



Dunbartonshire and Argyll & Bute Valuation Joint Board

2015/16 Annual audit
report to Members and
the Controller of Audit

September 2016

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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/about/).

The Accounts Commission has appointed Peter Lindsay 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.

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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Key messages

Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements.

Financial management and sustainability

- Although a deficit of £0.083m was anticipated, the Board operated within resource budgets for 2015/16, returning a surplus of £0.017m.
- Net Cost of Services has increased by £0.077m from £2.944m in 2014/15 to £3.021m in 2015/16.
- The Board's Balance Sheet as at 31 March 2016 discloses a net liability of £2.877m.
- We note that the Board's net pension liability has decreased by £1.879m.
- Good financial management remains a priority to ensure the continued financial sustainability of the Board.

Governance and transparency

- 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.

Outlook

- Financial sustainability will remain a key challenge and expenditure should be closely monitored to identify and address any emerging budget pressures.
- It is anticipated that future planned draws on reserves may be required to ensure that a balanced budget is delivered for 2016/17 onwards.

Introduction

1. This report is a summary of our findings arising from the 2015/16 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 the 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 [appendix II](#) and [appendix III](#), include recommendations for improvements.
6. 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.
7. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
8. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of the Board will be Audit Scotland. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit of the Board and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none"> The financial statements of the have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Board's ability 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

- We received the unaudited financial statements on 15 June 2016, 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

- 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 issued to the Board in February 2016.
- 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 2015/16 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.
- The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of 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 the Board we set our planning materiality for 2015/16 at £30,500 (1% of gross expenditure). We report all misstatements greater than £1,000. Performance materiality was calculated at £24,500, 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

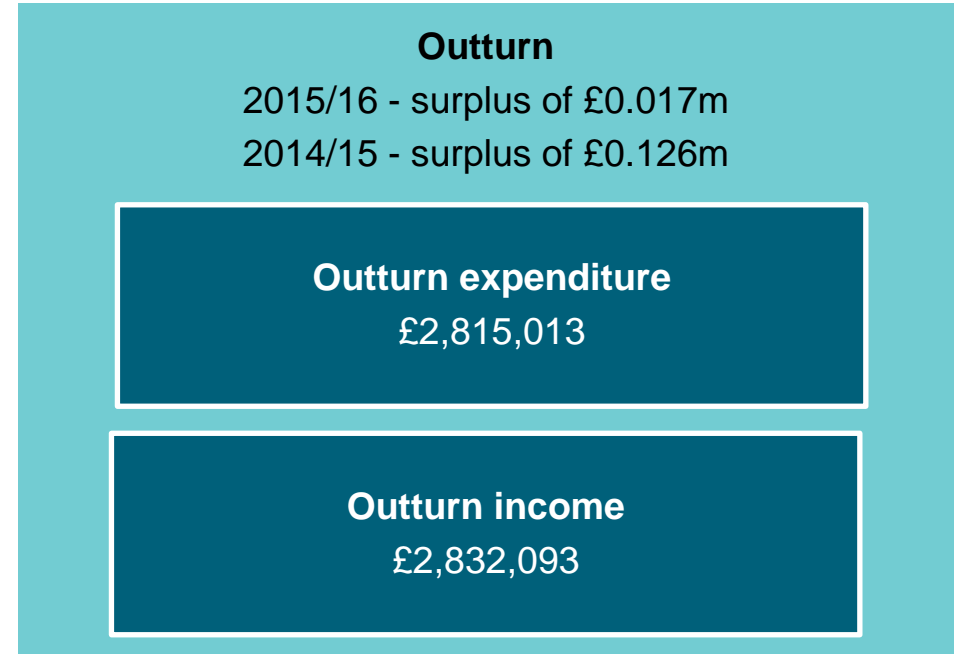
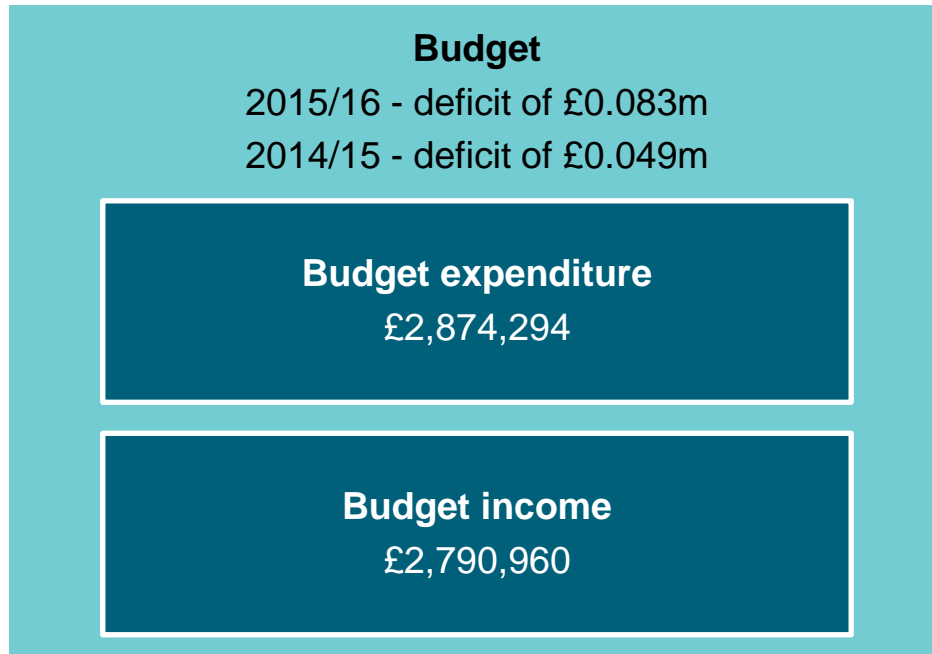
19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - 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.

Future accounting and auditing developments

Code of Audit Practice

21. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
 - Financial sustainability
 - Financial management
 - Governance and transparency; and
 - Value for money
22. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

Financial management and sustainability



Financial management

23. In this section we comment on the Board's financial outcomes and assess the financial management arrangements.
24. 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

25. The Board returned a surplus of £0.017m for the financial year 2015/16, compared to a budgeted position which anticipated a planned deficit of £0.083m to be funded from reserves.

26. The surplus as presented in the management commentary (and in the table above), of £0.017m 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.
27. The Board has recorded a surplus against budget for each of the last three years. Sound budget setting and monitoring is a key financial control and it is essential, particularly in light of the ongoing financial challenges, that appropriate budgets are set and variances are monitored and investigated promptly.
28. The Board's Net Cost of Services from the Comprehensive Income & Expenditure Statement shows an increase of £0.077m from £2.944m in 2014/15 to £3.021m in 2015/16. The main contributory factor was a £0.112m increase in employee costs due to the increased costs of temporary staff in 2015/16.
29. When compared to budget, the Board's expenditure was lower than expected. This contributed to the year end surplus position. Underspends were recorded against employee costs, property, supplies & services and payments to other bodies. The year end surplus position was further increased by a higher than anticipated level of grant income.
30. A reserves policy introduced by Members of the Board in recent years has led to the Board being able to accumulate and hold reserves. During 2015/16 the Board's usable reserves decreased by £0.013m as a result of an increase in capital requisitions applied to fund capital expenditure.
31. As at 31 March 2016 the Board held total usable reserves of £0.633m, of which £0.020m relates to unapplied capital reserves. The remaining balance comprises revenue reserves of £0.613m of which £0.268m is earmarked to fund the budget gap in 2016/17 and £0.345m is general reserves.

Financial management arrangements

32. As auditors, we need to consider whether the Board has 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.
33. 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.
34. 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.

Conclusion on financial management

35. We have concluded that the Board's financial management arrangements are broadly satisfactory.

Financial sustainability

36. Financial sustainability means that the Board has the capacity to meet the current and future needs of its users.
37. 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.
38. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Financial planning

39. Looking ahead, it is clear that the financial climate for public services for the period 2016/17 to 2017/18 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.

40. The Board's 2016/17 budget includes a proposal to allow a standstill contribution from constituent authorities through the use of balances of £0.268m. This use of reserves results in projected available resources for future use of £0.288m.

Pension liability

41. The net liability on the Board's balance sheet decreased by £1.867m, from £4.744m in 2014/15 to £2.877m in 2015/16. This decrease is driven by changes in pension actuary's assumptions, mainly by the increase in the net discount rate over this period.
42. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost.
43. 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.

Conclusion on financial sustainability

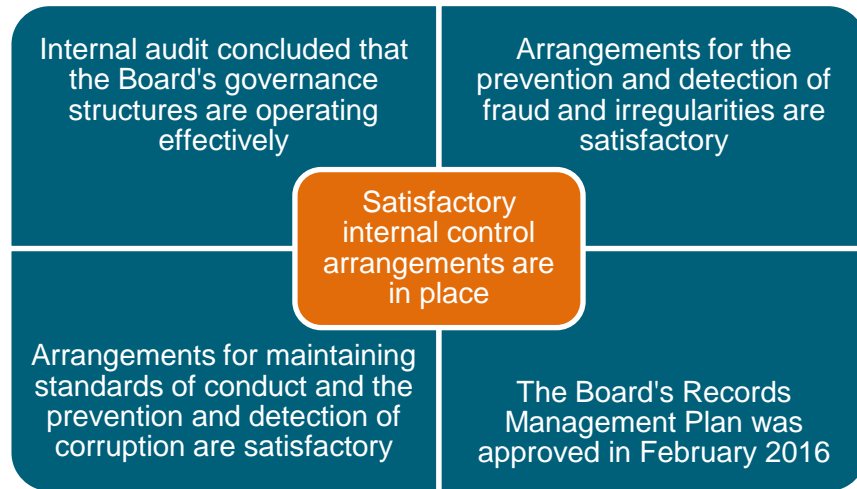
44. We have concluded that the Board has an adequate level of reserves, is containing its expenditure within annual budgets and has credible medium term financial plans in place. Overall we

conclude that the financial position is sustainable currently and in the foreseeable future.

Outlook

45. It is recognised that over the medium term the funding position of local government bodies across Scotland is likely to involve a further period of contraction in available resources. With further funding reductions expected, local government bodies face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.
46. It is currently forecast that the Board will be required to address a budget gap of £0.298m by 2018/19, depending on local government settlement levels.

Governance and transparency



- 47. 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.
- 48. 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

- 49. 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. A new Code of Corporate Governance was approved in June 2016. As part of our 2015/16 audit work, a number of other policies and procedures were reviewed. These included the Board's Financial Regulations, Standing Orders and Scheme of Delegated Powers. No issues were identified with the documents reviewed. Policies and procedures are comprehensive and suitably up to date.

Internal control

- 50. 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.
- 51. 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.

52. Our review of these systems was conducted as part of the 2015/16 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.
53. An internal audit of the Board's governance structures and procedures was carried out. The audit report concluded that systems examined were working effectively but identified some opportunities to strengthen internal controls and enhance the service provided. These opportunities focussed on the completeness of the register of interests, improvements to budgetary control reviews and consistency between the Board and the council's procurement policies.

Internal audit

54. 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

55. 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

56. The arrangements for the prevention and detection of corruption in the Board are satisfactory and we are not aware of any specific issues that we need to record in this report.

Risk Management

57. The Board has developed a Risk Management Policy aimed at identifying, evaluating and managing all business risk. The 'Board Risk Register', which is approved by the Board annually, contains the actions required or planned to mitigate the main strategic risks.
58. Other risks are contained in an 'Operational Risk Register', with all actions being collated into a single Risk Action List. The Risk Registers are reviewed annually and when new risks are identified

and progress against the Action List is monitored by the Management Team on a regular basis.

59. The Board's Risk Registers were reviewed as part of governance testing carried out during the 2015/16 audit. We concluded that the Board have effective and appropriate risk management arrangements in place.

Following an interim report by the Keeper which highlighted two areas for improvement, the Board made the required amendments and submitted the updated Plan in January 2016. The Keeper issued a formal letter of agreement to approve the Plan in February 2016.

Transparency

60. 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.
61. 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.

Records Management

62. The Public Records (Scotland) Act 2011 became fully effective in January 2013. The Act requires public authorities to prepare and implement a Records Management Plan. The Board submitted their Plan to the Keeper in advance of the 30 September 2015 deadline.

Best Value

63. 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

64. 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.
65. 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.
66. The Management Commentary in the Board's 2015/16 annual report provides a comprehensive and balanced review of the Board's performance for the year ended 31 March 2016. Key performance indicators (KPIs) 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 2015/16

67. The Board have published a Public Performance Report for 2015/16 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.
68. In particular the Assessor notes that the Board:
- Achieved its target of 98% new Council Tax entries within six months and marginally missed the three month target of 95%.
 - Achieved its target of 80% for issuing the Valuation Notice within three months of the effective date of alteration.
 - Achieved the six month target of 94% for issuing the Valuation Notice within six months of the effective date of alteration.

National performance audit reports

69. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the local government sector. These are outlined in [appendix III](#).

Equalities

70. 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.
71. The Board published an equalities report in April 2015. This report details the steps the Board are taking to achieve equality of service provision. In accordance with the requirements of the Act, a follow up report on progress will be issued in 2017.

Outlook

72. 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 anticipated that future planned draws on reserves may be required to ensure that a balanced budget is delivered for 2016/17 onwards given the forecast reduction in funding for local government and the increasing workload to the Board.

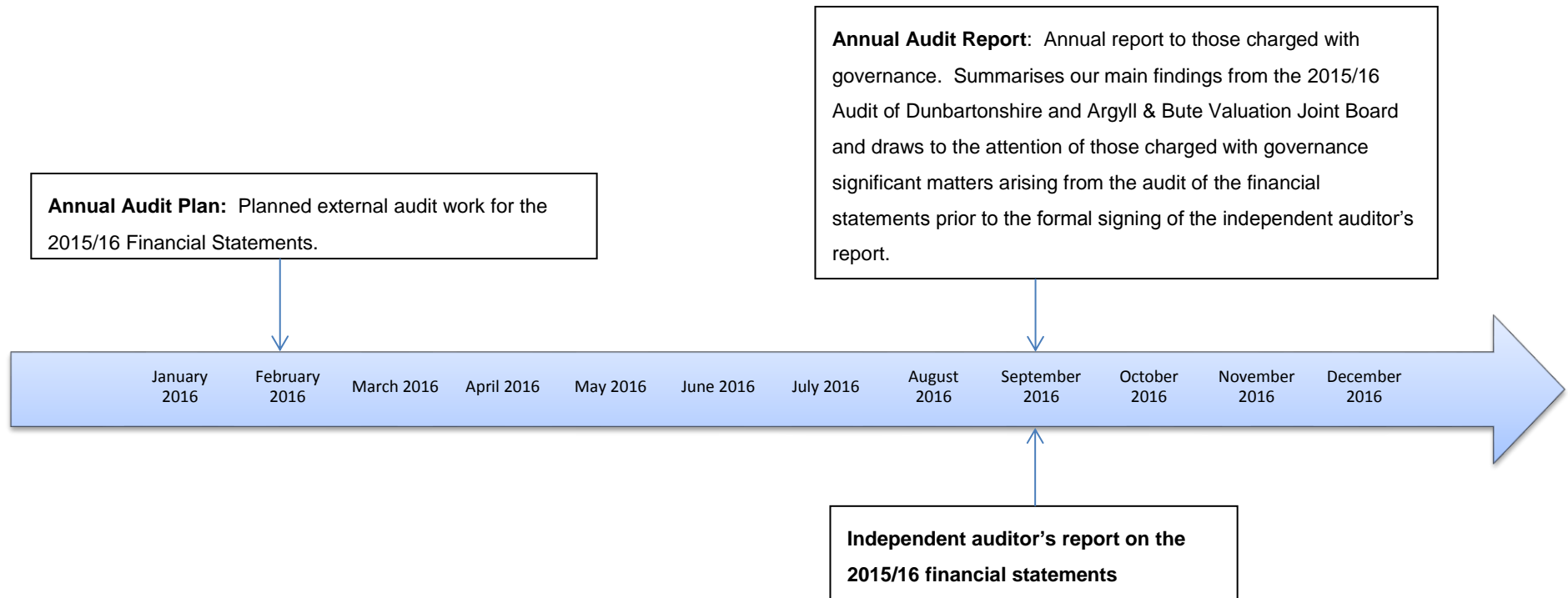
Appendix I: Significant audit risks

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>Risk of management override of control 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 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 • Evaluating significant transactions that are outside the normal course of business • Focused testing of accruals and prepayments. 	<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>Management commentary The 2014 Regulations require that the accounts include a management commentary. Scottish Government guidelines on format and</p>	<ul style="list-style-type: none"> • Testing of the Board's compliance with the requirements of the 2014 Regulations • Detailed review of the management commentary included as part of annual 	<p>Our review of the management commentary in the Board's 2015/16 accounts identified no instances of non-compliance with the 2014 Regulations.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>content were issued in May 2015. However, officers may have to refer to wider Government Financial Reporting Manual guidance in order to construct a fully compliant commentary.</p> <p>Risk</p> <p>The Board’s management commentary in the 2015/16 accounts may not comply with the 2014 Regulations.</p>	<p>accounts audit work.</p>	
<p>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</p>		
<p>IER funding gap</p> <p>There is a risk that the Board may not receive funding to cover the additional cost of the 2015/16 canvass. Although a bid has been made for additional funding, there is no guarantee for the Board that this will be granted.</p> <p>Risk</p> <p>The Board is unable to obtain additional funding which will increase the cost of services provided in 2015/16.</p>	<ul style="list-style-type: none"> • Review Board and committee minutes for update on funding bid • Review of budget monitoring reports to identify action taken to address funding shortfall • Regular liaison with Assessor and key finance staff. 	<p>A bid for additional funding of £50,707 was made to the Cabinet Office in January 2016 and payment for this amount was received by the Board at the financial year end.</p> <p>£13,675 was also received from the Scottish Government for the additional work involved in collecting information on young people following the lowering of the voting age for the Local Government register.</p>

Appendix II: Summary of local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16

