintained in the longer-term.</p> <p>Furthermore, planned Voluntary Early Release and Voluntary Severance exercises were unsuccessful. As a result, there is increased pressure on management to find savings elsewhere.</p>	<ul style="list-style-type: none"> <li>• Monitoring financial reports.</li> <li>• Review risk register.</li> <li>• Attend Joint Board meetings.</li> </ul>	<p>We reviewed this during the audit and reported on it within this report.</p> <p>Paragraph <a href="#">43-47</a></p>
<p><b>5 Barclay review on Non-Domestic Rates</b></p> <p>The recommendations from the Barclay review of non-domestic rates could have far reaching implications. The change to three yearly revaluations from 2022 will increase the workload of DABVJB.</p> <p>There is a risk that there will be insufficient resources to meet the increased operational needs.</p>	<ul style="list-style-type: none"> <li>• Review project plan once available.</li> <li>• Ongoing discussions with key client staff.</li> </ul>	<p>We reviewed this during the audit and reported on it within this report.</p> <p>Paragraphs <a href="#">48-52</a></p>

# Appendix 3

## Summary of national performance reports 2018/19

### **2018/19 Reports**

Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)