

# Report to those charged with governance on the 2013/14 audit

Audited Body:	<b>Highland and Western Isles Valuation Joint Board</b>
Committee:	Highland and Western Isles Valuation Joint Board
Date:	11 September 2014

## Background

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Highland and Western Isles Valuation Joint Board's consideration the matters arising from the audit of the financial statements for 2013/14 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. It should be noted that the audit opinion reflects recent discussions with management and is subject to satisfactory conclusion of any outstanding matters.
3. We also present for your consideration our draft annual report on the 2013/14 audit which identifies significant findings from the financial statements audit. This report is attached at Appendix C and will be issued in final form after the financial statements have been certified.

## Status of the Audit

4. We have completed the audit of the Highland and Western Isles Valuation Joint Board's accounts. The issues arising from the financial statements audit were included in a matters arising schedule issued to the Finance Manager (Central Services) on 26 August 2014 and responses were received the same day. There were no significant issues arising requiring discussion with the Treasurer.

## Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit Committee on 1 May 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. 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 2013/14 agreed fee of £7,700 for the audit was disclosed in the Annual Audit Plan. We have not carried out additional work outwith our planned audit activity.

## Fraud

7. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the Joint Board we seek confirmation from those charged with governance of any instances of fraud that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation attached at Appendix B.

## Audit opinion and representations

8. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 12 September 2014. The proposed report is attached at [Appendix A](#). There are no anticipated modifications to the audit report.
9. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
10. Management have agreed to amend the unaudited financial statements for the majority of our audit findings. The agreed adjustments decrease gross expenditure by £20,000 and increase gross income by £5,000 in the Comprehensive Income and Expenditure Statement. However, as the Joint Board already holds the maximum general fund balance permitted by its reserve policy any surplus has to be returned to the constituent authorities. Consequently, taxation and non-specific grant income is also reduced by £25,000 in the Comprehensive Income and Expenditure Statement. These adjustments net off and so have no effect on the (surplus)/deficit on the provision of services figure reported in the Comprehensive Income and Expenditure Statement. There is also no impact on the net liabilities figure within the Joint Board's balance sheet as the creditor for expenditure is replaced with a creditor for the amount due to be returned to constituent authorities.
11. 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.
12. 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 these adjustments were not material to the financial statements and we concur with this assessment.

13. As part of the completion of our audit we seek written assurances from the Treasurer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Treasurer with the signed financial statements prior to the independent auditor's opinion being certified.

## Accounting and internal control systems

14. 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 that council's audit, supplemented by specific work on the Joint Board's financial statements. 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.

## Significant findings and key judgements

15. 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. Paragraphs headed 'Accounting Issues' in the attached annual audit report set out the issues we regard as those to be reported.

## Outstanding matters

16. There are no outstanding matters.

## Acknowledgements

17. We would like to express our thanks to the Treasurer's staff and the staff of Highland and Western Isles Valuation Joint Board for their assistance during the audit of this year's financial statements.

# APPENDIX A: Proposed Independent Auditor's Report

## **Independent auditor's report to the members of Highland and Western Isles Valuation Joint Board and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of Highlands and Western Isles Valuation Joint Board for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movements in Reserves Statements, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Treasurer and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves 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. This includes an assessment of: whether the accounting policies are appropriate to the Joint Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is

apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of Highland and Western Isles Valuation Joint Board as at 31 March 2014 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

### **Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword by the Treasurer to the Board for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement on the System of Internal Financial Control does not comply with the 2013/14 Code.

I have nothing to report in respect of these matters.

Maggie Bruce CA  
Senior Audit Manager  
Audit Scotland - Audit Services  
Ballantyne House, 84 Academy Street  
Inverness IV1 1LU

12 September 2014

## Appendix B: ISA 580 - Letter of Representation

Maggie Bruce  
Senior Audit Manager  
Audit Scotland  
84 Academy Street  
Inverness IV1 1LU

Date

Dear Maggie

### Highland and Western Isles Valuation Joint Board

#### Annual Accounts 2013/14

1. This representation letter is provided in connection with your audit of the financial statements of Highland and Western Isles Valuation Joint Board for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Highland and Western Isles Valuation Joint Board, as at 31 March 2014 and its income and expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Assessor and Corporate Management Team and the Joint Board, the following representations given to you in connection with your audit of Highland and Western Isles Valuation Joint Board for the year ended 31 March 2014.

#### General

3. I acknowledge my responsibility and that of Highland and Western Isles Valuation Joint Board (the Joint Board) for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the Joint Board have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Explanatory Foreword and Remuneration Report presents a balanced picture of the Joint Board and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

## **Financial Reporting Framework**

6. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 1985 including all relevant presentation and disclosure requirements.
7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the Joint Board for the year ended 31 March 2014.

## **Accounting Policies & Estimates**

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

## **Going Concern**

10. I have assessed the Joint Board's ability to carry on as a going concern, as identified in the Explanatory Foreword, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

## **Related Party Transactions**

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

## **Events Subsequent to the Balance Sheet Date**

12. There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
13. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

## **Corporate Governance**

14. I acknowledge as Treasurer and Section 95 Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2014 which require disclosure.

## **Fraud**

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

## **Assets**

17. The assets shown in the Balance Sheet at 31 March 2014 were owned by the Joint Board, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.
18. For the year ended 31 March 2014, the Joint Board did not own or mortgage any properties and did not hold any non-current assets. At 31 March 2014, the Joint Board had no obligations under finance leases.

## **Liabilities**

19. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2014. There are no contingent liabilities arising either under formal agreements or through informal undertakings requiring disclosure in the accounts.

## **Carrying Value of Assets and Liabilities**

20. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There are no plans or intentions that are likely to affect the carrying value or classification of the assets and liabilities within the financial statements.

## **Provisions**

21. There are no material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2014 requiring provision to be made in the financial statements.



## **Commitments**

22. There are no commitments under capital contracts. There are no other significant commitments or obligations which might adversely affect the Joint Board which require to be disclosed.

## **Other Matters**

23. Except as disclosed in the financial statements, the results for the period were not materially affected by:

- transactions of a sort not usually undertaken by the Joint Board
- circumstances of an exceptional or non-recurrent nature
- charges or credits relating to prior periods
- any change in the basis of accounting.

Yours sincerely

Derek Yule  
Treasurer and Section 95 Officer

**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	<p>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.</p>			