

Appendix C: DRAFT Annual report on the 2013/14 audit

Highland and Western Isles Valuation Joint Board

Annual report on the 2013/14 audit

Introduction

1. This report summarises the findings from the 2013/14 audit of Highland and Western Isles Valuation Joint Board (the Joint Board). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.
3. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management. However this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Joint Board and no responsibility to any third party is accepted.
4. The Appendix to this report is an action plan setting out the high level risks we have identified from the audit. Management 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.
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. 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. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Joint Board.

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 of 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 2013/14 give a true and fair view of the state of affairs of the Joint Board as at 31 March 2014 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 2013/14 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 2013/14 (the 2013/14 Code). We are satisfied that the Joint Board prepared its 2013/14 financial statements in accordance with the 2013/14 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 which enabled the audited accounts to be finalised prior to the target date of 30 September 2014.

Significant Findings and Key Judgements

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

Presentational and monetary adjustments to the unaudited accounts

17. Management have agreed to amend the unaudited financial statements for the majority of our audit findings. A number of presentational matters arising were processed to improve disclosures within the audited accounts together with the following monetary adjustments:
18. **Deferred income:** the creditors balance in the unaudited accounts included £0.013 million of deferred income relating to grant received in advance towards the costs of Individual Electoral Registration. Discussions with officers identified that some of this grant should have been allocated to 2013/14. As a result, creditors were overstated and gross income understated by £0.005 million.

Resolution: an adjustment was made to the accounts to reduce creditors and increase gross income by £0.005 million. As the maximum General Fund balance was reached in 2012/13 any surplus has to be returned to the constituent authorities. There is, therefore, no impact on the (surplus)/deficit on the provision of services figure reported in the Comprehensive Income and Expenditure Statement, or on the net liabilities figure within the Joint Board's balance sheet.

19. **Accounts payable:** the creditors balance also included £0.020 million of accruals which related to 2014/15 and had been incorrectly accrued into 2013/14. As a result, creditors and expenditure were overstated by £0.02 million.

Resolution: an adjustment was made to the accounts to reduce creditors and expenditure by £0.020 million. As the maximum General Fund balance was reached in 2012/13 any surplus has to be returned to the constituent authorities. There is, therefore, no impact on the (surplus)/deficit on the provision of services figure reported in the Comprehensive Income and Expenditure Statement, or on the net liabilities figure within the Joint Board's balance sheet.

20. **Prior year adjustments** - the 2012/13 disclosures required to be amended as follows:

IAS 19 restatement: prior year comparative figures required to be restated as a result of the adoption of the amendment to International Accounting Standard 19 (IAS19) Employee Benefits. Due to an error in the actuary's report, the restated 2012/13 IAS19 disclosures included in the unaudited accounts were incorrect. As a result, net expenditure was overstated and the return on plan assets figure was understated by £0.013 million in the Comprehensive Income and Expenditure Statement.

Resolution: an adjustment has been made to the prior year figures in the audited accounts to increase net cost of services and increase the return on plan assets figure in the Comprehensive Income and Expenditure Statement by £0.013 million. There is no impact on the 2012/13 net liabilities figure within the Joint Board's balance sheet.

Corporate and Democratic Core (CDC) costs: the prior year CDC costs were overstated by £0.029 million due to an error in the spreadsheet used to calculate the figure in 2012/13. This error was not identified until the 2013/14 audit. As a result prior year CDC costs were overstated by £0.029 million and Council Tax Valuation, Electoral Registration and Rating Valuation costs were understated by £0.011 million, £0.003 million, and £0.015 million respectively in the Comprehensive Income and Expenditure Statement.

Resolution: an adjustment has been made to the prior year figures in the audited accounts to decrease the CDC costs by £0.029 million and increase Council Tax Valuation, Electoral Registration and Rating Valuation costs by £0.011 million, £0.003 million, and £0.015 million respectively. There is no impact on the 2012/13 net liabilities figure within the Joint Board's balance sheet.

Unadjusted error

21. Management decided not to amend the financial statements for one financial misstatement. If adjusted this would have the effect of increasing gross expenditure in the Comprehensive Income and Expenditure Statement by £1,000. However, this would be matched by an increase in the income due from constituent authorities and so there would be no effect on the (surplus)/deficit on the provision of services figure reported in the Comprehensive Income and Expenditure Statement or the net liabilities figure reported within the Joint Board's balance sheet.

22. It is our responsibility to request that all errors be corrected although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. Management explained that this adjustment was not material to the financial statements and we concur with this assessment.

Going Concern

23. The Joint Board's balance sheet at 31 March 2014 has an excess of liabilities over assets of £5.121 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

24. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
25. 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.
26. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial Results

2013/14 Outturn

27. The Joint Board's net operating expenditure in 2013/14 was £2.600 million compared to budgeted expenditure of £2.661 million, resulting in an underspend of £0.061 million (2.3%). 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 £0.077m as a result of the retiral of the Assessor in October 2013 and the subsequent vacancy at Depute Assessor level following an internal promotion, and the absence on long term sick leave of the principal administrator
 - Valuation Appeal Committee expenses within the Supplies and Services heading exceeded budget by £0.044 million due to a large number of cases being heard by the Valuation Appeal Committee prior to the end of December 2013. This was offset by savings on other heads, including ICT.
28. The net operating expenditure (£2.600 million) differs from the Net Cost of Services disclosed in the Comprehensive Income and Expenditure Statement of £2.757 million by £0.157 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

29. 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.
30. 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. As the Joint Board's general fund balance at 1 April 2014 was already at the maximum limit permitted (£0.133 million), the total surplus for 2013/14 (£0.061 million) was returned to constituent authorities.

Financial Planning

31. In January 2014 the Joint Board agreed a standstill budget for 2014/15. Although the Joint Board's latest revenue monitoring report, based on the position as at 31 July 2014, reports staffing costs are behind budget it is anticipated that the full budget for staffing will be utilised as a result of a greatly increased work load in respect of electoral registration due to the Scottish Independence Referendum and the introduction of individual electoral registration.
32. The Local Government Finance settlement announced by the Cabinet secretary for Finance, Employment and Sustainable Growth on 11 December 2013 broadly represented a 'flat cash' settlement for 2014/15. Less detail was available for the period 2015/16 and beyond for future settlements, although a consensus of economic forecasts points to a continuation of recent trends and, in some cases, an absolute reduction in resources being projected.

Pensions Funding

33. 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.
34. The Joint Board's estimated pension liabilities at 31 March 2014 exceeded its share of the assets in the Highland Council Pension Fund by £5.121 million (£4.368 million at 31 March 2013). The liability will be made good by increased contributions over the remaining working lives of the employees, as assessed by the scheme's actuary. The next triennial actuarial valuation of the fund takes place as at March 2014 with initial results expected around October 2014.

Governance and Accountability

35. 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.
36. 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.
37. 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

38. 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

39. 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 generally operates in accordance with the Public Sector Internal Audit Standards. An action plan has been prepared to address the areas of non-compliance.

40. 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 2014.'

Risk Management

41. 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.
42. A risk profile was first developed in August 2010, and updated versions were presented to the Joint Board in April 2012, January 2014 and May 2014. 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.

Prevention and Detection of Fraud and Irregularity

43. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. An updated anti-fraud and anti-corruption policy was presented to the Joint Board in May 2014 as part of the Joint Board's review of departmental policies. 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

44. 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.

Best Value, use of resources and performance

45. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
46. 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.
47. 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.
48. 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.
49. This section provides commentary on the Best Value and performance management arrangements within the Joint Board.

Management Arrangements

Best Value

50. 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.
51. 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 2013. 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 2013/14

Performance Management

52. 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 2014 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 2014 annual report by 30 November.

Outlook

53. The Joint Board is funded by two constituent authorities. The continuing financial constraints on the public sector mean that the councils are working towards making considerable savings in their budgets, at a time when the Joint Board is facing resource challenges around the ongoing impact of the introduction of individual electoral registration, potential legislative changes arising from the Scottish Government's response to the consultation 'Supporting Business - Promoting Growth' and possible future changes to the Council Tax. The combination of the significance of these potential changes and the uncertainty of legislation and timetabling results in a risk that the Joint Board's performance may not be maintained or it may be unable to fulfil its statutory duties.

Refer action point no. 1

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	53	The Joint Board is funded by two constituent authorities. The continuing financial constraints on the public sector mean that the councils are working towards making considerable savings in their budgets, at a time when the Joint Board is facing resource challenges around the ongoing impact of various reforms. The combination of the significance of these potential changes and the uncertainty of legislation and timetabling results in a risk that the Joint Board's performance may not be maintained or it may be unable to fulfil its statutory duties.	While there is uncertainty relating to the specific requirements of the introduction of individual electoral registration (IER), it is anticipated that the reserves shall provide sufficient contingency in the current financial year. The position shall require to be closely monitored and any possible oversight will be highlighted to the Board at the earliest opportunity, with a view to appropriate funding arrangements being put in place for the 2015/16 financial year, which has both the overhead of on-going IER and preparation for the 2017 revaluation.	Assessor and Electoral Registration Officer	January 2015