

# Highland and Western Isles Valuation Joint Board

**Report to Members and the Controller of Audit  
on the 2008/09 Audit**

**October 2009**



 **AUDIT SCOTLAND**



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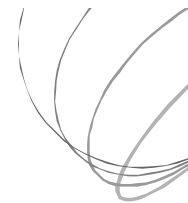


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# Introduction

1. This report summarises the findings from our 2008/09 audit of Highland and Western Isles Valuation Joint Board. The scope of the audit was set out in our annual audit plan issued on 20 February 2009.
2. The financial statements of the Joint Board are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the Joint Board to prepare financial statements that provide a true and fair view of its financial position and the income and expenditure for the year.
3. The members and officers of the Joint Board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
  - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
  - the Joint Board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
  - the Joint Board has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
  - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption;
  - the Joint Board has proper arrangements for securing best value in its use of resources.



# Financial statements

## Introduction

4. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2008/09. We also summarise key aspects of the Joint Board's reported financial position and performance to 31 March 2009.
5. We audit the financial statements and give an opinion on:
  - whether the financial statements of the Joint Board give a true and fair view of the financial position of the Joint Board and its income and expenditure for the year, and
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the Joint Board to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the Joint Board.

## Overall conclusion

7. We have given an unqualified opinion on the financial statements of Highland and Western Isles Valuation Joint Board for 2008/09.
8. The unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June.
9. The Joint Board is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). Overall, we were satisfied that the financial statements were prepared in accordance with the SORP. There were no adjustments made to the figures included in the un-audited financial statements provided for public inspection.



## Financial position

### Going concern

10. The Joint Board's balance sheet at 31 March 2009 shows net liabilities of £2.104 million. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets.
11. The net liability position is due to the requirements of Financial Reporting Standard 17 (retirement benefits) where there is an obligation to recognise the Joint Board's full pension obligations in the year they are earned. This is discussed further below. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met, as they fall due, by contributions from constituent authorities in the normal way. In common with similar authorities, the Joint Board has considered it appropriate to adopt a going concern basis for the preparation of the financial statements. We concur with this approach.

### Revenue performance 2008/09

12. The Joint Board's net operating expenditure for 2008/09 amounted to £2.596 million (after elimination of FRS 17 pension adjustments) and was met by constituent authorities' contributions of £2.619 million resulting in an underspend for the year of £0.023 million. This will be refunded to the constituent authorities. The Treasurer's Report to the Board contained within the financial statements summarises performance against budget. There were savings in staff, property and administration cost offset by higher supplies and services cost.

### Financial outlook – pension liabilities

13. Financial planning and accounting for the costs of pensions present 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.
14. In accounting for pensions, FRS 17 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in large future liabilities being recognised in the financial statements.



15. The Joint Board's estimated pension liabilities at 31 March 2009 exceeded its share of the assets in the Highland Council Pension Fund by £2.104 million (£1.888 million in 2007/08). The increase is due to the accrual of pension liabilities in accordance with FRS 17.
16. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities to maintain the solvency of the fund. The contribution paid by the Board into The Highland Council Pension Fund in 2008/09 was 290% of employees' contributions (280% in 2007/08). Contribution rate in the 2009/10 financial year is 275%.

## Legality

17. Each year we request written confirmation from the Treasurer that the Joint Board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of other senior officers, the financial transactions of the Joint Board were in accordance with the relevant legislation and regulations governing its activities.
18. There are no additional legality issues arising from our audit which require to be brought to members' attention.





# Governance

## Introduction

19. In this section we comment on key aspects of the Joint Board's governance arrangements during 2008/09.

## Overview of arrangements in 2008/09

20. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. The Joint Board has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
21. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Joint Board's internal financial control system.
22. The statement complies with accounting requirements and is consistent with the findings of our audit.

## Systems of internal control

23. The Joint Board's financial transactions are processed through the Highland Council's financial systems. It is the responsibility of the Council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
24. Our review of these systems was conducted as part of the audit of the Highland Council, supplemented by specific audit work on the Joint Board's financial statements. Overall there are no material issues of concern in relation to the operation of the main financial systems.
25. 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. The Highland Council's Internal Audit section provided an internal audit service to the Joint Board during 2008/09.



26. Each year we undertake an overview of internal audit arrangements including an assessment of whether we can place reliance on their work to reduce our own input. As part of our audit of the Highland Council we conducted a formal review of the effectiveness of the internal audit function. Overall we found the provision of internal audit at Highland Council meets appropriate professional standards and we placed reliance on their work. However, we did identify areas for improvement. These include the need to make a more realistic provision for unplanned work, the need to manage time budgets and staff performance effectively and the need for the internal audit staffing establishment to be kept fully resourced. For example, the 2008/09 audit plan included one computer audit of the Centralised Assessors Tax System which did not materialise due to other work commitments and is being carried forward to the 2009/10 financial year.

***Action Point 1***

## **Prevention and detection of fraud and irregularities**

27. The Joint Board has appropriate arrangements for the prevention and detection of fraud and corruption. These arrangements include a strategy for the prevention and detection of fraud and corruption, written procedures for the investigation of suspected cases of fraud and corruption and a whistle blowing policy. The Joint Board has its own policy for the prevention and detection of fraud and corruption

## **Governance - outlook**

28. The Board has yet to conduct a formal exercise to ensure that it is compliant with single status and equal pay legislation. Due to the profile of its workforce, the Board believes that it does not have a material exposure to any potential liability arising from the eventual implementation of the aforementioned issues.

***Action Point 2***

29. New obligations for the Board arise from the Electoral Administration Act 2006. These obligations relate to the arrangements for canvassing for the electoral register and the gathering of personal identifiers to allow greater checking of postal votes in elections. The Board has submitted its initial self assessment return of qualitative factors against the performance standards set by the Electoral Commission together with the statistical return in January 2009.



30. Two assistant assessors have retired in the past two years. The risk of loss of technical knowledge and expertise is being managed by the Board. One post has already been replaced by two principal valuer posts while the other post has currently been advertised.

# Final Remarks

31. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of the Board. The action plan sets out management's response to the identified risks.
  
32. The co-operation and assistance given to us by officers of the Joint Board is gratefully acknowledged.



# Appendix A: 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>Review of Internal Audit</b></p> <p>There has been a slippage in the planned IA review of Centralised Assessors Tax System. As part of our review of the Internal Audit Function of The Highland Council, we have also concluded that: there is a need to make a more realistic provision for unplanned work, a need to manage time budgets and staff performance effectively and a need for the internal audit staffing establishment to be kept fully resourced.</p> <p><b>Risk</b></p> <p><i>Internal Audit will fail to provide an independent and timely appraisal of the effectiveness of the operation of the Joint Board's internal control systems.</i></p>	There is a bigger contingency this year for unplanned work.	Head of Internal Audit and Risk Management	March 2010
2	28	<p><b>Single Status and Equal Pay</b></p> <p>The Board has not implemented single status and equal pay legislation.</p> <p><b>Risk</b></p> <p><i>Non-compliance with legal requirements and lower staff morale. Additional cost may also be incurred.</i></p>	This will be reviewed in the 2010/11 financial year.	Assessor & Electoral Registration Officer	March 2011