

# Report to those charged with governance on the 2013/14 audit

Audited Body:	Dunbartonshire and Argyll & Bute Valuation Joint Board
Committee:	Finance Sub-Committee
Date:	September 2014

## Background

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Finance Sub-Committee's consideration the matters arising from the audit of the financial statements for 2013/14 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. It should be noted that the audit opinion reflects recent discussions with management and is subject to satisfactory conclusion of any outstanding matters.
3. We also present for your consideration our draft annual report on the 2013/14 audit which identifies significant findings from the financial statements audit. This report is attached at Appendix C and will be issued in final form after the financial statements have been certified.

## Status of the work

4. We have completed the audit of the Dunbartonshire and Argyll & Bute Valuation Joint Board (the Board) accounts. The more significant issues arising were discussed with the Treasurer at a meeting on 1 September 2014.

## Fraud

5. In presenting this report to the Finance Sub-Committee we seek confirmation from those charged with governance of any instances of fraud that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

## Audit opinion and representations

6. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 25 September 2014 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.

7. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
8. We have no unadjusted misstatements to bring to your attention.
9. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

### **Significant findings and key judgements**

10. During the course of the audit we have identified issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties. The attached annual audit report set out the issues we regard as those to be reported.

### **Outstanding matters**

11. Subject to satisfactory conclusion of any outstanding matters, we will issue our audit opinion along with the signed financial statements and the annual audit report.

# APPENDIX A: Proposed Independent Auditor's Report

## **Independent auditor's report to the members of Dunbartonshire and Argyll & Bute Valuation Joint Board and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of Dunbartonshire and Argyll & Bute Valuation Joint Board for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and Cash-Flow Statement, the related notes and the Statement of Accounting Policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Treasurer and auditor**

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves 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. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is

apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the body as at 31 March 2014 and of the income and expenditure of the body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

### **Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Elaine Boyd (FCCA)  
Senior Audit Manager  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow, G2 1BT

# Appendix B: ISA 580 - Letter of Representation

Elaine Boyd  
Senior Audit Manager  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

Dear Elaine

## **2013/14 FINANCIAL STATEMENTS – DUNBARTONSHIRE AND ARGYLL & BUTE VALUATION JOINT BOARD**

This representation letter is provided in connection with your audit of the financial statements of Dunbartonshire and Argyll & Bute Joint Board for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements present a true and fair view of the financial position of the Board as at 31 March 2014 and its income and expenditure for the year then ended.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of senior officers, the following representations:

### **Legality of Financial Transactions**

The financial transactions of Dunbartonshire and Argyll & Bute Valuation Joint Board are in accordance with the relevant legislation and regulations governing it. All known or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to you, together with the actual or contingent consequences which may arise.

### **Accounting Policies**

All material accounting policies adopted are as shown in the Statement of Accounting Policies. The continuing appropriateness of the Board's accounting policies and estimation techniques will be reviewed on a regular basis, having regard to the concepts and qualitative characteristics set out in the Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

The accounts of the Dunbartonshire and Argyll & Bute Valuation Joint Board have been prepared on a going concern basis. I have assessed the partnership's ability to carry on as a going concern

and it has been considered appropriate to adopt this basis for the preparation of these financial statements.

### **Assets**

On realisation in the ordinary course of the Board's business the current assets in the balance sheet are expected, in my opinion, to produce at least the amounts at which they are stated.

### **Liabilities**

All liabilities have been provided for in the books of account.

### **Contingent Liabilities**

There are no significant contingent liabilities arising either under formal agreements or through informal undertakings requiring disclosure in the accounts.

### **Provisions**

There are no material liabilities which have resulted, or may be expected to result, by legal action or otherwise, from events which had occurred by the balance sheet date, and of which Dunbartonshire and Argyll & Bute Valuation Joint Board could reasonably be expected to be aware. As a result, no provision is included in the accounts.

### **Commitments**

Dunbartonshire and Argyll & Bute Valuation Joint Board has no commitments under capital contracts or any other significant commitments or obligations which might adversely affect the partnership, which have not been disclosed.

### **Other Matters**

The results for the period were not materially affected by:

- (i) transactions of a sort not usually undertaken by the Board
- (ii) circumstances of an exceptional or non-recurrent nature
- (iii) charges or credits relating to prior periods
- (iv) any change in the basis of accounting.

All financial statement misstatements identified in the course of the audit have been corrected.

### **Corporate Governance**

I acknowledge, as the officer with responsibility for the proper administration of the Dunbartonshire and Argyll & Bute Valuation Joint Board's financial affairs under section 95 of the Local Government (Scotland) Act 1973, my responsibility for the systems for internal control and that the disclosures I have made are in accordance with guidance on statements on the system of internal control.

I acknowledge that it is the responsibility of Dunbartonshire and Argyll & Bute Valuation Joint Board to prevent and detect fraud and other irregularity. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor the results of this review, including any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

### **General**

I acknowledge my responsibility, and that of the Dunbartonshire and Argyll & Bute Valuation Joint Board, for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the Board have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all board and other meetings.

Disclosure has been made in the financial statements of all matters necessary for them to present a true and fair view of the transactions and state of affairs of the Board for the year ended 31 March 2014.

### **Events Subsequent to the Date of the Balance Sheet**

There have been no material events since the date of the balance sheet which require revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

Since the date of the balance sheet no further events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should be brought to your notice.

Yours sincerely

Stephen West, Treasurer

## Appendix C

# Dunbartonshire and Argyll & Bute Valuation Joint Board

## Annual report on the 2013/14 audit



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# Key Messages

## 2013/14

We have given an unqualified opinion that the financial statements of the Dunbartonshire and Argyll & Valuation Joint Board (the Board) for 2013/14, give a true and fair view of the state of the body's affairs and of its net expenditure for the year. Key issues identified throughout the audit process are detailed throughout this report.

Overall the Board's arrangements for the prevention and detection of fraud were satisfactory during 2013/14. From our review of the key controls within the main financial systems, we concluded that the Board's systems of internal control are operating effectively.

## Outlook

We confirm the financial sustainability of the Board on the basis of its financial position. Operation of the Board is dependent upon 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 Council's 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.

# Introduction

12. This report is the summary of our findings arising from the 2013/14 audit of the Board. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
13. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the 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. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Board and no responsibility to any third party is accepted.
14. The main body of the report sets out the key audit risks identified at the planning stage and details how we addressed each risk in arriving at our opinion on the financial statements.
15. The section of the report entitled "Action Plan" establishes the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Board understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
16. This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by the Finance Sub-Committee.

# Financial statements

## Conduct and scope of the audit

17. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Board in March 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
18. 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 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and as we were not required to carry out any additional work outwith our planned audit activity this fee remains unchanged.

## Audit opinion & accounting issues

19. We have given an unqualified opinion that the financial statements of the Board for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 24 September 2014.
20. We received the unaudited financial statements on 2 June 2014 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 24 September 2014. The Board is required to follow the 2013/14 Code of Practice on Local Authority Accounting and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

## Significant findings and key judgements (ISA260)

21. During the course of the audit we identified issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

## Revaluation of non-current assets

22. Following the year end, it was identified that the non-current assets held by the Board (being the properties on Dumbarton Road, Clydebank and Kilbrannan House, Campbeltown) had not been revalued in line with the Code of Practice on Local Authority Accounting. Section 4.1.2.35 of the Code states that "Valuations shall be carried out at intervals of no more than five years", however such a valuation had not taken place within this designated timescale. Both assets were revalued in August 2014 resulting in a reduction in their net book value by £112,225 to £698,854. The financial statements have been adjusted to reflect this.

## Financial position

### 2013/14 Outturn

23. The main financial objective for the Board is to ensure that the financial outturn for the year is within the resource budget allocated by the three constituent local authorities.
24. The Board operated within the resource budgets for 2013/14 as detailed in Table 1 which also shows a comparison between the budget set and the actual outturn during the financial year.

**Table 1: Resource Budget**

	Budget (£'000)	Actual Outturn (£'000)	(Under) / Over spend (£000)
Net Expenditure	2,749	2,555	(194)
In Year Constituent Contributions	2,664	2,664	0
Use of Reserves	85	(109)	(194)
<b>Final Net Reduction to General Reserves Balance</b>	0	(109)	(109)

Source: *Dunbartonshire and Argyll & Bute Valuation Joint Board Annual Report and Financial Statements 2013/14*

### 2013/14 Financial Position

25. The Board's Balance Sheet at 31 March 2014 shows that the board currently has a net liability of £3.178m (increased by £0.666m from 2012/13). This increase is predominantly due to a £0.734m increase in the net pension liability. 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 of the Strathclyde Pension Scheme and the contributions from employees and employers, together with planned increases in contributions, provide sufficient security over future liabilities. It is thus reasonable that the accounts are prepared on a going concern basis.
26. A reserves policy brought in by the Members of the Board in recent years has led to the Board being able accumulate and hold reserves. As with previous years, actual spend in year has come in below budget and as a result, the Board have increased usable reserves by £0.109m. However, unlike 2012/13, the Board does not intend to issue refunds to the three constituent local authorities. In generating future budgets, management and the Board should consider the appropriate level of budget setting, including consideration of the inclusion of vacant posts, for example, to ensure that contributions made to the Board by the constituent authorities are set at appropriate levels.

**Action Plan 1**

## Corporate governance and systems of internal control

### Overall governance arrangements

27. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Board had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance.

### Accounting and internal control systems

28. 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.
29. No material weaknesses in the accounting and internal control systems 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.
30. 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.

### Standards of conduct and arrangements for the prevention and detection of corruption

31. 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 financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

# Performance

32. The Assessor's report in the Board's 2013/14 annual report provides a comprehensive and balanced review of the Board's performance of the year ending 31 March 2014. 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.
33. Due to the Assessor's report being extensive and publicly available we have limited the information in this section of the report to key issues. Further detail can be obtained by reading the Assessor's report which will be available on the Board's website (<http://www.dab-vjb.gov.uk>).
34. In particular the Assessor notes that the Board:
- Achieved its target of 95% to issue Council Tax banding notices within three months of the date that amendments to the valuation list become effective.
  - Narrowly missed its target of 80% to issue Non-Domestic Rates valuation notices within three months of the date that amendments to the valuation roll become effective. Performance varied with Argyll & Bute achieving 76%, West Dunbartonshire achieving 86% and East Dunbartonshire 80%.
  - Completed the annual canvass on schedule and met the statutory deadline to publish the Electoral Register by 10 March 2014.
  - Maintained high levels of customer satisfaction as evidenced through their annual customer satisfaction survey.

## Council Tax banding appeals

35. In September 2013 it was recognised that the council tax bands of approximately 1,000 domestic properties within East Dunbartonshire required reassessment to ascertain if their current 'E' band should be reduced to a 'D' band. The Board established and achieved a target of completing the review by February 2014 in time for 2014/15 Council Tax Billing. Approximately 400 properties had their Council Tax banding reduced as a result of this exercise, which was significantly less than the previous estimate of around 1,000 properties. In order to complete the review prior to the February 2014 deadline, the Board was required to redirect significant resources which subsequently impacted other areas of performance. The associated publicity also resulted in significantly higher numbers of other appeals being submitted during the year than would normally be the case.

## Non-Domestic Rates running roll appeals

36. At the start of 2013/14, 41 running roll appeals were outstanding from the 2005 Valuation Roll, the majority of which related to Mobile Telecommunications networks. During 2012/13 the Lands Tribunal heard a number of cases in a bid to set a precedent in respect of these subjects with the decision going against the Assessors' approach in all respects. An appeal to the Lands Valuation Appeal Court was heard in March 2014, with the outcome still unknown at 31 March 2014. The decision has since been handed down in favour of the ratepayers.
37. A significant number of the 1 April 2005 appeals have, as a result, now been processed by the Board. The Scottish Assessors Association is conducting central negotiations with the various ratepayer's agents with the aim of concluding the remaining running roll appeals by the end of the 2014 calendar year. However, the ratepayer's agents have not yet provided sufficient information as will be required to settle these appeals.
38. There are a smaller number of appeals relating to canals and gas utility subjects. The canal cases are likely to be progressed following a recent decision in England. Progress on the gas utility subjects is dependant upon the outcomes in England and Wales.

## Electoral registration

39. In his annual report the Assessor makes reference to the introduction of Individual Electoral Registration (IER) which was scheduled to 'go live' on 19 September 2014. A confirmation dry run of the connection to the government digital service was performed in August 2013, the results of which were used to help plan the full rollout of IER.
40. Further to this, the registration of 16 and 17 year olds for the Scottish Independence Referendum of 2014 commenced in October 2013 and was ongoing until the deadline for registration, 2 September 2014. Those 16 and 17 year olds registered were included in a Young Persons Register which was maintained for the purposes of the referendum on Scottish Independence.

## Acknowledgements

41. We would like to express our thanks to the staff of both the Board and West Dunbartonshire Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.



# Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	26	<p><b>Budget Setting Levels</b></p> <p>The Board has delivered services under budget over the last few years and consequently increased its revenue reserves.</p> <p>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><b>Risk - Budgets are not aligned to projected expenditure.</b></p>	<p>When setting the budget the Board and management will consider the appropriate level of funding required for the activities and outcomes expected of the VJB.</p>	Stephen West	31 March 2015