

Highland and Western Isles Valuation Joint Board

Annual report on the 2011/12 audit



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

October 2012

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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Introduction

1. This report summarises the findings from the 2011/12 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 2012, 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.

Financial statements

6. 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.
7. 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.
8. 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

9. We have given an unqualified opinion that the financial statements of Highland and Western Isles Valuation Joint Board for 2011/12 give a true and fair view of the state of affairs of the Joint Board as at 31 March 2012 and of income and expenditure for the year then ended.

Legality

10. 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

11. 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

12. 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 2011/12 financial statements include all eligible remuneration for relevant Joint Board officers and elected members.

Accounting issues

13. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code). We are satisfied that the Joint Board prepared its 2011/12 financial statements in accordance with the 2011/12 Code.

Accounts submission

14. 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 2012 and are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

15. 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:
 - current debtors are understated, and expenditure in the Comprehensive Income and Expenditure Statement and requisitions are overstated by £4,833 due to the omission of a prepayment for rental income paid in advance
 - current debtors are overstated and long term debtors understated by £4,274 due to the misclassification of debtors due in more than 1 year.
16. Neither of these errors impacts on the overall surplus for the year nor the Joint Board's total net liabilities as at 31 March 2012. These amounts are not material to the financial statements and we agree with the Treasurer's decision not to amend for them.

Going concern

17. The Joint Board's balance sheet at 31 March 2012 has an excess of liabilities over assets of £4.081 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.

Financial position

18. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
19. 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.
20. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Budgetary control

21. The Joint Board's net operating expenditure in 2011/12 was £2.570 million compared to budgeted expenditure of £2.621 million, resulting in an underspend of £0.051 million (1.9%). 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 £0.028 million due to posts held vacant during year
 - the board received a refund on service charge for rent of Moray House, which produced an underspend of £0.020 million on property costs
 - administrative costs were underspent by £0.031 million due to delayed need to refresh postal voter details and there being no requirement in the year for the engagement of Counsel to represent the Assessor at higher courts
 - Valuation Appeal Committee expenses exceeded budget but the effects were mitigated by savings elsewhere.
22. The net operating expenditure (£2.570 million) differs from the Net Cost of Services disclosed in the Comprehensive Income and Expenditure Statement of £2.590 million by £0.020 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 15 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

23. 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.
24. 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 £0.050 million of its £0.051 million surplus to the General Fund at 31 March 2012 resulting in a General Fund balance of £0.131 million (5% of budget) as at 31 March 2012 (£0.081 million at 31 March 2011). The remaining £1,000 of the 2011/12 surplus was returned to constituent authorities.

Financial outlook

Revenue budget for 2012/13

25. The Joint Board, like all public sector organisations, faces a challenging financial climate. The 2012/13 budget, approved in January 2012, is a standstill budget plus an additional £40,000 for increased postage costs. Although the Joint Board's latest revenue monitoring report, based on the position as at 31 July 2012, projects the estimated outturn will be on budget as at 31 March 2013, the Joint Board continues to face financial pressure resulting from increased appeals against the 2010 revaluation.

Refer action plan no. 1

Pensions funding

26. 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.
27. The Joint Board's estimated pension liabilities at 31 March 2012 exceeded its share of the assets in the Highland Council Pension Fund by £4.186 million (£2.296 million at 31 March 2010). This increase in the net pension liability is due to a change in one of the financial assumptions (the corporate bond rate) used by the actuaries. 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

28. 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.
29. 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.
30. 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
31. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

32. 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.
33. The Joint Board last reviewed its governance and performance management arrangements in August 2010. It acknowledges the need to periodically review its policies and plans are in place to review all of these over the next twelve months. These reviews will ensure that all policies are up to date and reflect the latest guidance.

Refer action plan no. 2

Member training

34. The Accounts Commission recommends that local authorities give priority to the continuous professional development of their members. The local government elections, in May 2012, resulted in changes to the membership of the Joint Board and the election of a new Vice Convener. Induction training has been provided for members to ensure that they are clear about their roles and responsibilities.

Internal control

35. 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.
36. 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 2012.'

Risk management

37. 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.
38. 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, which forms part of the Joint Board's governance arrangements, will be submitted to the Joint Board annually.

Prevention and detection of fraud and irregularities

39. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
40. The Joint Board has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an approved fraud and detection policy, a whistleblowing policy and a code of conduct for employees.

Outlook

41. 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'. These 'specific duties' include assessing the impact of equalities in all policies and decisions, and publishing a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will review progress made by the Joint Board in implementing these new requirements as part our 2012/13 audit.

Refer action plan no. 3

42. In early 2008, the Scottish Government announced its proposals to replace council tax with a local income tax based on the ability to pay. There is, therefore, uncertainty with regards to the future of council tax although the Assessor believes it will continue in its current form until at least 2016.

Best Value, use of resources and performance

43. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
44. 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.
45. 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.
46. 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.
47. This section provides commentary on the Best Value and performance management arrangements within the Joint Board.

Management arrangements

Best Value

48. 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.
49. 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 2011. The Commission did not raise any concerns in response to the Joint Board's submission and an inspection visit was not required.

Overview of performance in 2011/12

Performance management

50. 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. Last year we highlighted that no electoral registration and customer service type indicators were included in the annual report. We have been advised that the 2012 annual report will include details of the Joint Board's assessment against the Electoral Commission's 10 performance standards, and that the number of complaints received is also being considered for inclusion. Plans are in place to publish the 2012 annual report by the end of November 2012.

Outlook

51. The economic recession has led to a further 2,500 revaluation appeals being lodged during the year which is unprecedented in the rating field in Scotland. This is expected to continue in future years and may result in significant amounts of litigation, placing strain on the Joint Board's resources. The Assessor has also flagged that there is no certainty that all revaluation appeals will be cleared by the statutory deadline in 2013.
52. The introduction of individual electoral registration with effect from 2013 and proposals to change Westminster boundaries in advance of the next general election will add significantly to the Joint Board's workload. There is a risk that the Joint Board will be unable to make the savings required to operate within its 2012/13 budget without compromising service delivery and performance.

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	25	<p>The Joint Board, like all public sector organisations, faces a challenging financial climate. The 2012/13 budget is a standstill budget plus an additional £40,000 for increased postage costs. Although the Joint Board's latest revenue monitoring report, based on the position as at 31 July 2012, projects the estimated outturn will be on budget as at 31 March 2013, the Joint Board continues to face financial pressure resulting from increased appeals against the 2010 revaluation.</p> <p><i>Risk: the Joint Board will be unable to make the savings required to operate within its budget without compromising service delivery and performance.</i></p>	<p>The volume of appeals relates to workload and given static resources affects scheduling of other work. The additional cash cost is principally a function of the number of sittings and the number of cases that require the use of counsel.</p> <p>The immediate response is therefore to re- schedule work to meet statutory deadlines and thereafter prioritise to minimise impact on the public.</p> <p>By these means the financial impact in 2012/13 is likely to be manageable. The 'persistence' of the additional volume of appeals is currently being tested.</p> <p>The 2013/14 position is less certain as is currently unclear whether the appeal disposal timetable will be extended.</p>	Assessor	On-going

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	33	<p>The Joint Board last reviewed its governance and performance management arrangements in August 2010. It acknowledges the need to periodically review its policies and has plans to review all of these over the next twelve months.</p> <p>Risk: existing governance and performance management arrangements are not relevant and up to date.</p>	<p>The process of refreshing and renewing policies is under way. Those of a core character e.g. Standing Orders and Finance Regulations will be dealt with first. Thereafter those where legislative change requires action e.g. Equalities, Complaints Procedures and FOI Publication Schemes. The personnel and other policies will be then be reviewed.</p>	Assessor and Office Manager	March 2014
3	41	<p>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'. These include assessing the impact of equalities in all policies and decisions, and publishing a set of equality outcomes (and reporting requirements) no later than 30 April 2013.</p> <p>Risk: the Joint Board is unable to comply with these 'Specific Duties'.</p>	<p>As indicated above this policy is a priority. The Assessors' Association has met with the compliance staff of the Commission in an effort to draw up a common approach to establishing equalities outcomes for assessors while acknowledging local variation. The Commission has acknowledged that fewer outcomes are indicated given the limited role of the Assessor/ERO's functions and their wholly statutory character.</p>	Assessor and Office Manager	April 2013