

# Highland and Western Isles Valuation Joint Board

## Annual report on the 2012/13 audit



Prepared for members of Highland and Western Isles Valuation Joint Board and the Controller of  
Audit

October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Contents

<b>Key Messages .....</b>	<b>4</b>
2012/13.....	4
Outlook.....	4
<b>Introduction.....</b>	<b>5</b>
<b>Financial statements .....</b>	<b>6</b>
Audit opinion .....	6
Accounting issues .....	7
Outlook.....	8
<b>Financial position .....</b>	<b>9</b>
Financial results .....	9
Financial outlook .....	10
<b>Governance and accountability .....</b>	<b>11</b>
Corporate governance.....	11
Equalities Act .....	13
<b>Best Value, use of resources and performance.....</b>	<b>14</b>
Management arrangements .....	14
Overview of performance in 2012/13.....	15
Outlook.....	15
<b>Appendix: Action plan .....</b>	<b>16</b>

# Key Messages

## 2012/13

We have given an unqualified opinion that the financial statements of Highland and Western Isles Valuation Joint Board for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

No significant issues were identified during the course of our audit.

The Joint Board has appropriate governance arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption.

## Outlook

The financial position going forward is becoming even more challenging than previous years with standstill budgets alongside the introduction of Individual Electoral Registration, and the on-going resource pressures around valuation appeal workloads. Expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

# Introduction

1. This report summarises the findings from the 2012/13 audit of Highland and Western Isles Valuation Joint Board (the Joint Board). The nature and scope of the audit were outlined in the Audit Plan presented to the Joint Board meeting in March 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. An action plan setting out the high level risks we have identified from the audit is included at the Appendix. 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 Joint 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.
3. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the Joint Board. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate.
4. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by the Joint Board. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
5. The management of the Joint Board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
6. The co-operation and assistance given to us by Highland and Western Isles Valuation Joint Board members and staff is gratefully acknowledged.

# Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Explanatory Foreword, Statement on the System of Internal Financial Control and the Remuneration Report. This section summarises the results of our audit on the financial statements.

## Audit opinion

10. We have given an unqualified opinion that the financial statements of Highland and Western Isles Valuation Joint Board for 2012/13 give a true and fair view of the state of affairs of the Joint Board as at 31 March 2013 and of income and expenditure for the year then ended.

## Legality

11. Through our planned audit work we consider the legality of the Joint Board's financial transactions. In addition, the Treasurer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Joint Board's management team, the financial transactions of the Joint Board were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

## Statement on the system of internal financial control

12. We are satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the Joint Board to obtain the necessary assurances. 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 accounts.

## Remuneration report

13. We are satisfied that the Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2012/13 financial statements include all eligible remuneration for relevant Joint Board officers and elected members.

## Accounting issues

14. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). We are satisfied that the Joint Board prepared its 2012/13 financial statements in accordance with the 2012/13 Code.

## Accounts submission

15. The Joint Board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation processes and working papers were generally good. Audited accounts were finalised prior to the target date of 30 September 2013 and are now available for presentation to members and publication.

## Presentational and monetary adjustments to the unaudited accounts

16. A number of presentational amendments were processed to improve disclosures within the audited financial statements. The Treasurer decided not to amend the accounts for two immaterial financial misstatements:
  - creditors and the deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement are overstated by £1,500 due to the balance on the termination of a car lease being accounted for in 13/14 instead of 12/13
  - creditors and the deficit on the Provision of Services within the Comprehensive Income and Expenditure Statement are overstated by £1,000 due to an error in the calculation of the holiday pay accrual.
17. These amounts are not material to the financial statements and we agree with the Treasurer's decision not to amend for them.

## Going concern

18. The Joint Board's balance sheet at 31 March 2013 has an excess of liabilities over assets of £4.265 million due to the accrual of pension liabilities in accordance with International Accounting Standards 19 (IAS 19). In common with similar public bodies, the Joint Board has adopted a 'going concern' basis for the preparation of its financial statements as the pension liabilities are based on long-term actuarial projections and do not require immediate funding other than through increased employers' contributions which are already built into the Joint Board's budgets and plans. We are satisfied that the process that the Joint Board has undertaken to consider the organisation's ability to continue as a going concern is reasonable.

## Outlook

19. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. It is likely that in 2013/14 local authorities, if they do not already do so, will require an Audit Committee or similar committee whose remit includes audit or governance, to formally meet by 30 September to approve the statement of accounts.

# Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
21. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

### Budgetary control

23. The Joint Board's net operating expenditure in 2012/13 was £2.619 million compared to budgeted expenditure of £2.661 million, resulting in an underspend of £0.042 million (1.6%). In the Explanatory Foreword to the financial statements, the Treasurer explains that the main reasons for this budget underspend are:
  - staff costs were underspent by £0.066 million due to posts held vacant during year
  - administrative costs were underspent by £0.028 million due to legal costs being lower than budgeted
  - Valuation Appeal Committee expenses exceeded budget by £0.047 million due to a greater number of panel sittings than anticipated.
24. The net operating expenditure (£2.619 million) differs from the Net Cost of Services disclosed in the Comprehensive Income and Expenditure Statement of £2.727 million by £0.108 million. This is because reports prepared for the Joint Board's monitoring purposes are prepared on a different basis from the accounting policies used in the financial statements. Note 14 to the accounts reconciles the figures in the budget monitoring report to the figures in the Comprehensive Income and Expenditure Statement. This shows that the majority of the difference is due to the cost of retirement benefits based on cash flows in the budget monitoring reports, but based on the current service costs of benefits accrued in the year within the accounts.

## Reserves and funds

25. In January 2011, the Joint Board approved the creation of a General Fund to:
- provide a contingency to meet unforeseen costs
  - enable budget flexibility between financial years
  - meet one off costs required in order to deliver budget savings in future years.
26. In the absence of a more specific regulation for valuation joint boards in respect of the carry forward limits on its general fund, members agreed to align the Joint Board's carry forward limits with those imposed on police and fire boards i.e. a maximum of 3% of the total budget to be added to the general fund in any one year as long as the cumulative balance does not exceed 5% of the total budget in that year. The Joint Board transferred £0.002 million of its £0.042 million surplus to the General Fund at 31 March 2013 resulting in a General Fund balance of £0.133 million (5% of budget) as at 31 March 2013 (£0.131 million at 31 March 2012). The remaining £0.04 million of the 2012/13 surplus was returned to constituent authorities.

## Financial outlook

### Revenue budget for 2013/14

27. The Joint Board, like all public sector organisations, faces a challenging financial climate. The 2013/14 budget, approved in January 2013, is a standstill budget. Although the Joint Board's latest revenue monitoring report, based on the position as at 31 July 2013, projects the estimated outturn will be on budget as at 31 March 2014, the Joint Board continues to face financial pressure resulting from increased appeals against the 2010 revaluation.

### Pensions funding

28. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, and the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, IAS19 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying for them, even if the actual payment will be made years into the future. This requirement results in large future liabilities being recognised in the annual accounts.
29. The Joint Board's estimated pension liabilities at 31 March 2013 exceeded its share of the assets in the Highland Council Pension Fund by £4.368 million (£4.186 million at 31 March 2012). The liability will be made good by increased contributions over the remaining working lives of the employees, as assessed by the scheme's actuary.

# Governance and accountability

30. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
31. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
32. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
  - corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption.

## Corporate governance

### Processes and committees

33. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the modernisation agenda. The Joint Board has oversight of the financial resources and receives budget monitoring reports at each meeting. The responsibilities of the Assessor, Treasurer and the Highland and Western Isles Valuation Joint Board in relation to budget monitoring and review are set out in the Joint Board's Financial Regulations.

## Internal control

34. Internal audit plays a key role in the Joint Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Our overview of the internal audit service provided by the Highland Council's Internal Audit section confirmed that the section operates in accordance with the CIPFA code of practice for internal audit in local government.
35. The Joint Board's financial transactions are processed through The Highland Council's financial systems. Our review of these systems was conducted as part of the council audit, supplemented by specific audit work on the Joint Board's financial statements. We did not find any significant control weaknesses in relation to the operation of the Joint Board's main financial systems. We also placed reliance on the Head of Internal Audit and Risk Management's opinion that 'reasonable assurance can be placed upon the adequacy and effectiveness of the Assessor's internal control systems for the year to 31 March 2013.'

## Risk management

36. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.
37. A risk profile was first developed in August 2010, with an updated version presented to the Joint Board in April 2012. Each risk is given a rating, which is a combination of the likelihood of the risk occurring and its associated impact, with consequences and remedial actions outlined against each risk. The risk profile forms part of the Joint Board's governance arrangements and is expected to be submitted to the Joint Board annually. However, there is no evidence of risks being considered by members since April 2012.

**Refer action plan no. 1**

## Prevention and detection of fraud and irregularity

38. 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 Joint Board's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

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

39. 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.

## Equalities Act

40. The Equality Act 2010 introduced a new 'General Duty' to encourage public sector bodies to mainstream equality within their core work. In May 2012, the Scottish Government introduced nine 'Specific Duties' aimed at supporting public bodies to better perform against the 'General Duty'. The 2012/13 Annual Audit Plan reported the requirement for the Joint Board to implement new requirements as a result of these 'Specific Duties'. The Joint Board has put adequate arrangements in place and has implemented an Equal Pay Statement, published information on the demographics of employees and intend to annually report and publish information on equalities matters within the annual report.

# Best Value, use of resources and performance

41. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
42. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. 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.
43. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
  - a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
44. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
45. This section provides commentary on the Best Value and performance management arrangements within the Joint Board.

## Management arrangements

### Best Value

46. The introduction of Best Value resulted in a number of key performance indicators and volume measures being agreed by the Scottish Government, the Scottish Assessors' Association and the Accounts Commission.
47. In addition, the Electoral Commission established a regime of self-assessment and inspection in respect of electoral registration. The Joint Board's third self-assessment to the Commission concluded that all 10 of the Electoral Commission's performance standards had been met or exceeded in 2012. The Commission did not raise any concerns in response to the Joint Board's submission and an inspection visit was not required.

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## Overview of performance in 2012/13

### Performance management

48. The Joint Board publishes an annual report which summarises the key activities and achievements under each of its main functions namely: rating valuations, council tax and electoral registration. The 2013 annual report will include details of the Joint Board's assessment against the Electoral Commission's 10 performance standards. Plans are in place to publish the 2013 annual report by 31 October.

### Outlook

49. The Joint Board is facing resource challenges around preparations required for the referendum vote and the introduction of Individual Electoral Registration. In addition, the economic climate has resulted in continuing high numbers of valuation appeals. The Assessor has also flagged that there is no certainty that all revaluation appeals will be cleared by the statutory deadline in 2013. There is a risk that the Joint Board will be unable to make the savings required to operate within its 2013/14 budget without compromising service delivery and performance.

**Refer Action Point no. 2**

# Appendix: Action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	37	<p>The Joint Board's risk profile was last submitted to members in April 2012. The risk profile forms part of the Joint Board's governance arrangements and is expected to be submitted to the Joint Board annually.</p> <p><b><i>Risk: Members do not have an up-to-date understanding of the strategic risks facing the board which may lead to failure in service delivery.</i></b></p>	Update risk profile	Acting Assessor	30/11/13
2	49	<p>Like all public sector organisations the Joint Board faces a challenging financial climate. The Joint Board also faces an increased workload, including preparation requirements for the referendum vote and the introduction of Individual Electoral Registration.</p> <p><b><i>Risk: without adequate planning of services, the Joint Board will be unable to make the savings required to operate within its budget without compromising performance, and may be unable to fulfil all of its statutory duties.</i></b></p>	Compile Individual Electoral Registration and Referendum Implementation Plan	Acting Assessor	31/12/13

