AUDIT SCOTLAND

Highland and Western Isles Valuation Join Board

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

September 2016

Key contacts

Maggie Bruce, Senior Audit Manager
mbruce@audit-scotland.gov.uk

Joni McBride, Senior Auditor
jmcbride@audit-scotland.gov.uk

Audit Scotland

Ballantyne House

84 Academy Street

Inverness

IV1 1LU

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

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/).

Maggie Bruce is the engagement lead for the audit of The Highland and Western Isles Valuation Joint Board for the period 2011/12 to 2015/16.

This report has been prepared for the use of Highland and Western Isles Valuation Joint Board. 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.

Contents

Key messages

Audit of financial statements	• The independent auditor's report on the 2015/16 financial statements is unqualified. • The financial statements have been prepared on the going concern basis. We are not aware of any events or conditions that may cast significant doubt on the Joint Board's ability to continue as a going concern.
Financial management and sustainability	• The Joint Board underspent against its budget by £54,000 in 2015/16. • To date, the Joint Board has only agreed an annual budget in advance of each financial year. Whilst it is appreciated that the most recent local government settlement announcement only covers 2016/17, the Joint Board should seek to develop longer term financial planning to identify the potential impact on service delivery of a range of budget assumptions (best, worst, most likely scenarios). • The Joint Board's financial position is sustainable in the short term. Reserves are limited, however, and failure to secure the additional funding anticipated from the Cabinet Office may require constituent authorities to make additional contributions to fund its net expenses.
Governance and transparency	• The Joint Board has effective governance arrangements and appropriate anti-fraud arrangements in place. • We placed reliance on internal audit's assessment that reasonable assurance can be placed upon the adequacy and effectiveness of the Assessor's internal control systems. Our review of the council's new financial management system identified some weaknesses in the controls in operation within the general ledger and accounts payable systems. • The Joint Board is open and transparent. Meetings are held in public and committee papers, including budget monitoring reports and key performance indicators, are published on the council's website.
Best Value	• The Joint Board has an appropriate framework in place for monitoring and reporting against key performance indicators. • Performance against these indicators was mixed during 2015/16. There was a significant (10%) reduction in the percentage of amendments to the Valuation Roll processed within 3 months of receipt compared to 2014/15. Performance against council tax indicators remained broadly consistent with 2014/15.

Introduction

1. This report is a summary of the findings arising from the 2015/16 audit of Highland and Western Isles Valuation Joint Board (the Joint Board). The report is divided into sections which reflect our public sector audit model.

2. The management of the Joint 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 Joint 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. The significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion for financial statements is set out in Appendix I. Local and national reports issued during the year are summarised at Appendices II and III.

6. Appendix IV is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Joint Board understands its risks and has arrangements in place to manage these risks. Elected members should ensure that they are satisfied with the proposed actions and have a mechanism in place to assess progress and monitor outcomes.

7. 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.

8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of the Joint Board will be Grant Thornton. 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	• We have completed our audit of the Joint Board and issued an independent auditor’s report which is unqualified.
Going concern	• The financial statements of the Joint Board have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Joint Board’s ability to continue as a going concern.
Other information	• 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

10. We received the unaudited financial statements on 31 May 2016 in accordance with the agreed timetable. The working papers were of a good standard and the Treasurer's staff responded promptly to audit team queries which assisted the delivery of the audit in advance of the agreed deadline.

Overview of the scope of the audit of the financial statements

11. 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 presented to the Joint Board on 3 February 2016.

12. 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.

13. 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.

14. 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

15. 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).

16. 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.

17. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £30,000 (1% of gross expenditure).

18. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £21,000 (70% of materiality).

19. We report all misstatements greater than £1,000.

Evaluation of misstatements

20. Management agreed to amend the financial statements for one of the two monetary errors identified during the course of the audit (refer to paragraph 26 for details), and for all of the presentational changes identified. Management decided not to amend for postage expenditure totalling £3,311 which had been accrued twice in error. If the adjustment had been made, the impact would be to reduce gross expenditure in the Comprehensive Income and Expenditure Statement by £3,311 and reduce taxation and non-specific grant income by the same amount. There would be no impact on the net liabilities reported in the Balance Sheet.

21. Management explained that this adjustment was not material to the financial statements and we agree with this assessment.

22. We considered the level of misstatement identified, and whether we needed to revise our audit approach and undertake additional audit testing. We concluded that further testing was not required as we had identified the full extent of error due to the misallocation of costs between council tax valuation, electoral registration and rating valuation. This left the unadjusted error which did not exceed our performance materiality threshold.

Significant findings from the audit

23. 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

24. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260

Going Concern

25. Auditors are required 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. In accordance with International Accounting Standard 19 (Retirement Benefits), the Joint Board has recognised its share of the net liabilities of The Highland Council Pension Fund resulting in a net liabilities position (£5.053 million) on its balance sheet at the year end. This accounting requirement has no impact on the underlying basis for meeting current and on-going pension liabilities which will be met, as they fall due, by contributions from the constituent authorities. We agree with management's view that it is appropriate to prepare the 2015/16 on the going concern basis.

Allocation of costs within the Comprehensive Income and Expenditure Statement

26. The allocation of expenditure between council tax valuation, electoral registration and rating valuation was incorrectly calculated within the unaudited accounts. The audited accounts have been amended to properly reflect the additional costs of independent electoral registration which are recorded in a separate cost centre within the Joint Board's ledger. The impact of this is to increase electoral registration costs by £0.165 million, and decrease council tax valuation and rating valuation by £0.042 million and £0.123 million respectively. There is no impact on the Net Cost of the Services or the net liabilities on the Balance Sheet.

Future accounting and auditing developments

Code of Audit Practice

27. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011 and outlines the objectives and principles to be followed by auditors. It is part of the overall framework for the conduct of public audit in Scotland.

28. The new Code increases the transparency of our work by making more audit reports available on Audit Scotland's website. In addition to publishing all annual audit reports, annual audit plans and other significant audit outputs will be put on the website for all audited bodies. This is irrespective of whether the body meets in public or makes documents such as audit committee papers routinely available on its own website.

29. Also, under the new Code, appointed auditors are required to provide conclusions on the four dimensions of wider-scope public audit: financial sustainability; financial management; governance and transparency; and value for money.

Financial management and sustainability

Financial management

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

31. The Joint Board sets an annual budget to meet its service and other commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

32. The Joint Board's net operating expenditure in 2015/16 was £2.607 million compared to budgeted expenditure of £2.661 million, resulting in an underspend of £0.054 million (2%). In the Management Commentary, the Treasurer explains that the main reasons for this budget underspend were due to lower than anticipated rent and service charges.

33. The underspend was returned to the constituent authorities as the General Fund balance was already at the maximum permitted to be held by the Joint Board (see paragraph 43).

34. As highlighted at paragraph 25, the Joint Board's balance sheet as at 31 March 2016 was in a net liabilities position due to the requirements of IAS 19 (Retirement Benefits). In addition, there was a £24,000 liability for annual leave outstanding at the year end.

Financial management arrangements

35. As auditors, we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within the Joint Board to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within the Joint 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
- members provide a good level of challenge and question budget holders on significant variances.

36. We reviewed the Joint Board's financial regulations, which were revised in February 2016, and concluded that they are comprehensive. The Joint Board's financial regulations are available on the Highland Council's website.

37. Financial monitoring reports are submitted to each meeting of the Joint Board. Reports are comprehensive and well laid out. Significant variances from budget are explained in terms of impact on the year end financial position. Although budget monitoring reports do not contain service performance information, separate performance reports are presented at each board meeting.

38. Members of the Joint Board provide a good level of challenge on significant variances from budget.

Conclusion on financial management

39. We have concluded that the Joint Board's financial management arrangements are effective.

Financial sustainability

40. Financial sustainability means that the Joint Board has the capacity to meet the current and future needs of its communities. 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.

41. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

42. The Joint Board holds a General Fund balance 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.

43. In the absence of a more specific regulation for Valuation Joint Boards in respect of the carry forward limits on the general fund, members agreed that a maximum of 3% of the total budget should 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 2015 was already at the maximum limit permitted (£133,000), the total surplus for 2015/16 (£54,000) was returned to constituent authorities.

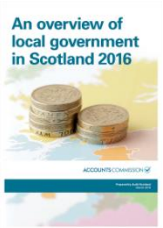
Financial planning

44. The Joint Board set its 2016/17 budget in February 2016. The 2016/17 budget was set at £3.006 million, an increase of £0.156 million on the previous year. The additional expenditure relates to an increase in staff costs as a result of the 1% pay award and significant increases in national insurance and pension contributions. In line with previous years there are also additional costs associated with administering individual electoral registration.

45. The Joint Board's latest revenue monitoring report, based on the position as at 31 July 2016, anticipates that expenditure will be contained within budget for 2016/17. This is dependent on reclaiming £140k of the additional costs of independent electoral registration from the Cabinet Office as in previous years.

46. In June 2014, Audit Scotland reported on Scotland's public finances and identified that public bodies "face increasingly difficult choices in reducing spending while maintaining service standards and meeting rising demand". The report identified that financial planning improvements were required by public bodies.

47. To date, the Joint Board has only agreed an annual budget in advance of each financial year. Whilst it is appreciated that the most recent local government settlement announcement only covers 2016/17, the Joint Board should seek to develop longer term financial planning to identify the potential impact on service delivery of a range of budget assumptions (best, worst, most likely scenarios).



48. In the local government overview report in March 2016, Audit Scotland set out some key questions, which can apply across the Scottish public sector. These questions provide a framework for officers and members to assess the Joint Board's current financial planning arrangement against.

Action plan no. 1

Pension liability

49. The Joint Board's estimated pensions liabilities at 31 March 2016 exceeded its share of the assets in the Highland Council Pension Fund by £5.162 million (£5.779 million at 31 March 2015). 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 most recent triennial actuarial valuation of the Fund (as at 31 March 2014) concluded that the Fund was 96.2% funded, a slighted decrease on the funding level as at 31 March 2011 (96.8%).

Conclusion on financial sustainability

50. We have concluded that the Joint Board's financial position is sustainable in the short term. The Joint Board has a history of underspending against its annual budget and has returned its underspends to its constituent authorities for a number of years. However, reserves are limited and failure to secure the additional funding anticipated from the Cabinet Office may require constituent authorities to make additional contributions to fund the net expenses of the Joint Board.

Governance and transparency

51. Members and management of the Joint 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.

Corporate governance

52. The Joint Board has oversight of 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. Last year we reported that the Financial Regulations were not up to date. Revised Financial Regulations were approved by the Joint Board in June 2016.

53. For a number of years we reported that the Joint Board had a number of governance and performance management policies which were not up to date. All of these policies have now been reviewed, updated and approved by the Joint Board.

Risk Management

54. Risk management is the process of identifying, evaluating and controlling risks to help support decision making and improve performance. A risk profile was first developed for the Joint Board in August 2010. The risk profile forms part of the Joint Board's governance arrangement and is submitted to the Joint Board annually. The last risk profile was submitted to the June 2016 meeting of the Joint Board.

55. The Annual Governance Statement included within the audited accounts highlights that the Joint Board's risk management process is not robust. Internal Audit have recommended that the Joint Board's risk management framework should be reviewed and updated to ensure that it is robust and in line with best practice.

Business Continuity

56. Last year we reported that the Joint Board did not have a Business Continuity Plan for their in-house systems. A Business Continuity Plan has since been developed and was approved at the Joint Board meeting in November 2015.

Internal control

57. The Joint Board's financial transactions are processed through The Highland Council's financial systems. Our review of the controls in operation within the council's new financial management system concluded that there were weaknesses within the controls in operation within the general ledger and accounts payable systems during 2015/16. These included the lack of authorisation of journal entries processed by finance staff within the Treasurer's department and the failure to timeously reconcile the purchase ledger control account. We adopted a substantive approach to the audit of the Joint Board's 2015/16 financial statements.

58. Last year we reported that the Joint Board's payroll and car leasing suspense accounts had not been reconciled and cleared as part of the 2014/15 year end processes. The balances on the payroll suspense accounts (£2,735) were written off and the balances on the car leasing expense accounts (£1,946) were written back within the 2015/16 Comprehensive Income and Expenditure Statement.

Internal audit

59. Internal audit provides members and management of the Joint Board with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

60. Our review of internal audit concluded that the Joint Board's internal audit service operates in accordance with the majority of the Public Sector Internal Audit Standards. In order to achieve full compliance an external assessment is required to take place at least every five years. The Scottish Local Authorities Chief Internal Auditors Group has developed a framework for this assessment and plans are in place for West Dunbartonshire Council to assess the council's internal audit service during 2016/17.

61. We placed formal reliance on the focused testing undertaken by internal audit to support the Audit and Risk Manager'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 2016.'*

Arrangements for the maintaining standards of conduct and the prevention and detection of fraud and corruption

62. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and for having 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. In our opinion, the overall arrangements in place are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

Transparency

63. The public should be able to hold the Joint Board to account for the services it provides. Transparency means that the public has ready access to understandable, relevant and timely information about how the Joint Board is making decisions and how it is using its resources.

64. The Joint Board makes use of The Highland Council's website. Meetings of the Joint Board are held in public and papers from each meeting, including budget monitoring reports and key performance indicators, are published on the council's website. We have not encountered any evidence to suggest that information is routinely and unjustifiably withheld from public scrutiny.

Conclusion on governance and transparency

65. Based on our observations and the audit work performed during 2015/16, we concluded that:

- the Joint Board has effective governance arrangements in place which provide an appropriate framework for organisational decision making; and
- the Joint Board is open and transparent.

Best Value

66. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The Joint 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 of its service provision.

Performance management

67. A number of key performance indicators and volume measures have been agreed by the Scottish Government, the Scottish Assessors' Association and the Accounts Commission.

68. Exhibits 1 and 2 set out how the Joint Board has performed against these key performance indicators over the last four years

Exhibit 1: Valuation Roll - % of amendments processed

Target	2015/16	2014/15	2013/14	2012/13
0-3 months	55	61	59	62
3-6 months	18	19	18	16
Over 6 months	27	21	24	22

Source: Highland and Western Isles Valuation Joint Board Accounts

69. There has been a significant (10%) reduction in the percentage of amendments to the Valuation Roll processed within 3 months of receipt when compared to 2014/15. This was due to the increased workload associated with the UK Parliamentary Election, the implementation of individual electoral registration, and the additional steps taken to allow 16 and 17 year olds to vote in the Scottish Parliamentary Election in May 2016.

70. Performance against the same indicator for council tax has remained broadly consistent with 2014/15 levels (see Exhibit 2).

Exhibit 2: Council Tax List - % of amendments processed

Target	2015/16	2014/15	2013/14	2012/13
0-3 months	77	77	83	84
3-6 months	16	17	11	12
Over 6 months	7	5	6	4

Source: Highland and Western Isles Valuation Joint Board Accounts

National performance audit reports

71. 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 may be of interest to the Joint Board. While these reports might not directly cover the work of the Joint Board, there may be lessons learned or helpful information on wider issues in local government. These are summarised in Appendix III.

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
Financial statements issues and risks		
New corporate financial management system: the Joint Board's 2015/16 accounts will be produced from the Highland Council's new corporate financial management system (INTEGRA) which was introduced on 1 April 2015. The effective operation of this new system is fundamental to the preparation of the 2015/16 financial statements and our audit opinion. As with any new system, there is a risk that it is not operating as expected (e.g. the Joint Board's opening balances may not have been accurately input to the new system resulting in a misstatement of the 2015/16 closing balances). Finance staff will need to review and revise any working papers which rely on ledger reports generated from the system to ensure that they continue to produce accurate figures for inclusion within the 2015/16 accounts.	• early financial statements planning meeting • increased audit testing of opening balances • review of controls operating within the new system • review of revised working papers • early discussion of emerging issues.	We agreed the opening balances entered on the new financial management system to the audited 2014/15 accounts. Our review of the controls in operation within the council's new financial management system concluded that there were weaknesses within the controls in operation within the general ledger and accounts payable systems during 2015/16 (refer to paragraph 57 for details). There was no impact on our audit as we adopted a substantive approach to the audit of the 2015/16 financial statements. We reviewed the working papers provided to audit and confirmed that they provided accurate figures for inclusion within the 2015/16 financial statements.

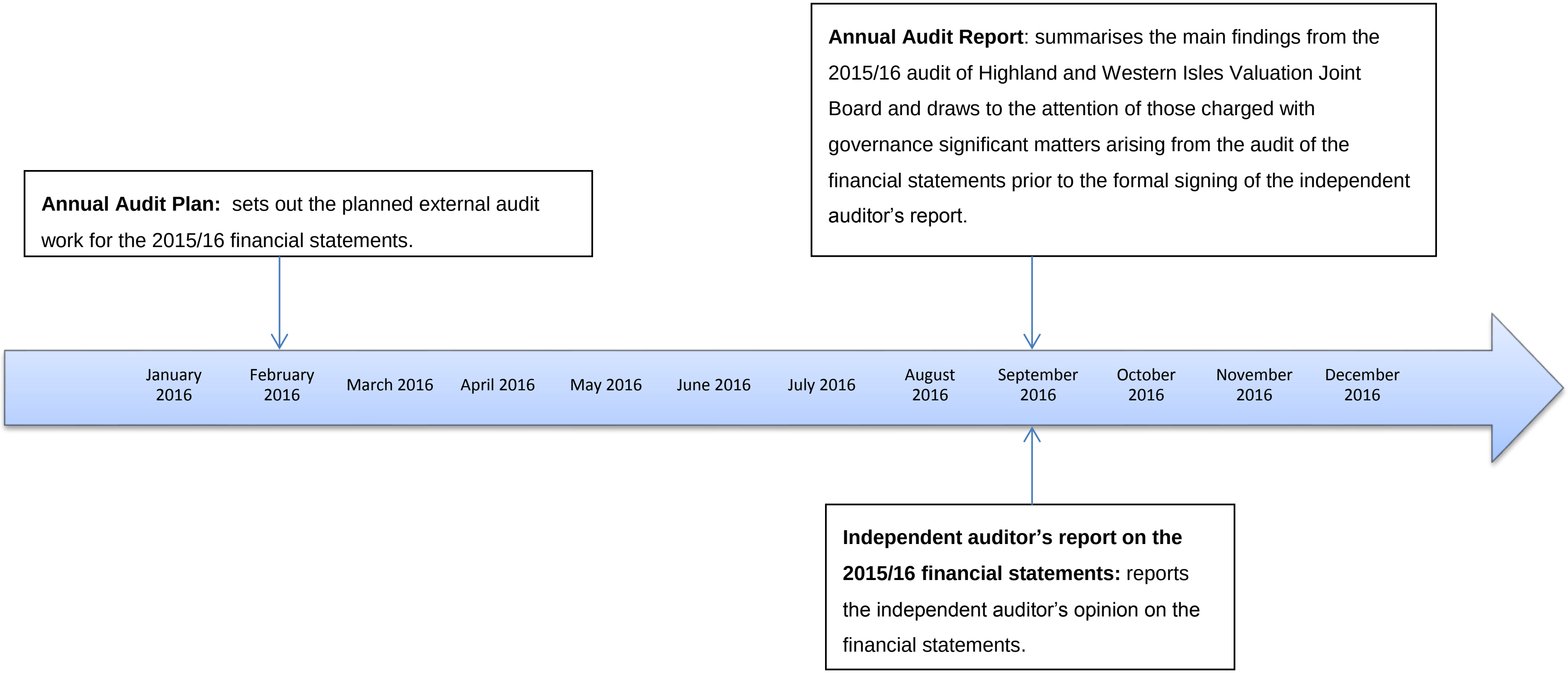
Audit Risk	Assurance procedure	Results and conclusions
Prior year issue (reconciliation and clearance of suspense accounts): during the audit of the 2014/15 financial statements we identified that suspense account balances had been carried forward as debtor and creditor balances within the unaudited accounts as payroll and car leasing suspense accounts balances had not been reconciled and cleared at the year end. There is a risk that the 2015/16 financial statements will include suspense account balances which have not been reconciled and cleared as part of the year end processes resulting in a material misstatement of the unaudited accounts.	• early financial statements planning meeting • increased audit testing in this area • early discussion of emerging issues	The balances on the payroll and car leasing suspense accounts were written off as part of the year end procedures. Refer to paragraph 58 for more details.
Prior year issue (expenditure cut-off errors): during the audits of the 2013/14 and 2014/15 financial statements we identified instances where expenditure had not been accounted for in the correct financial year. There is a risk that similar cut-off errors will be included within the 2015/16 financial statements submitted for audit.	• early financial statements planning meeting • increased audit testing in this area • early discussion of emerging issues.	We focussed attention on this area and did not identify any instances where expenditure had been accounted for in the incorrect financial year.

Audit Risk	Assurance procedure	Results and conclusions
Prior year issue (management review of the unaudited accounts): the 2014/15 financial statements submitted for audit did not comply with the requirements of the Local Authority Accounts (Scotland) Regulations 2014. In our opinion, a more robust and challenging review process needs to be put in place to improve the quality of the financial statements submitted for audit.	• early financial statements planning meeting • early discussion of emerging issues.	The unaudited accounts submitted for audit were of a good standard and we did not identify any instances where the 2015/16 financial statements did not comply with the Local Authority Accounts (Scotland) Regulations 2014.
Wider dimension issues and risks		
Governance and risk management arrangements: the Annual Governance Statement included within the audited 2014/15 financial statements highlighted the following significant governance issues which the Joint Board has agreed to address in 2015/16: • the local Code of Corporate Governance (the 'Overview of Governance Arrangements' document) has not been updated since 2010 and so does not comply with the CIPFA/SOLACE guidance 'Delivering good governance in local government';	• monitor through review of Joint Board papers • report results in annual report to members and the Controller of Audit.	We monitored progress in these areas during the year and reviewed the Annual Governance Statement included within the unaudited 2015/16 financial statements. We concluded that: • the 'Overview of Corporate Governance Arrangements' document was updated in June 2016 and now complies with guidance

Audit Risk	Assurance procedure	Results and conclusions
• contract standing orders have not been updated since 2010 and so do not reflect the subsequent changes to EU tendering thresholds and the revisions made to the Public Contracts (Scotland) Regulations 2012; • the risk management process is not robust and concentrates upon the identification rather than the management of risk. Internal audit have made four recommendations to improve the Joint Board's risk management process which are currently being actioned.		• contract standing orders were updated in June 2016 • the Joint Board's risk management process has yet to be reviewed and so this continues to feature in the Annual Governance Statement.
Financial Regulations: revised Financial Regulations were approved at the Joint Board meeting in November 2015. Our review of the revised Financial Regulations noted that these have yet to be updated to reflect the requirements set out in the Local Authority Accounts (Scotland) Regulations 2014. Without up to date Financial Regulations, there is a risk that the Joint Board does not comply with the requirements of the 2014 Accounts Regulations.	• monitor through audit process • report results in the annual report to members and the Controller of Audit.	Revised Financial Regulations were approved at the Joint Board meeting in February 2016. Our review of the revised Financial Regulations noted that these had been updated to reflect the requirements set out in the Local Authority Accounts (Scotland) Regulations 2014.

Audit Risk	Assurance procedure	Results and conclusions
Financial pressure: local government is facing continued pressures, including real-terms reductions in financing. The Joint Board's latest revenue budget monitoring report, based on the position as at 31 December 2015, projects that net expenditure will be £151,000 more than budget as at 31 March 2016. The majority of this variance (£104,000) relates to the reduction in the additional funding available from the Cabinet Office to cover the costs associated with individual electoral registration.	• monitor through the audit process • report results in the annual report to members and the Controller of Audit.	The Joint Board underspent against its budget in 2015/16 and returned £54,000 to constituent authorities. Additional funding was received from the UK Government to help fund the costs of the introduction of individual electoral registration.

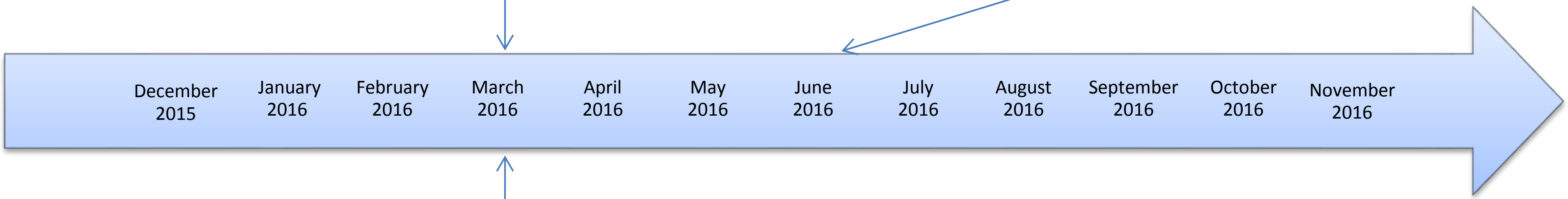
Appendix II: Summary of local audit reports 2015/16



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

Community planning: an update (March 2016) – progress on community planning has not yet achieved the major change needed to fulfil its potential to reduce inequalities and put communities at the heart of delivering public services.

National Fraud Initiative in Scotland 2014/15 (June 2016) – the security and transparency of Scotland's public finances have been strengthened after a national data-sharing exercise found nearly £17million of fraud and error across public services.



An overview of local government in Scotland (March 2016) – budget reductions mean starker choices ahead for public bodies which will not be met simply by continuing to cut staff and services.

Appendix IV: Action plan

No.	Para Ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	46 to 48	**Medium-term financial planning** To date, the Joint Board has only agreed an annual budget in advance of each financial year. Whilst it is appreciated that the most recent local government settlement announcement only covers 2016/17, the Joint Board should seek to develop longer term financial planning to identify the potential impact on service delivery of a range of budget assumptions (best, worst, most likely scenarios). **Risk** The Joint Board does not have sufficient information to inform budget decisions. **Recommendation** The Joint Board should develop longer term financial planning including the use of scenario planning to model a range of funding assumptions. The *Local Government Overview* report provides a useful framework for assessing the Joint Board's current financial planning arrangements.	It is appreciated that Audit Scotland recognise the difficulty of medium and long term financial planning due to single year grant settlements. A lot of work is required to support the various election processes, and this drives the work of the Assessor, and budget pressures, on an annual basis as much as financial challenges associated with grant settlements, and this needs to be borne in mind when considering future years' budgets and risk analysis. There has been a lack of clarity around central government funding for new legal requirements which has caused particular difficulty in assessing likely financial resources. However ,the principles of medium and longer term financial planning are accepted and it is proposed to seek to produce an indicative 3 year budget that reflects work demands linked to elections as well as the anticipated financial settlements.	Assessor/Treasurer 31 December 2016