



Highland and Western Isles Valuation Joint Board

External Audit Annual Report to Members and
Controller of Audit

2016/17 Financial Year (Draft)

22 September 2017



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Our audit plan at a glance:

Materiality is in line with that setting at the planning stage of £30,000 (1% of gross expenditure)

Performance materiality is set at £19,500 and we have reported to management everything identified over £1,000 (trivial)

Significant Audit risks were presumed risks under ISA's: management override of controls and risk of fraud in revenue recognition. Other identified risks at planning: were completeness of expenditure (fraud) and completeness of employee remuneration

Our audit is undertaken in accordance with the smaller body exemption in the Code of Audit Practice. We have focused on financial sustainability, going concern and wider financial management arrangements.

We can confirm we are independent of The Highland and Western Isles Valuation Joint Board ("VJB") and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. Our final fee was unchanged at £6,970 as set out in our audit plan. No non-audit services have been provided to the VJB in 2016/17.

Key Messages

We anticipate issuing an unqualified opinion on:

- True and fair view of the financial statements
- Other prescribed matters

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the members of the Highland and Western Isles Valuation Joint Board (“VJB”) in their role as those charged with governance, and the Controller of Audit. This report will be published on the Audit Scotland website at: www.audit-scotland.gov.uk

This report has been discussed and agreed with officers, and presented to the Board on 22 September 2017. We would like to thank officers and staff for their co-operation and assistance during the audit.

GRANT THORNTON UK LLP

22 September 2017.

Our external audit work included:

- An Audit of the 2016/17 financial statements
- A review of the Management Commentary and Annual Governance Statement
- Completion of the ‘Role of Board’s’ return submitted to Audit Scotland to inform a future performance publication

In accordance with the requirements the VJB accounts were submitted to us on 16 June 2017, before the deadline of the end of June. The unaudited annual report and accounts were complete and to a good standard. The audit process worked well, with no audit adjustments and limited disclosure amendments.

The Valuation Board is responsible for the preparation, publication and maintenance of the Valuation Roll, Council Tax Valuation List and Electoral Register.

Income exceeded expenditure by £0.179 million primarily due to staffing costs being under budget due to vacancies. The majority of the excess (£0.17million) returned to the constituent authorities and £0.009 million taken to reserves. The key driver of this underspend was in staff costs and driven by vacancy levels.

An agreed revenue budget is in place for 2017/18, with an approved and fully funded budget of £2.860 million in place. This is broadly in line with the 2016/17 budget, with reductions in postage costs achieved in 2016/17 offset by staff cost increases reflecting agreed 1% pay uplifts and staffing in place at the end of the financial year.

Decisions regarding the VJB budget are taken by the Board, which is made up of eight Councillors from Highland Council and two Councillors from Western Isles Council.

VJB is supported in its administration by the Highland Council Finance team, using many of the Council’s financial systems. As Highland Council’s external auditors we have used the information gained through the Council audit to inform our understanding of VJB and subsequent testing strategy.



The Financial Statements Audit



Summary

We have not had to alter or change our audit approach which was set out in our audit plan, presented to the Board on 2 February 2017. Our final materiality was in line with our planning materiality at £30,000 (1% of gross expenditure).

Our audit is substantially complete, subject to the finalisation of:

- completion procedures including receipt of final financial statements and management representation letter

There were no corrected or uncorrected misstatements as set out in Appendix 1. In line with triviality we are required to report all potential audit adjustments identified above £1,000 to officers; along with identified disclosure enhancements.

Overall, the draft financial statements we received on the 16th of June were of a good quality and were a complete set of annual accounts and report. We were comfortable with the quality of audit working papers provided.

Internal Control Environment

In discharging our respective ISA responsibilities we have sought to understand VJB's control environment. In particular we have performed the following work at Highland Council who provide accounting services:

- considered procedures and controls around related parties, journal entries and other key entity level controls
- performed walkthrough procedures on key controls around identified risk areas for example operating expenses and journal entries

No material weaknesses in the accounting and internal control systems were identified during the audit which could have an adverse impact on VJB's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

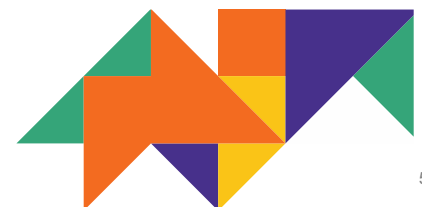
Under ISA's we are required we are required to report to those charged with governance the main issues arising from our audit of the Annual Accounts and Report. This report discharges our obligations under the relevant ISA's.

Internal Audit

As set out in our plan we have not placed formal reliance on the work of the in-house Internal Audit function during 2016/17, which is provided by Highland Council. The Internal Audit function confirmed compliance with the Public Sector Internal Audit Standards as part of their Annual Report. An external assessment of the Internal Audit function was completed in the year through the Scottish Local Authorities Chief Internal Auditor Group (SLACAIG) which was reported to Audit and Scrutiny Committee at the 2 March 2017 meeting. This report highlighted that overall the function generally conforms with standards, with 7 areas of full conformance noted and 6 areas of general conformance. There were no areas of partial or non-conformance noted.

We have reviewed the internal audit plan for the Council, and the internal reports considered relevant to our external audit, in particular the reviews of internal controls and debtors.

Based on the work throughout the year, Internal Audit have concluded that the key Council systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. They have provided an opinion that reasonable assurance can be placed on the adequacy and effectiveness of the Valuation Board framework of governance, risk management and control.



Our identified audit risks

Our audit plan identified significant and other audit risks and our planned approach to address them. We have set out below a summary of the work undertaken over these risks and our conclusions.

| Audit plan identified risk and work completed | Our conclusion |
|---|---|
| <p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk).</p> <p>Work undertaken</p> <p>Completed walkthrough of the controls and procedures in place around journal entries</p> <p>Reviewed the key accounting estimates, judgements and decisions made by officers.</p> <p>Tested journal entries with a focus on unusual posting sources, times or amounts identified using our IDEA data analysis software</p> <p>Reviewed unusual and/or significant transactions.</p> | <p>Key accounting estimates: We did not identify any significant areas of bias in key judgement around actuarial assumptions and judgements were consistent with prior years.</p> <p>Journals: We made inquiries of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We also targeted large and/or unusual journals and noted no issues from our testing.</p> |
| <p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 (UK&I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. VJB's income is composed of £2.691 million income from constituent authorities, £0.182 million of Scottish Government grant income and £0.003m of other income.</p> <p>Work undertaken</p> <p>Completed walkthrough of the controls and procedures in place around sales invoicing and sales ledger</p> <p>Agreed revenue to supporting documentation and cash receipts in the year / post period end to gain comfort over validity of these transactions</p> <p>Considered the recoverability of any outstanding balances at year end</p> | <p>We rebutted the risk of fraud related to the grant funding stream from the Scottish Government given the nature of the funding received. We completed the following procedures around revenue:</p> <ul style="list-style-type: none"> - For grant funding we agreed this to the allocation letter and income receipted to bank. - For funding from the Councils, we agreed to the agreed funding requisitions and to underlying documentation - No work was deemed necessary on the other income balance due to the balance being immaterial. <p>No issues noted from our review of the treatment of revenue in the year.</p> |

| Audit plan identified risk and work completed | Our conclusion |
|---|---|
| <p>Completeness of operating expenditure</p> <p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p> <p>Work undertaken:</p> <p>Completed walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure.</p> <p>Reconciled creditors ledger to the general ledger and financial statements.</p> <p>Performed cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure.</p> | <p>We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers / the Local Government (Scotland) Act 1973 and that the expenditure is valid.</p> <p>Through our pre and post year end cut off testing on a sample basis we did not identify any expenditure that was incorrectly accounted for.</p> <p>Property costs, supplies and services and other operating costs were substantively tested with no issues noted.</p> |
| <p>Completeness of employee remuneration</p> <p>There is a risk that employee remuneration and benefit obligations and expenses are understated.</p> <p>Work undertaken</p> <p>Completed walkthrough of controls and procedures in place around payment of staff.</p> <p>We conducted sample testing of staff members to contract and recalculation of PAYE, NI and pension contributions.</p> <p>We reviewed the relevant disclosures in relation to staff costs within the financial statements.</p> | <p>We have assessed the completeness of employee remuneration and believe we have gained sufficient assurance over the payroll process to conclude that there are no material misstatements.</p> <p>Through our detailed testing of employees we did not identify any issues. Similarly, our analytical review of employee remuneration including overall staff costs, NI and pensions with no issues noted.</p> |

The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements, and also compliance with Local Government Code of Practice and remuneration guidance, and have set out our observations below:

| Management commentary | Corporate Governance Statement | Remuneration report |
|---|--|---|
| <ul style="list-style-type: none"> • The report outlines performance analysis and highlights the key issues facing the VJB • All required disclosures included in line with Code of Practice on Local Authority Accounting • Financial performance analysis included is in line with our understanding and work performed. | <ul style="list-style-type: none"> • All key required elements included within the corporate governance statement. • No specific matters of concern have been highlighted within this statement. | <ul style="list-style-type: none"> • The remuneration report has been completed in line with the Local Authority Accounts (Scotland) Regulations 2014 and the CIPFA Local Government Accounting Code of Practice • We have audited the financial information included in the remuneration report (marked audited information). We have no matters we wish to bring to your attention. |



Judgements and estimates

In addition to our identified significant and other audit risks we consider other aspects of your financial statements in particular key areas of judgement. We have summarised below our observations in these areas:

Accounting Policies

- Accounting policies are in accordance with the Local Government Code of Audit Practice and we consider these to be appropriate to the VJB

Accounting estimates and judgements

- Actuarial assumptions for defined benefit scheme are set out below:
 - Pension increase rate of 2.4% (2015/16 2.1%)
 - Salary increase rate of 4.4% (2015/16 4.1%)
 - Discount rate of 2.5% (2015/16 3.4%)
- We have obtained and reviewed the PWC review of Local Government Actuarial assumptions and noted that all assumptions fall within a reasonable range.

Going Concern

- The VJB has an agreed budget of £2.860 million for 2017/18.
- The VJB provides statutory functions in the geographical area of Highland and Western Isles.
- Given the nature of the VJB as a public body receiving funding from the constituent authorities and Scottish Government grant income, we do not have reason to consider the VJB not continuing to operate over the next 12 months from the account signing date.

Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transaction or the period in which they were recorded.

Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the financial statements.

Overview of the VJB's arrangements



Understanding the VJB as an organisation

Recognising the Code of Audit Practice during the course of our work we have reviewed Committee minutes and associated papers to understand the key operational aspects of VJB and potential future risks and challenges. In this section we provide commentary over key aspects of VJB arrangements, including relevant observations and conclusions relating to the key aspects of VJB as an organisation.

Financial Management

Performance tracked ahead of budget, with the majority of the excess (£0.17m) returned to the constituent authorities and a small amount taken to reserves. The key driver of the underspend was a £0.12m underspend on staff costs driven by delays filling vacancies and changes in contractual terms.

There continues to be a key focus on budgetary control recognising the tight financial constraints under which VJB and the wider Local Government sector are operating, and the pressures on their constituent authorities. Identification and delivery of cost efficiencies is a key focus of the budget process.

Financial Sustainability and Going Concern

Funding for 2017/18 was agreed in February 2017 as per below:

| | 2016/17 budget £000s | 2017/18 budget £000s | Movement £000s |
|-------------------------------------|----------------------------|----------------------------|-------------------|
| Constituent Authority Contributions | 2,861 | 2,860 | -1 |
| Scottish Government Grant | 140 | 150 | 10 |
| Other income | 5 | 5 | 0 |
| Total income | 3,006 | 3,015 | 9 |
| Staff | 2,027 | 2,095 | 68 |
| Valuation appeals committee | 55 | 53 | -2 |
| Property | 274 | 262 | -12 |
| Administration | 277 | 239 | -38 |
| Supplies and services | 358 | 351 | -7 |
| Other | 15 | 15 | 0 |
| Total expenditure | 3,006 | 3,015 | 9 |

Expenditure and income are always aligned. The key movements are the reduction in postage costs within supplies and services, and the uplift in staff costs to reflect agreed pay increases and changes in terms and conditions.

There remains an opportunity to enhance medium term financial planning beyond the one year funding cycle, and to enhance engagement between the Board and constituent authorities around the identification and delivery of efficiency savings. See **Action Point 1**.

Activity in 2016/17

The Scottish Parliament elections in May 2016 closely followed by the EU referendum in June 2016 resulted in a busy year for the board. In addition, the move to Individual Electoral Registration (IER) continues to place significant demands upon resources. Alongside these key strands, updated rateable value calculations were delivered on time to the constituent authorities..

Work was ongoing in the period in relation to Shooting Rights, which were readded to the valuation role from April 2017.

Fraud and Irregularity

We considered this element from a Highland Council level, given that this is the framework under which VJB operates. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found that Highland Councils arrangements for the prevention and detection of fraud and other irregularities to be adequate. There is a fraud policy in place and fraud updates are regularly circulated to staff.

Audit Adjustments

Uncorrected and corrected misstatements

There were no uncorrected or corrected misstatements.

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow the VJB to evaluate the impact of these matters on the financial statements. There were no material disclosure misstatements.




Appendix 2 Action Plan

During the course of our 2016/17 audit work we have identified the following actions for management:

| | Area | Issue & Risk | Priority | Recommendation and management response |
|---|---------------------------------------|--|----------|--|
| 1 | Medium term financial planning | <p>Financial planning remains on a single year basis. There is a risk that there is a failure to appropriately consider the medium term financial strategy of the Board.</p> <p>There is also an opportunity to enhance engagement between the Board and constituent authorities around the identification and delivery of efficiency savings.</p> | Medium | <p>That longer term financial plans are developed in conjunction with constituent authorities.</p> <p>Management response: TBC Timescale: TBC Action Owner: TBC</p> |

Follow up on prior year recommendations

We have undertaken a follow up of outstanding recommendation from prior year raised by the previous external auditors, Audit Scotland. The results of our work are outlined below:

| Prior year finding | Action in 2016/17 | Status |
|---|---|---|
| <p>Medium term financial planning</p> <p>To date, the Joint Board has only agreed an annual budget in advance of each financial year.</p> <p>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.</p> | <p>The Board has continued on a one year funding cycle in line with the wider local government sector. Given the level of judgement around future funding that would be required to extend these projections, we are comfortable with the current approach. See Action Point 1</p> | <p> Amber</p> |



Not implemented (red)



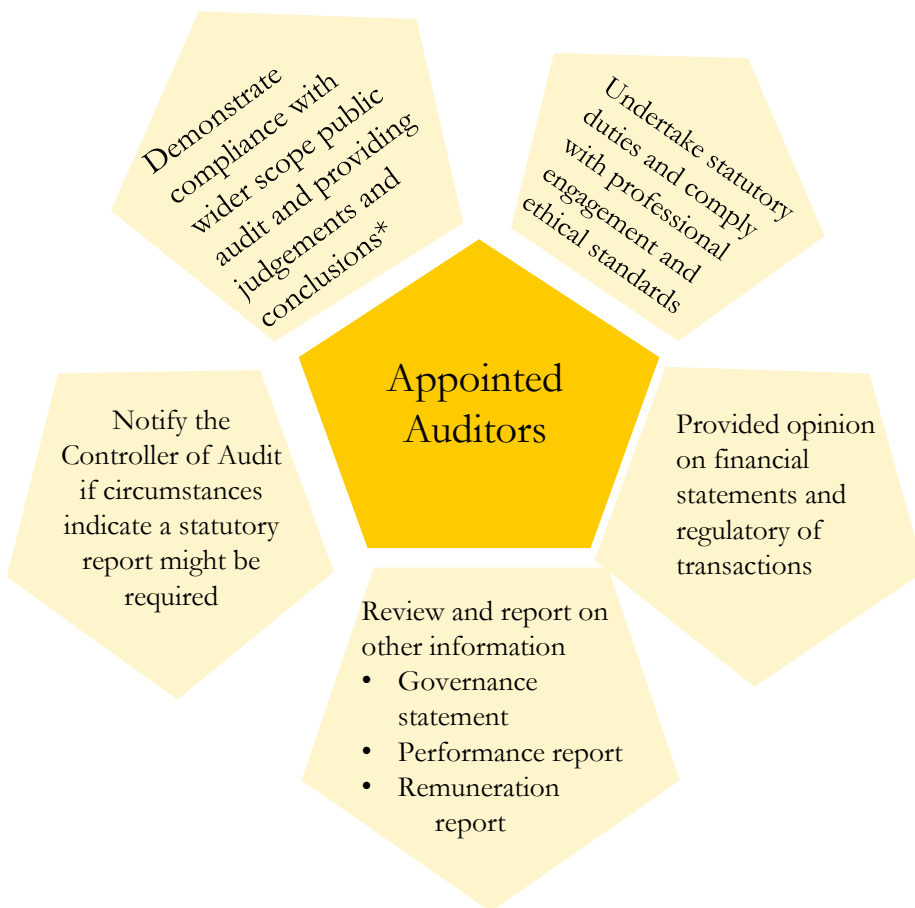
Partially implemented (amber)



Fully implemented (green)

Reminder of Responsibilities

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 and are summarised below.



An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISA's and the Code and may not be all that exist

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

The VJB has not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our work. We have not been made aware of any incidences of fraud or corruption.

* We have applied the smaller body status allowable under the Code of Audit Practice to the VJB. However, we have been alert to potential risks relating to: financial management; financial sustainability; governance and transparency; and value for money and have provided commentary within the section on our understanding of the VJB as an organisation.





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