

# Highland and Western Isles Valuation Joint Board

## Annual report on the 2010/11 audit



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

October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key messages

## 2010/11

In 2010/11 we audited the financial statements and looked at aspects of governance and performance within Highland and Western Isles Valuation Joint Board (the board). This report sets out our main findings.

We have given an unqualified opinion on the financial statements of Highland and Western Isles Valuation Joint Board for 2010/11.

The board reported an underspend in 2010/11 of £0.131 million, £0.081 million of which was transferred to the newly created general reserve to provide a contingency fund to meet unforeseen costs and enable budgeting flexibility between financial years.

The board has appropriate governance arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption.

An annual report is produced by the board which includes key performance indicators covering the valuation roll, council tax and staffing. There is opportunity to be more transparent and complete in reporting performance by including key electoral registration and customer orientated type indicators.

## Outlook

Due to the economic downturn, the volume of rating appeals has seen an unprecedented volume which had affected the performance of the other functions of the board. In the longer term there is also uncertainty as to the future of the council tax.

Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants, for a five year term. 2010/11 is the last year of our current audit appointment to the board and we would like to thank officers and members for their assistance during the last five years.

# Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Highland and Western Isles Valuation Joint Board. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinion on the financial statements, conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the board understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.
3. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the board. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate.
4. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by the board. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.
5. The management of the 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 our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

## Audit opinion

9. We have given an unqualified opinion that the financial statements of Highland and Western Isles Valuation Joint Board for 2010/11 give a true and fair view of the state of the affairs of the board as at 31 March 2011 and of the income and expenditure for the year then ended.

## Legality

10. Through our planned audit work we consider the legality of the 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 board's management team, the financial transactions of the 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 systems of internal financial control

11. We are satisfied with the disclosures made in the statement on the systems of internal financial control and the adequacy of the process put in place by the board to obtain the necessary assurances. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

## Remuneration report

12. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant board officers and elected members.

## Accounting issues

13. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). We are satisfied that the board prepared the 2010/11 financial statements in accordance with the 2010 Code.

## Accounts submission

14. The board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and for publication.

## Prior year adjustments

15. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The only adjustment which had to be made for the board was the inclusion of an accrual for employee benefits relating to annual leave and flexitime. This accrual resulted in the net liabilities position of the board as at 31 March 2010 changing from £4.519 million to £4.530 million.

## Presentational and monetary adjustments to the unaudited financial statements

16. A few errors were identified during the audit. There were three invoices which were posted in the wrong financial year. As a result both expenditure and requisitions for the year were overstated by £13,850 in the Comprehensive Income and Expenditure Account. This had no impact on the overall deficit for the year or the board's total net liabilities as at 31 March 2011.
17. The number of days used in the annual leave and flexi-time accrual was 365 instead of 261 as per the relevant guidance note. This understated both the deficit in the Comprehensive

Income and Expenditure Account and creditors by £11,122. This had no impact, however, on the general fund as the amount is reversed through the accumulated compensated absences adjustment account.

18. The above errors were immaterial to the accounts as a whole. Officers in finance proposed not to adjust the accounts for these errors and we concurred on this approach. A number of presentational amendments were also processed to improve the disclosures within the financial statements.

## Going concern

19. The board's balance sheet at 31 March 2011 has an excess of liabilities over assets of £2.243 million due to the accrual of pension liabilities in accordance with International Accounting Standards 19 (IAS 19). The Explanatory Foreword by the Treasurer to the board on page 8 of the Statement of Accounts confirms that the board has adopted a 'going concern' basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employer's rate to meet the fund's commitments. The constituent authorities of the board are liable to fund the board's liabilities as they fall due. We are satisfied, therefore, that the process which the board has undertaken to consider the organisation's ability to continue as a going concern is reasonable.

## Outlook

### Audit appointment for 2011/12

20. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for Highland and Western Isles Valuation Joint Board but a different audit team will be in place. We look forward to continuing the good working relationships that exist.



# Financial position

21. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
22. 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
  - the 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.
23. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

### Budgetary control

24. The board's net operating expenditure in 2010/11 was £2.573 million. Contributions from constituent authorities during the year were £2.654 million and the excess of £0.081 million was transferred to the general fund (see paragraph 26 below). The board's net budgeted expenditure in 2010/11 was £2.704 million giving a net underspend of £0.131 million. In the Explanatory Foreword, the Treasurer had explained the main reasons for the budget underspend as follows:
  - staff costs were lower by £0.108 million mainly due to vacant posts during the year
  - administration expenses were underspent by £0.025 million due to reduced spend on postages and legal expenses
  - supplies and services were overspent by £0.017 million due to increased spend on appeal hearing during the year.
25. The net operating expenditure of £2.573 million (see paragraph 24 above) is different from the Net Cost of Services in the Comprehensive Income and Expenditure Statement of £1.669 million by £0.904 million. This is because reports prepared for the board's monitoring purposes are prepared on a different basis from the accounting policies used in the financial statements, for example, retirement benefits are based on cash flows rather than the current service costs of benefits accrued in the year. Note 18 to the accounts reconciles the figures

in the budget performance report to the figures in the Comprehensive Income and Expenditure Statement.

## Financial position

26. In January 2011, the board approved the creation of a general fund to:
- provide a contingency to meet unforeseen costs
  - enable budgeting flexibility between financial years
  - meet one off costs required in order to deliver budget savings in future years.
27. In the absence of a more specific regulation for valuation joint boards in respect of the carry forward limits on its reserve, Highland and Western Isles Valuation Joint Board had agreed to align its carry forward limits similar to those imposed on fire and police boards. The amount which can be transferred has therefore been restricted to 3% of the total budget in the year of the transfer and the cumulative balance on the General Fund should not exceed 5% of the total budget in that year. The amount transferred in 2010/11 was £0.081 million which is 3% of the budgeted requisitions during the year of £2.704 million.

## Financial outlook

### Revenue budget for 2011/12

28. The board, like all public sector organisations, faces a very challenging financial climate. This served as an impetus to create the reserve discussed above. The budget for 2011/12 of £2.621 million is 3.07% (£0.083 million) lower than last year's budget of £2.704 million. Staff costs which account for 71% of the total budget assume a general pay freeze for the year and there have been reductions to and downgrading of certain posts and lower overtime costs to meet the tighter budget.

### Pensions funding

29. Financial planning and accounting for the costs of pensions present 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 numerous 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 them, even if the actual payment will be made years into the future. This requirement results in large future liabilities being recognised in the financial statements.
30. The actuary makes a number of assumptions in calculating pension costs. In our 2009/10 report to members we highlighted that no review of the assumptions or rates applied by the actuary is carried out to ensure the board is satisfied that these are appropriate to local circumstances. In discussions with pensions officers this year, we were advised that there are close working relationships with the actuary to ensure that local circumstances are taken

into account. We also requested a specific representation from the administering authority for The Highland Council Pension Fund, that they are satisfied that the assumptions made by the actuary agree with local circumstances

31. The board's estimated pension liabilities at 31 March 2011 exceeded its share of assets in the Highland Council Pension Fund by £2.296 million (£4.519 million at 31 March 2010). The decrease in the net pension liability of £2.223 million is due to the past service gain of £0.993 million. This was as a result of a change in one of the financial assumptions with future pension increases being linked to the consumer price index (CPI) rather than the retail price index (RPI) and also actuarial gain of £1.380 million due mainly to an increase in the real discount rate.

# Governance and accountability

32. 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.
33. 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 in monitoring these arrangements.
34. 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.
35. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

36. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The board has oversight of the financial resources and receives budget monitoring 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 Financial Regulations.
37. The board is generally well attended by members and officers who respond to queries. As highlighted in our Annual Audit Plan for 2010/11, the board may wish to consider putting in place a mechanism to seek feedback on the effectiveness of the board and appraisal of its own operation and the performance of its members.
38. In August 2010, the board reviewed its governance and performance management arrangements. We note however that this was largely based on Nolan principles rather than the 2008 CIPFA and SOLACE Guidance Note for Scottish Authorities – Delivering Good Governance in Local Government (2007).

**Refer Action Plan No. 1**

## Risk management

39. In August 2010, as part of the update of the board's overview of governance arrangements (paragraph 38 above), the organisation's strategic risks were presented to the board. Each risk was given a risk profile which was a combination of the likelihood of it happening and its impact. Remedial actions were also outlined against each risk. We are not aware, however, of the risks being considered by members since 2010.

**Refer Action Plan No. 2**

## Single Equality Scheme

40. In its August 2010 meeting, the board was advised of the need to comply with the terms of the Equalities Act 2010 and the possibility of drawing up a single equalities policy, which would cover all the strands of the equalities obligations that are placed on the board. The board has agreed to produce a combined equalities policy to replace all existing individual policies as soon as practicable, as a result of the Equalities Act 2010.

## Internal control

41. As part of our work, we sought to take assurance from key controls within the board's financial systems. We reviewed the main accounting and budgetary control systems and placed formal reliance on Internal Audit's testing of the payroll and accounts payable systems. We did not find any significant control weaknesses in our review and improvements highlighted by Internal Audit have either already been implemented or will be implemented in due course.

## Prevention and detection of fraud and irregularities

42. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

We found that Highland and Western Isles Valuation Joint Board has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an approved fraud and corruption detection policy, a whistleblowing policy and the code of conduct for employees. These documents have not been updated since 2003 but the board believes that they remain current and relevant.

## Outlook

43. In early 2008 the SNP government announced their proposals to replace council tax with a local income tax based on ability to pay. There is, therefore, uncertainty with regards to the future of council tax although the board believes that it will continue in its present form at least up to 2015. We will continue to monitor developments in this area.

# Best Value, use of resources and performance

44. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure best value.
45. 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 audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
46. As part of their statutory responsibilities, 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.
47. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
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 includes a commentary on the best value/performance management arrangements within the board.

## Management arrangements

### Best Value

50. As outlined in the board's overview of governance arrangements, the introduction of best value has given rise to a number of key performance indicators. In respect of the electoral registration, the Electoral Commission has established a regime of self assessment and inspection. The second self assessment was submitted to the Commission in late 2010 which was followed by a low key inspection in spring 2011.

51. The board acknowledges that as part of the its response to the best value regime, it is intended over time to develop its approach to taking account of stakeholders' views, to provide them with details of performance and invite their input as to how performance should be measured and what dimensions of performance they particularly value.

## Overview of performance in 2010/11

### Public performance report

52. The board publishes an annual report which summarises the key activities and achievements under each of the main functions of the organisation namely: electoral registration, council tax and valuation for rating. The 2011 annual report included results for some key performance indicators under valuation roll and council tax but none were reported under electoral registration. Future reports may also wish to consider including indicators on responsiveness to the community such as time taken to deal with requests from the public, number of complaints received, time to respond to these and other customer related measures.

**Refer Action Plan No. 3**

## Outlook

53. The Assessor highlighted in a number of documents that the economic recession had given rise to an increased number of appeals which is unprecedented in the rating field in Scotland. This is expected to continue in future years and may result in significant amount of litigations, putting a strain on the board's resources The Assessor also flagged that there is no certainty that all revaluation appeals will be cleared by the statutory deadline in 2013.

# Appendix A: Action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	38	<p>The board's corporate governance document may require updating to take account of the 2008 CIPFA and SOLACE Guidance Note for Scottish Authorities – Delivering Good Governance in Local Government (2007).</p> <p><b>Risk: Governance arrangements are not relevant and up to date.</b></p>	<p>The Governance arrangements were last reviewed in August 2010. Periodic review is desirable and a further review which will take into account the CIPFA and Solace Guidance will be carried out in the course of the next year.</p>	Assessor	August 2012
2	39	<p>Strategic risks are not regularly reported to the board.</p> <p><b>Risk: Members are not aware of the strategic risks facing the board which may lead to failure in service delivery.</b></p>	<p>Issues such as the budgetary squeeze, the uncertainties as the future of council tax and the influx of material change of circumstances appeals have been reported to the board and will be incorporated into the risk register and formally reported to the board before the end of the financial year and regularly thereafter as considered appropriate.</p>	Assessor	Prior to 31st March 2012



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	53	<p>Electoral registration and customer service type indicators are not currently included in the board's Annual Report.</p> <p><b><i>Risk: The public is not provided with complete and transparent performance information.</i></b></p>	<p>Now that the Electoral Commission regime is established, the outcome will be incorporated into the next annual report. Any complaints received through the department's complaints procedure are reported to the Board. This can be incorporated into the Annual report as an additional item.</p>	Assessor	20011/12 Annual report