

Highland and Western Isles Valuation Joint Board

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Highland and Western Isles Valuation Joint Board and Controller of Audit
September 2023

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Key messages

2022/23 annual accounts

- 1 Audit opinions on the Highland and Western Isles Valuation Joint Board annual accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 The management commentary, annual governance statement and the audited part of the remuneration report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Wider scope

- 3 Highland and Western Isles Valuation Joint Board (the Board) has effective and appropriate arrangements in place to continue to deliver its services.
- 4 The Board has a medium-term financial plan up to 2025/26.
- 5 The Board has appropriate arrangements in place to secure Best Value.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Highland and Western Isles Valuation Joint Board (the Board). The scope of the audit was set out in an Annual Audit Plan presented to the March 2023 meeting of the Board. This Annual Audit Report comprises:

- Significant matters arising from an audit of the Board's annual accounts;
- Conclusions on wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability and Best Value.

2. This report is addressed to the Board and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Esther Scoburgh, have been appointed by the Accounts Commission as auditor of Highland and Western Isles Valuation Joint Board for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice 2021](#) (the Code) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank all the members and staff, particularly those in finance, for their cooperation and assistance this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. The Board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Board is also responsible for compliance with legislation and putting arrangements in place for governance and propriety.

6. The responsibilities of an independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice](#) and supplementary guidance and International Standards on Auditing in the UK.

7. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its

responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £8,800 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to the Board by:

- Identifying and providing insight on significant risks, and making clear and relevant recommendations; and
- sharing intelligence and good practice identified.

Part 1: Audit of 2022/23 annual accounts

Public bodies are required to prepare an annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on the annual accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.

The management commentary, annual governance statement and the audited part of the remuneration report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Audit opinions on the annual accounts are unmodified

11. The Board approved the annual accounts for Highland and Western Isles Valuation Joint Board for the year ended 31 March 2023 on 22 September 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- The financial statements give a true and fair view of the state of affairs of Highland and Western Isles Valuation Joint Board as at 31 March 2023 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Overall materiality was assessed on receipt of the unaudited annual accounts as £78,000

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report.

Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts and remains unchanged with no impact on our audit approach. Materiality is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

| Materiality level | Amount |
|---|---------|
| Overall materiality (2% of gross expenditure on unaudited accounts) | £78,000 |
| Performance materiality (75% of overall materiality) | £59,000 |
| Reporting threshold (5% of overall materiality) | £4,000 |

Source: 2022/23 Annual Audit Plan

14. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% based on our understanding of the entity and observations of the Board to date; the nature and extent of misstatements identified by the previous auditor combined with our expectations in relation to misstatements in the current period.

16. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the Board including our view about the qualitative aspects of Highland and Western Isles Valuation Joint Board's accounting practices.

18. The [Code of Audit Practice](#) also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. The significant key audit matters are described in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

| Issue | Resolution |
|--|---|
| <p>1. Valuation of IAS pension asset/liability</p> <p>The IAS 19 report by the actuary to the Highland Pension Fund reported that the Board had an in year surplus which changed the overall liability position to a net asset position of £1.386 million at 31 March 2023.</p> <p>To fully comply with IAS 19, a defined benefit asset requires to be limited to the lower of:</p> <ul style="list-style-type: none"> • The surplus in the defined benefit plan; and • The asset ceiling, determined using the discount rate (in line with general IAS 19 rules on discount rates). <p>The asset ceiling was not applied in the unaudited accounts and this was not compliant with the accounting standard. A change was requested by audit.</p> | <p>The Board obtained a revised estimate from the actuary which determined an asset ceiling value of £0.486 million.</p> <p>Management revised the unaudited accounts to limit the net pension asset accordingly. This had the effect of reducing the pension asset by £0.9 million.</p> <p>As a result of the above, we are satisfied that the valuation of the pension asset is not materially misstated. This was judged to be a key audit matter.</p> |

Our audit work responded to the risks of material misstatement we identified in the annual accounts

19. We have obtained audit assurances over the identified significant risks of material misstatement to the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified significant risks of material misstatement in the annual accounts

| Audit risk | Assurance procedures | Results and conclusions |
|---|--|---|
| <p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that</p> | <p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas.</p> | <p>SATISFACTORY: No issues were identified that indicate misstatements due to fraud caused by management override of controls.</p> <p>Testing focused on journal entries around the year-end that are open to management override of controls.</p> |

| Audit risk | Assurance procedures | Results and conclusions |
|--|---|---|
| <p>otherwise appear to be operating effectively.</p> | <p>Consider the need to test journal entries and other adjustments during the period.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</p> <p>Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</p> <p>We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p> | <p>Officers involved in financial reporting processes did not identify any unusual activity.</p> <p>Audit testing of income and expenditure transactions confirmed they had been accounted for in the correct financial year.</p> <p>Methodologies and assumptions employed by management in preparing account estimates did not significantly vary from the prior year and were consistently applied.</p> <p>Our testing of accruals and prepayments did not identify any errors and we found no significant transactions outside the normal course of business.</p> |

20. In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be other risks of material misstatement to the financial statements. The one area of specific audit focus was:

- Valuation of IAS19 pension liability:** This is an area of audit focus due to the material value and significant, complex actuarial assumptions and estimates used in the calculation of the pension liability based on life expectancy and CPI growth.

21. We kept this area under review throughout our audit. We considered the reasonableness of actuarial estimates on material elements of the valuation. We engaged PwC LLP to review actuarial assumptions across the Scottish

Local Government Pension Scheme including the accuracy of the information provided to the actuary (Hymans Robertson) by the Board. We have referred to this matter and its resolution in [Exhibit 2](#) above. There are no other matters which we need to bring to your attention.

There was one non-material misstatement identified within the financial statements above our reporting threshold

22. There are no material misstatements arising from our 2022/23 audit. However we identified one non-material misstatement above the reporting threshold of £4,000 which was not corrected by management in the audited accounts.

23. Finance Circular 2/2018 withdrew the statutory adjustment for the flexitime and time off in lieu elements of the accrual for untaken leave at the year end with effect from 1 April 2021. The unaudited accounts had included these in the amount charged against the Employee Statutory Adjustment Account. As a result, the Employee Statutory Adjustment Account is understated, and the General Fund balance is overstated by £16,500. Management have agreed this and took the decision not to adjust for this.

24. We considered the size, nature and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that this was not material. Further details of the uncorrected misstatement is included in [Appendix 2](#).

The unaudited annual accounts were received in line with the agreed timetable

25. The unaudited annual accounts and working papers package were received in line with our agreed audit timetable and presented for audit on 27 June 2023. There were no objections to the accounts.

Internal Audit

26. The Board's internal audit function is carried out by The Highland Council's in-house internal auditors. Internal audit will present their 2022/23 Annual Report at the September 2023 Board meeting. In the report Internal audit concluded that, "*reasonable assurance can be placed upon the adequacy and effectiveness of the Board's framework of governance, risk management and control for the year to 31st March 2023.*"

27. We noted that no 2022/23 internal audit reports were presented to the Board during the year; one of the planned 2022/23 internal audits on Individual Electoral Registration was not completed and the 2022/23 Annual Report was late in terms of delivery to the Board and to inform the annual governance statement.

28. Presentation of the internal audit annual plan and internal audit reports is important to give members an understanding of the work being undertaken and the ability to scrutinise the report and its findings in carrying out their governance role. We have raised a recommendation in [Appendix 1](#).

Recommendation 1

The Internal Audit annual plan and subsequent internal audit reports / outputs should be presented to the Board in a timely fashion to ensure members are able to carry out their scrutiny function effectively.

Substantial progress was made on prior year recommendations

29. The Board has made substantial progress in implementing the audit recommendation identified by Grant Thornton, the Board's previous external auditor. [Appendix 1](#) summarises the recommendation regarding risk management and the actions the Board have taken to address it. We will continue to observe and comment, if necessary, on this process as part of normal audit procedures during our audit appointment.

Part 2: Wider Scope

The wider-scope audit work considers the financial sustainability and the services that the Board delivers over the medium to longer term including the arrangements for securing Best Value.

Conclusion

Highland and Western Isles Valuation Joint Board has effective and appropriate arrangements in place to continue to deliver its services.

The Board has a medium-term financial plan up to 2025/26.

The Board has appropriate arrangements in place to secure Best Value.

The Board has a medium-term financial plan

30. Highland and Western Isles Valuation Joint Board 2025/26 financial plan was approved by the Board on 21 March 2023. The Board's forecast includes additional costs relating to the new appeals regime. Forecasts in the financial plan are based on several assumptions including allocation uplifts, inflationary costs and pay growth. The Board acknowledges that the level of service might be compromised if recruitment issues are not addressed.

31. Given its recruitment difficulties, the Board is looking at various options to minimise staff workload, for example streamlining the canvassing approach with a particular focus on using telephone canvassing going forward.

32. The budget proposal takes into account the budgetary pressures highlighted in the financial plan such as the new appeals regime, The Elections Act 2022 and prior year savings that resulted from the pandemic. The proposed budget makes reasonable provision for the Assessor to carry out his statutory duties.

The 2022/23 budget was underspent by £0.327 million

33. The Board's net operating expenditure for 2022/23 was £3.319 million compared to budgeted net operating expenditure of £3.646 million, an underspend of £0.327 million. The majority of this underspend relates to vacant posts (£0.147 million) and a reduction in administrative expenses (£0.74 million). Additional income was received in the year totalling (£0.016 million) made up of grants and interest on revenue balances.

Reserves increased by £0.010 million with £0.303 million to be returned to constituent authorities.

34. The Board maintains a general fund balance to support medium-term financial planning and to address any unforeseen costs. In the absence of a more specific regulation for Valuation Joint Boards in respect of the carry forward limits on the general fund, members agreed that a maximum of 3% of the core costs budget should be added to the uncommitted general fund balance in any one year as long as the cumulative uncommitted balance does not exceed 5% of the core costs budget in that year.

35. Of the £0.327 million surplus, £0.010 million was transferred to the general fund, with the remainder being returned to the constituent authorities.

Earmarked reserves have been used to balance the 2023/24 budget

36. The Board approved its 2023/24 budget in March 2023. The budget is split between core costs (£3.3 million) and NDR reform costs (£0.358 million) which is funded by the Scottish Government through the local government settlement to constituent authorities. Members agreed to fund the expenditure with £0.047 million and the remaining £3.587 million funded by constituent authorities.

37. Overall, the 2023/24 budget decreased by £45,000 (1.2%) due to a decrease in the budget for NDR reform of £45,000 (11.2%).

38. The budget shows increases in staff costs (£135,597), postages (£10,000) and other administrative costs (£10,754), alongside a decrease in rent (£33,166), other property costs (£4,950) and valuation appeal committee expenses (£133,500). The reduction in these costs is largely due to the closure of the Dingwall office and the automation of the valuation appeal process. During 2022/23 there was £50,000 put forward as efficiencies but this is not present in 2023/24 budget.

The Board has appropriate arrangements in place for securing Best Value

39. The overall aim of the Board is: *“To discharge fully the Office of Assessor and Electoral Registration Officer (EROs) in a manner that is exemplary.”* The Board demonstrates this by producing key performance indicators (KPIs) which have been agreed at local and national levels and are reported on in the public domain.

40. The Electoral Commission has recently introduced KPIs for EROs via their performance standards. There is an agreed set of KPIs amongst the Scottish Assessor’s Association Electoral Registration Committee. KPIs for use by Assessors in connection with the Best Value regime have been established and are reported on. KPI information for council tax and non-domestic rates are available on the Board’s website and these KPIs are also published as part of the annual accounts.

Assessor looking at ways of better working

41. The Assessor is looking to create and sustain a new working environment with a more flexible approach to home and office working to help address recruitment challenges the Board has encountered over a number of years. Some options being explored by the Board include:

- Focusing on more telephone canvassing which would not require staff to be based within one of the constituent authorities and be able to carry out duties remotely.
- Advertising posts with hybrid working as an option, split between office and home.
- For posts in Stornoway or Wick offices, advertising on local websites e.g. We Love Stornoway.
- Exploring different options with The Highland Council HR team such as modern apprenticeships etc.
- Recruiting Trainee Valuers who are working through professional qualifications to become qualified valuers. Valuer posts are difficult to recruit across Scotland due to shortage of trained professionals.
- Exploring the process on how to become a Disability Confident employer.

Appendix 1: 2022/23 Action plan

2022/23 recommendations

| Issue/risk | Recommendation | Agreed management action / timing |
|---|--|--|
| <p>1. Internal Audit</p> <p>There have been no 2022/23 Internal Audit reports or plans submitted to the Board to enable effective scrutiny.</p> <p>Risk – The Board is unaware of Internal Audit work being undertaken and not aware of any recommendations being made following this work. As a consequence the Board may not be able to discharge their duty and carry out their governance role effectively.</p> | <p>The Internal Audit annual plan and subsequent internal audit reports / outputs should be presented to the Board in a timely fashion to ensure members are able to carry out their scrutiny function effectively (refer paragraph 26).</p> | <p>Narrative on agreed action</p> <p>It is accepted that the annual report was prepared later than planned. However, the necessary information was provided to officers to inform the annual governance statement.</p> <p>The annual report for 2022/23 and the 2023/24 annual plan have been prepared and will be considered by the Board on 22/09/23.</p> <p>The planned audits are in progress. Once the final reports have been issued these will be presented for scrutiny to the next scheduled Board meeting.</p> <p>Responsible officer: Strategic Lead (Corporate Audit & Performance)</p> <p>Agreed date: By March 2024</p> |

Follow-up of prior year recommendations

| Issue/risk | Recommendation | Agreed management action/timing |
|--|--|---|
| <p>Risk Management</p> <p>From review of the VJB Board minutes and papers there does not appear to be</p> | <p>Original: There is an opportunity to enhance the level of oversight and scrutiny across the VJB through establishing key performance</p> | <p>Complete</p> <p>Revised action: The risk register is kept under review and where significant</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|---|--|---|
| <p>significant focus on risks and no formal review of the VJB risk register. In addition, while the VJB has established key non-financial performance measures, as noted within the Annual Report, there does not appear to be significant monitoring of these during the year and the VJB Board.</p> | <p>reports and also reporting and monitoring of key risks to the delivery of these.</p> <p>Follow up – Outstanding: While key risks facing the organisation are monitored through Officers, there is an opportunity to enhance the scrutiny and oversight of these at the Joint Board. We recommend that Management consider the arrangements in place for ensuring the key strategic risks are monitored by members to ensure there is appropriate strategic oversight of these.</p> | <p>adjustments are made; this is reported to the Board. For example, in November 2022, the Board received a copy of the updated risk register. Due to the nature of this document, it is excluded from the public.</p> <p>For the March 2023 Board meeting Members will be advised via our departmental report that the risk register has been updated to reflect changes to lead officers and review dates with a revised update being presented at the next scheduled Board meeting.</p> <p>KPI information for Council Tax and Non-Domestic Rates are available on our website but are also published as part of our annual accounts (see links below). The Electoral Commission have recently introduced KPIs for EROs via their Performance Standards. There is an agreed set of KPIs amongst the Scottish Assessor’s Association Electoral Registration Committee. Local data will also need to be analysed as part of ERO KPIs to take into consideration local working practices.</p> <p>Any further updates to the risk register will be provided to Audit Scotland.</p> <p>-----</p> <p>Original response: Highland and Western Isles Valuation Joint Board staff maintain a risk register which is regularly reviewed. Significant changes in key risks will be reported to the next Board meeting. Non-financial performance</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|------------|----------------|--|
| | | <p>monitoring is reported in the annual accounts.</p> <p>Responsible officer: Assessor and Electoral Registration Officer</p> <p>Implementation date: Year end 2022/23</p> |

Appendix 2: Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £4k.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

| Narrative | Account areas | Statement of Comprehensive Net Expenditure | | Statement of Financial Position | |
|--|---------------------------------------|--|----|---------------------------------|--------|
| | | Dr | Cr | Dr | Cr |
| | | £ | £ | £ | £ |
| Accounting Misstatements | | | | | |
| 1. Employee Statutory Adjustment Account: Included flexi leave and time off in lieu when per the Finance Circular it should only be the annual leave portion that is included. | General Fund | | | | 16,500 |
| | Employee Statutory Mitigation Account | | | 16,500 | |

Account Disclosure / Presentation Issues

1. Comprehensive Income and Expenditure Statement (CIES) – The current CIES meets the minimum reporting requirement per the Code of Practice for Local Authority Accounting. However it was agreed with officers that it could be presented better to provide more transparency and details over where the money has been spent on the face of the primary statement. This has been agreed with officers to change for the 2023/24 accounts. This does not impact our audit opinion. The suggestion is an improvement to ensure clarity for readers and users of the accounts.

Highland and Western Isles Valuation Joint Board

2022/23 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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