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Highland and Western Isles Valuation Joint Board

17 September 2015

Highland and Western Isles Valuation Joint Board Annual Audit Report

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. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2014/15 audit which identifies significant findings from the financial statements audit. The section headed 'Significant findings from the audit' in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified.
2. Our work on the financial statements is now substantially complete. 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 auditor's report on 17 September 2015. The proposed report is attached at Appendix A. There are no anticipated modifications or qualifications to the auditor's report.
3. In presenting this report to the Joint Board we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
4. 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, and request that these misstatements be corrected. Three monetary errors have not been processed through the financial statements by management. If adjusted these would reduce gross expenditure by £11,000, and reduce taxation and non-specific grant income by the same amount. There would be no impact on the net liabilities reported in the Balance Sheet.
5. 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 ISA 580 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 report being certified.

Outstanding matters

6. There are some areas where we still require additional information and these are identified below:
 7. **Letter of representation.** This letter, otherwise known as the ISA 580 letter, is required immediately before the certification of the final accounts on 17 September 2015.
-

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 Highland and Western Isles Valuation Joint Board for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise Movement 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 2014/15 (the 2014/15 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, 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 circumstances of the Joint Board 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 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 2014/15 Code of the state of the affairs of the Highland and Western Isles Valuation Joint Board as at 31 March 2015 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 2014/15 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.
-

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 2014; and
- the information given in the Management Commentary 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 Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government.

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

17 September 2015

Appendix B: ISA 580 - Letter of Representation

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

17 September 2015

Dear Maggie

Highland and Western Isles Valuation Joint Board

Annual Accounts 2014/15

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 2015 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 2015 and its income and expenditure for the year then ended.

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 2015.

General

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.

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.

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

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, 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 2014 including all relevant presentation and disclosure requirements.

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 2015.

Accounting Policies & Estimates

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 2014/15.

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

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

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 IAS 24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Events Subsequent to the Balance Sheet Date

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.

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

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.

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 2014/15. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2015 which require disclosure.

Fraud

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

The assets shown in the Balance Sheet at 31 March 2015 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.

For the year ended 31 March 2015, the Joint Board did not own or mortgage any properties and did not hold any non-current assets. At 31 March 2015, the Joint Board had no obligations under finance leases.

Liabilities

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 2015. 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

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 2014/15. 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

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 2015 requiring provision to be made in the financial statements.

Commitments

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

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

Highland and Western Isles Valuation Joint Board

Proposed annual audit
report to Members and
the Controller of Audit

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed Maggie Bruce as the external auditor of Highland and Western Isles Valuation Joint Board for the period 2011/12 to 2015/16.

This report has been prepared for the use of Highland and Western Isles Valuation Joint Board and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Highland and Western Isles Valuation Board. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Key contacts

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• The independent auditor's report on the 2014/15 financial statements is unqualified.• The financial statements have been prepared on the going concern basis. We are not aware of any events or conditions that may cast significant doubt on the Joint Board's ability to continue as a going concern.• The financial statements submitted for audit did not comply with the requirements of the new accounting regulations. A more robust and challenging review process is required to improve the quality of the financial statements submitted for audit.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• The Joint Board underspent against budget by £75,000 in 2014/15• The financial management arrangements require improvement as financial regulations and contract standing orders have not been updated since 2012.• The Joint Board's financial position is sustainable in the short term. Reserves are limited, however, and failure to secure the additional funding anticipated from the Cabinet Office may require constituent authorities to make additional contributions to fund the net expenses of the Joint Board
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The Joint Board's governance arrangements require improvement as the local Code of Corporate Governance has not been updated since 2010.• There were no issues of concern in relation to the operation of the Joint Board's financial control systems.• The Joint Board has appropriate anti-fraud arrangements in place.

 Best Value	<ul style="list-style-type: none">• The Joint Board continues to assess and report against the Electoral Commission's 10 performance standards• Performance against the Joint Board's key performance indicators was mixed during 2014/15. Valuation roll indicators improved slightly but there was a significant deterioration in council tax performance due to the additional workload associated with the Scottish Referendum and the introduction of individual electoral registration.
 Outlook	<ul style="list-style-type: none">• The Joint Board continues to face significant funding pressures. Effective arrangements for best value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Highland and Western Isles Valuation Joint Board (the Joint Board). The report is divided into sections which reflect our public sector audit model.
2. The management of the Joint Board is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the Joint Board, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements. This does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. The significant audit risks identified at the planning stage and how we addressed each risk at arriving at our opinion for the financial statements is set out in **appendix 1**.
6. Local and national reports have been issued by Audit Scotland during the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
7. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Joint Board understands its risks and has arrangements in place to manage these. Elected members should ensure that they are satisfied with the proposed actions and have a mechanism in place to assess progress and monitor outcomes.
8. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
9. We are grateful for the cooperation and assistance we received during the course of the audit.

Financial statements

Submission of financial statements for audit

10. We received the unaudited financial statements on 1 June 2015 in accordance with the agreed timetable. The working papers were of a good standard but a more robust and challenging review process needs to be put in place in future years to improve the quality of the financial statements submitted for audit (see paragraph 24, issue 1 for details).

Action plan no. 1

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Joint Board on 28 January 2015.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of the Joint Board we set our planning materiality for 2014/15 at £29,000 (1% of gross expenditure). We report all misstatements greater than £1,000. Performance materiality was calculated at £21,000 to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality.
18. On receipt of the financial statements we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

19. Management have agreed to amend the unaudited financial statements for the majority of our audit findings. These adjustments do not impact on the net cost of services included in the Comprehensive Income and Expenditure Statement (CIES) or on the Net Liabilities reported in the Balance Sheet. They do, however impact on the allocation of expenditure between council tax valuation, electoral registration, rating valuation and corporate and democratic core costs and on the debtors and creditor balances in the Balance Sheet.
20. Management decided not to amend the financial statements for the following financial misstatements:
 - the costs of software licences (£12,000) were included as 2014/15 expenditure although the invoice was not received until the end of March. Software licences are charged in advance and so, in our opinion, this expenditure does not relate to 2014/15
 - postage costs totalling £2,955 were treated as 2015/16 expenditure when they related to 2014/15
 - rent paid in advance (£1,227) was incorrectly treated as a creditor instead of as a debtor at the year end.
21. If adjustment was made for these misstatements, the impact would be to reduce gross expenditure in the CIES by £11,000, and reduce taxation and non-specific grant income by the same amount. There would be no impact on the net liabilities reported in the Balance Sheet.
22. Management explained that these adjustments were not material to the financial statements and we agree with this assessment.

Significant findings from the audit

23. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
- the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - significant difficulties encountered during the audit
 - significant matters arising from the audit that were discussed, or subject to correspondence with management
 - written representations requested by the auditor
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
24. In addition to the unadjusted errors set out at paragraph 20, we identified the following significant issues during the course of the audit that, in our view, require to be communicated to you.

Significant findings from the audit

Issue	Resolution
<p>1. Local Authority Accounts (Scotland) Regulations 2014: the financial statements submitted for audit did not comply with the requirements of the new accounting regulations:</p> <ul style="list-style-type: none"> • a management commentary had been prepared but the content did not comply with the guidance issued by Scottish Ministers • an annual governance statement had not been prepared. Instead, a statement on the system of internal financial control had been included • the statement of responsibilities had not been amended to reflect the new responsibilities set out in the new regulations • the unaudited accounts did not recognise the changes to the officers and members required to sign key sections of the accounts. <p>In addition, we noted that the unaudited accounts were not considered by a meeting of the Joint Board by 31 August as required by the accounting regulations; and that the advertisement of the unaudited accounts for public inspection did not refer to the new regulations, instead giving notice under the previous (1985) regulations.</p> <p>In our opinion, the above failures to comply with the new accounting regulations demonstrate a lack of robust and comprehensive review of the accounts prior to their submission for audit.</p>	<p>The management commentary, statement of responsibilities and annual governance statement included in the audited accounts have been revised to more fully comply with the 2014 regulations and guidance issued by CIPFA and Scottish Ministers. The statement on the system of internal financial control has been removed. The accounting statements have been updated to include the names of the key officers and members who are required to sign them.</p>

Issue	Resolution
<p>2. Going concern: auditors are required to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets.</p> <p>The Joint Board is a member of The Highland Council Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS 19 (Retirement Benefits) the Joint Board has recognised its share of the net liabilities for the pension fund in the balance sheet resulting in an net liabilities position (£5.674 million) on the balance sheet at the year end.</p>	<p>In common with similar public bodies, the Joint 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 actuary is required to make a 3-year assessment of the contributions that should be paid by the employing authorities to maintain the solvency of the fund. The most recent actuarial valuation took place as at 31 March 2014. We are satisfied that the process that the Joint Board has undertaken to consider the organisation's ability to continue as a going concern.</p>
<p>3. Reconciliations: payroll suspense accounts were not reconciled and cleared at the year end. Instead suspense account balances were carried forward as debtor and creditor balances within the accounts. Similarly, car leasing suspense accounts were not reconciled and cleared at the year end. As a result, debtors and creditors were overstated by £13,000 in the unaudited accounts.</p>	<p>The audited accounts have been amended to reflect the net position on payroll and car leasing suspense accounts. As a result, debtors and creditors have reduced by £13,000 in the audited accounts.</p> <p>Finance staff have confirmed that suspense accounts will be reconciled and cleared prior to the preparation of the 2015/16 financial statements.</p> <p style="text-align: right;">Action plan no.2</p>

Financial management and sustainability

Financial management

25. In this section we comment on the Joint Board's financial outcomes and assess the Joint Board's financial management arrangements.
26. The Joint Board sets an annual budget to meet its service and other commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

27. The Joint Board's net operating expenditure in 2014/15 was £2.586 million compared to budgeted expenditure of £2.661 million, resulting in an underspend of £0.075 million (2.8%). In the Management Commentary, the Treasurer explains that the main reasons for this budget underspend were lower than expected staff costs due to delays in vacancies being filled and long term sickness absence (£80,000). Administration costs, property costs and supplies and services were overspent but these were offset by an increase in the Scottish Government grant provided to support the costs associated with the Scottish Referendum and the introduction of individual electoral registration.

28. The underspend was returned to the constituent authorities as the General Fund balance was already at the maximum permitted to be held by the Joint Board (see paragraph 36).
29. As highlighted at paragraph 24, the Joint Board's balance sheet as at 31 March 2015 was in a net liabilities position due to the requirements of IAS19 (Retirement Benefits) which requires the full pension obligations to be recognised in the year in which they are earned. This technical accounting requirement has no impact on the underlying basis for meeting current and on-going pension liabilities which will be met, as they fall due, by contributions from the constituent authorities. In addition, there was a £28,000 liability for annual leave outstanding at the end of the financial year.

Financial management arrangements

30. As auditors, we need to consider whether Joint Boards have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the Joint Board
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance

- members provide a good level of challenge and question budget holders on significant variances.
31. The Treasurer, as section 95 officer, is responsible for ensuring that proper accounting records are kept. Financial regulations and standing orders are available on the Joint Board's website but have not been updated since late 2012.

Action plan no. 3

32. Financial monitoring reports are submitted to each meeting of the Joint Board and a member of the Treasurer's staff attends to answer any questions raised by members. Reports are comprehensive and well laid out and members provide a good level of challenge. Performance reports are presented by the Assessor to each Joint Board meeting.

Conclusion on financial management

33. Overall, we have concluded that the Joint Board's financial management arrangements are effective, but there is some scope for improvement. Financial regulations and contract standing orders require to be reviewed and updated before we can conclude that they are comprehensive and current. In particular, changes resulting from The Local Authority Accounts (Scotland) Regulations 2014 require to be reflected in these key documents.

Financial sustainability

34. Financial sustainability means that the Joint Board has the capacity to meet the current and future needs of its stakeholders. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.

Reserves

35. The Joint Board holds a General Fund balance to:
- provide a contingency to meet unforeseen costs
 - enable budget flexibility between financial years
 - meet one off costs required in order to deliver budget savings in future years.
36. 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 that a maximum of 3% of the total budget should be added to the general fund in any one year as long as the cumulative balance does not exceed 5% of the total budget in that year. As the Joint Board's general fund balance at 1 April 2014 was already at the maximum limit permitted (£133,000), the total surplus for 2014/15 (£75,000) was returned to constituent authorities.

Financial planning

37. 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, and possible future changes to the Council Tax.
38. In January 2015, the Joint Board agreed a budget for 2015/16 of £2.850 million, an increase of £0.189 million on the previous year. This additional expenditure relates to additional costs associated with administering individual electoral registration. At the time of setting of the budget, the Assessor anticipated that this additional cost would be reclaimable from the Cabinet Office, and so the requisitions from constituent authorities remained the same as in the previous two years.
39. The Joint Board's latest revenue monitoring report, based on the position as at 31 July 2015, anticipates that expenditure will be contained within budget in 2015/16.

Pensions Funding

40. The Joint Board's estimated pension liabilities at 31 March 2015 exceeded its share of the assets in the Highland Council Pension Fund by £5.779 million (£5.121 million at 31 March 2014). The liability will be made good by increased contributions over the remaining working lives of the employees, as assessed by the scheme's actuary. The most recent triennial actuarial valuation of the Fund (as at 31 March 2014) concluded that the Fund was 96.2% funded, a slight decrease on the funding level as at 31 March 2011 (96.8%). The actuary has set a contribution rate of 18.5% of pensionable pay for the Joint Board for the year to 31 March 2016.

Conclusion on financial sustainability

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

Governance and transparency

- 42. Members and the Treasurer of the Joint Board are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
- 43. 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.

Corporate governance

- 44. The Joint Board has oversight of financial resources and receives budget monitoring reports at each meeting. The responsibilities of the Assessor, Treasurer and the Highland and Western Isles Valuation Joint Board in relation to budget monitoring and review are set out in the Joint Board's Financial Regulations but these have not been updated since November 2012 and are now out of date (see paragraph 31).
- 45. The Annual Governance Statement included within the audited accounts highlights the following additional significant governance issues:

- the local Code of Corporate Governance (the 'Overview of Governance Arrangements' document) has not been updated since 2010 and so does not comply with the CIPFA/SOLACE guidance 'Delivering good governance in local government'.
 - contract standing orders have not been updated since 2010 and so do not reflect the subsequent changes to EU tendering thresholds and the revisions made to the Public Contracts (Scotland) Regulations 2012.
 - the risk management process is not robust.
46. We noted in our 2014/15 Annual Audit Plan that the Joint Board was refreshing and renewing its governance and performance management policies in response to the risks set out in our 2012/13 and 2013/14 annual audit plans. We are disappointed that more progress has not been made to update these key governance documents in 2014/15. We have been advised that these will be updated and submitted to the November meeting of the Joint Board for approval.

Action plan no. 4

Risk Management

47. Risk management is the process of identifying, evaluating and controlling risks to help support decision making and improve performance. A risk profile was first developed for the Joint Board in August 2010. The risk profile forms part of the Joint Board's governance arrangements and should be submitted to the Joint Board annually. The last risk profile was submitted to the May 2015 meeting of the Joint Board.

Business Continuity Planning

48. The Joint Board does not have a Business Continuity Plan. A number of the systems it uses are operated by The Highland Council and these will be covered by the council's Business Continuity Plan. This does not, however, negate the need for the Joint Board to have a Business Continuity Plan for their in-house systems so that business can continue with minimum disruption in the event of an incident.

Action plan no. 5

Internal control

49. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the Joint Board's financial statements.

50. 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's audit and supplemented by specific audit work on the Joint Board's financial statements.

51. We did not identify any material weaknesses in the accounting and internal control systems which could adversely affect the ability to record, process, summarise or report financial and other relevant data so as to result in a material misstatement in the financial statements.

52. We also reviewed the controls over the maintenance of the council tax list and valuation roll to support our opinion on the council's financial statements. We concluded that the controls in place were sufficient for us to take our assurances for the financial statements. A number of recommendations to further improve the system of internal control have been shared with management.

Internal audit

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

54. Our review of internal audit concluded that the Joint Board's internal audit service operates in accordance with the majority of the Public Sector Internal Audit Standards. In order to achieve full compliance an external assessment is required to take place at least every five years. The Scottish Local Authorities Chief Internal Auditors Group has developed a framework for this assessment and plans are in place for West Dunbartonshire Council to assess the council's internal audit service during 2015/16.
55. We placed formal reliance on the focused testing undertaken by internal audit to support the Head of Audit and Risk management's opinion on the internal control system that 'reasonable assurance can be placed upon the adequacy and effectiveness of the Assessor's internal control systems for the year to 31 March 2015.'

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

56. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. In our opinion, the overall arrangements in place are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

Transparency

57. The Joint Board's website contains relevant information for the public including agendas and minutes of Joint Board meetings. The website includes relevant financial and performance reports. We have not encountered any evidence to suggest that information is routinely and unjustifiably withheld from public scrutiny.

Best Value

- 58. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The Joint Board should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.
- 59. 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.

Performance management

- 60. 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.
- 61. In addition, the Electoral Commission established a regime of self-assessment and inspection in respect of electoral registration. In previous years the Joint Board submitted an annual self-assessment against each of the 10 performance standards to the Electoral Commission but this was suspended in 2014 due to the introduction of individual electoral registration.

- 62. The Joint Board publishes an annual report which summarises the key activities and achievement under each of its main functions namely: rating valuations, council tax and electoral registration. The 2015 report is due to be published in September 2015.
- 63. In addition, the Joint Board's key performance indicators have been included in the Management Commentary within the financial statements for the first time this year. These show that there was a slight improvement in the percentage of amendments processed to the Valuation Roll within 3 months of receipt (61% compared to 59% in 2013/14). Performance against the same indicator for council tax has, however, seen a significant reduction (from 83% in 2013/14 to 77% in 2014/15). This is due to the additional workload associated with the Scottish Referendum and the introduction of individual electoral registration.

National performance audit reports

- 64. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which may be of interest to the Joint Board. While these reports might not directly cover the work of the Joint Board, there may be lessons learned or helpful information on wider issues in local government. These are outlined in **appendix III**.

Appendix I

Significant audit risks

The table below sets out the audit risks we included in our annual audit plan and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Management assurance and audit procedure	Results and conclusions
Risk of material misstatement		
<p>Prior year issues: during the audit of the 2013/14 financial statements we identified two instances where income and expenditure had not been accounted for in the correct financial year within the unaudited financial statements. There is a risk that similar cut-off errors will be included within the 2014/15 financial statements submitted for audit.</p>	<p>Management assurance</p> <ul style="list-style-type: none"> the staff involved in the preparation of the accounts have adequate experience and the accounts and working papers will be reviewed by a senior member of staff. <p>Audit procedures</p> <ul style="list-style-type: none"> early financial statements planning meeting increased audit testing in this area early discussion of emerging issues. 	<p>We increased our audit testing in this area and identified two instances in 2014/15 where expenditure had been accounted for in the incorrect financial year. The amounts were not material to our opinion on the financial statements and management chose not to amend the audited accounts for these misstatements (refer to paragraph 20 for details).</p>

Audit Risk	Management assurance and audit procedure	Results and conclusions
<p>Accounts preparation: there have been changes to the staff involved in the preparation of the Joint Board's financial statement since the 2013/14 accounts were prepared. Changes in responsibilities increase the risk that the financial statements' disclosures and supporting working papers will not be prepared to the required quality and by the agreed timescales.</p>	<p>Management assurance</p> <ul style="list-style-type: none"> • working papers will be reviewed by a senior member of staff • a detailed timetable will be prepared and followed. <p>Audit procedures</p> <ul style="list-style-type: none"> • early financial statements planning meeting • early discussion of emerging issues 	<p>We received the unaudited financial statements on 1 June 2015 in accordance with the agreed timetable. The working papers were of a good standard but the unaudited accounts did not comply with the requirements of the Local Authority Accounts (Scotland) Regulations 2014. In our opinion, a more robust and challenging review process needs to be put in place in future years to improve the quality of the financial statements submitted for audit.</p>
<p>Annual assurance statement: the revised Local Authority Accounts (Scotland) Regulations 2014 require authorities to undertake an annual review of their system of internal control and report this in an annual governance statement. The Joint Board has previously included a statement on the system of internal financial control instead of a wider annual governance statement within its annual financial statements.</p>	<p>Management assurance</p> <ul style="list-style-type: none"> • an Annual Governance Statement will be included in the unaudited financial statements. This will include the results of Internal Audit's review of the adequacy and effectiveness of the Joint Board's framework of governance and control as set out in the Head of Audit's Statement on Internal Control. <p>Audit procedures</p> <ul style="list-style-type: none"> • early financial statements planning meeting • early discussion of emerging issues. 	<p>The unaudited accounts did not contain an annual governance statement. A statement on the system of internal financial control was instead included as in previous years. Following discussion with the Treasurer, an annual governance statement was prepared and included in the audited accounts.</p>

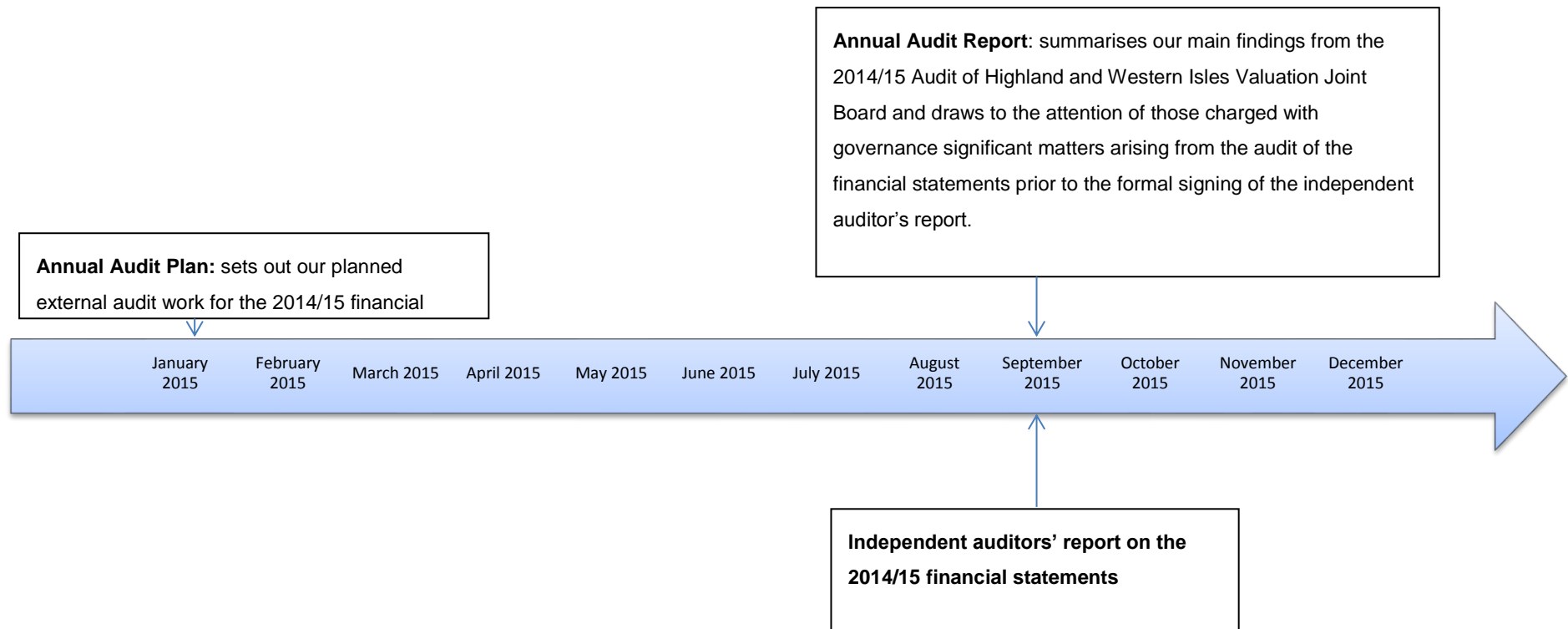
Audit Risk	Management assurance and audit procedure	Results and conclusions
<p>Remuneration report: there have been changes to the senior management structure at the Joint Board which will impact on the remuneration report disclosures which require to be included in the annual financial statements. The Assessor is now supported by three Assistant Assessors, who along with a Valuer report directly to the Assessor. All senior staff who report directly to the Assessor require to be included in the remuneration report.</p>	<p>Management assurance</p> <ul style="list-style-type: none"> • staff involved in the accounts preparation process will be reminded of this. <p>Audit procedures</p> <ul style="list-style-type: none"> • early financial statements planning meeting • early discussion of emerging issues. 	<p>All senior staff who report directly to the Assessor were included in the remuneration report within the unaudited financial statements.</p>

Audit Risk	Management assurance and audit procedure	Results and conclusions
<p>Management override of controls: ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Management assurance</p> <ul style="list-style-type: none"> • there is no history of reported fraud within the Joint Board • each year Internal Audit consider and test the adequacy and effectiveness of the Joint Board's framework of governance and control, including arrangements for the prevention and detection of fraud • the Treasurer's staff, who prepare the Joint Board's financial statements, are not employees of the Joint Board and so are independent of management. • a sound system of budgetary control is in place with budget monitoring undertaken by the Treasurer's staff. <p>Audit procedures</p> <ul style="list-style-type: none"> • detailed testing of journal entries • review of accounting estimates for bias • evaluation of significant transactions that are outside the normal course of business. 	<p>We undertook detailed testing of journal entries as part of our audit of debtors and creditors. We found no evidence to suggest that management were overriding controls.</p> <p>We also reviewed accounting estimates included in debtors and creditors and found no evidence of bias in these accounting estimates.</p> <p>Audit testing did not find any evidence of transactions outwith the scope of the Joint Board.</p>

Audit Risk	Management assurance and audit procedure	Results and conclusions
<i>Audit risk from wider responsibilities under Audit Scotland's Code of Audit Practice</i>		
<p>Governance and accountability: the Joint Board is currently refreshing and renewing its governance and performance management policies in response to the risks set out in our 2012/13 and 2013/14 annual audit plans. We noted, however, that the Overview of Governance Arrangements policy document has yet to be updated and there is, therefore, a risk that the Joint Board's governance arrangements are not up to date.</p>	<p>Management assurance</p> <ul style="list-style-type: none"> a revised Overview of Governance Arrangements policy document will be brought before the May meeting of the Joint Board. <p>Audit procedures</p> <ul style="list-style-type: none"> monitor through review of Joint Board papers report results in the annual report to members and the Controller of Audit. 	<p>As noted at paragraph 46, the 'Overview of Governance Arrangements' document), effectively the Joint Board's local Code of Corporate Governance has not been updated since 2010 and so does not comply with the CIPFA/SOLACE guidance 'Delivering good governance in local government'.</p>
<p>Financial pressures: local government is facing continued pressures, including real-term reductions in financing, at a time when the Joint Board is facing resource challenges around the ongoing impact of reforms such as individual electoral registration (IER). The Joint Board's latest revenue budget monitoring report, based on the position as at 30 September 2014, projects the estimated outturn will be under budget by £50,000 as a result of staff vacancies. Although the budget includes additional funding received from the cabinet office for the costs associated with IER, it is not yet known whether this funding will be sufficient to meet all of these costs.</p>	<p>Management assurance</p> <ul style="list-style-type: none"> any overspend will be met from reserves and/or increased requisitions from constituent authorities. <p>Audit procedures</p> <ul style="list-style-type: none"> monitor through the audit process report results in the annual report to members and the Controller of Audit. 	<p>The Joint Board underspent against its budget in 2014/15 and returned £75,000 to constituent authorities. Additional funding of £252,000 was received from the Scottish Government to help fund the costs of the Scottish Referendum and the introduction of individual electoral registration.</p>

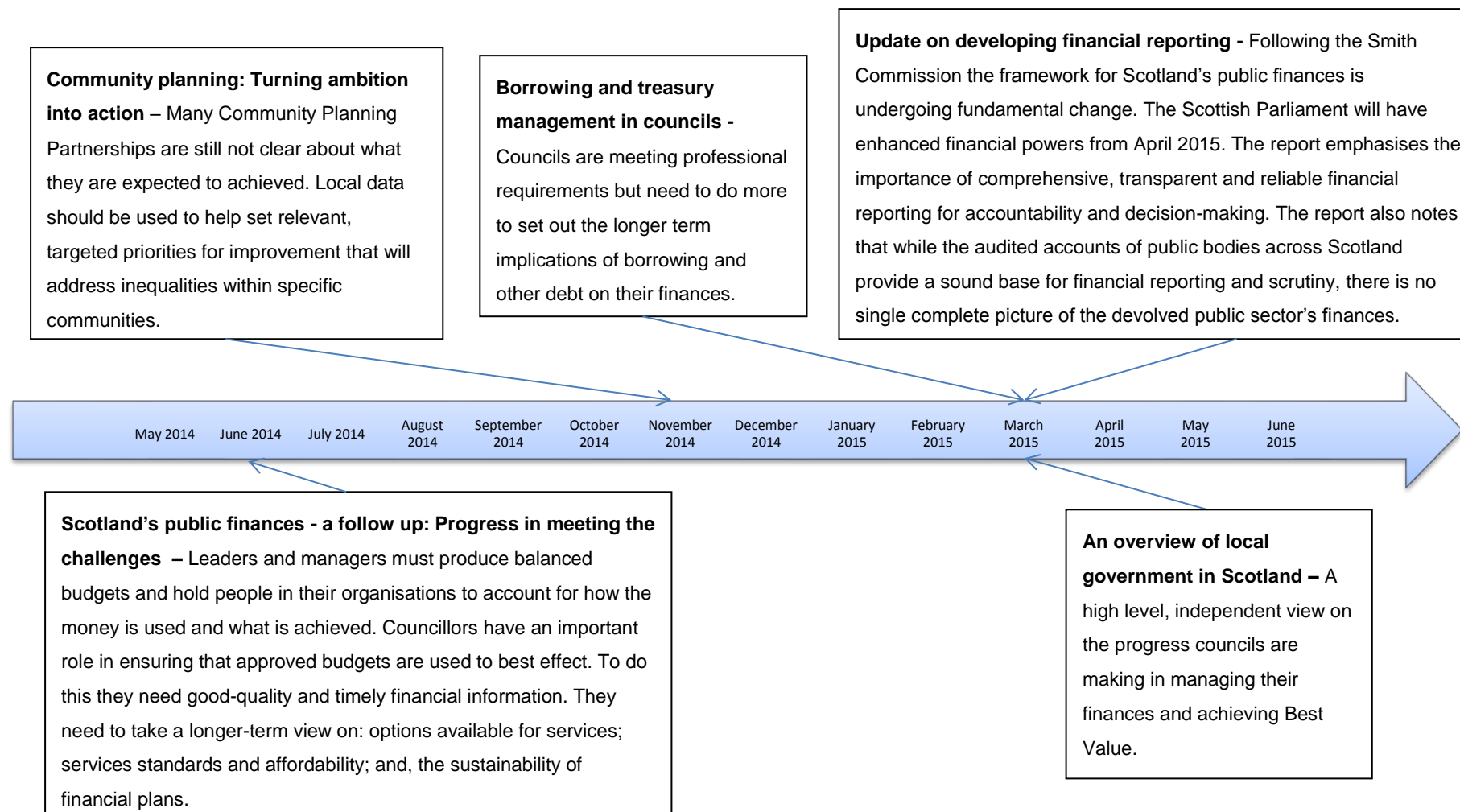
Appendix II

Summary of Highland and Western Isles Valuation Joint Board local audit reports 2014/15



Appendix III

Summary of Audit Scotland national reports 2014/15



Appendix IV

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 7/10	<p>Issue</p> <p>The financial statements submitted for audit did not comply with the requirements of the new accounting regulations.</p> <p>Risk</p> <p>The financial statements do not give a true, fair and balanced view of the Joint Board's transactions and financial position.</p> <p>Recommendation</p> <p>A more robust and challenging review process needs to be put in place in future years to improve the quality of the financial statements submitted for audit.</p>	Recommendation noted – we will aim to improve the process for identifying new requirements at the accounts planning stage and the review process will be improved for future years.	Treasurer	30 June 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 24/11	<p>Issue</p> <p>Payroll suspense accounts and car leasing suspense accounts were not reconciled and cleared at the year end. As a result, debtors and creditors were overstated by £13,000 in the unaudited accounts.</p> <p>Risk</p> <p>The financial statements are misstated. Erroneous or fraudulent transactions are not detected and investigated timeously.</p> <p>Recommendation</p> <p>Suspense accounts should be reconciled and cleared regularly throughout the year and as part of the year end processes.</p>	<p>The importance of regular reconciliations is recognised and following the implementation of the new financial system in 2015/16 we are working towards bringing all reconciliations up to date and maintaining monthly reconciliations.</p>	Treasurer	30 June 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 31/13	<p>Issue</p> <p>Financial regulations have not been updated since 2012. Financial regulations are a key part of the Joint Board's governance arrangements.</p> <p>Risk</p> <p>The Joint Board's financial affairs are not properly administered.</p> <p>Recommendation</p> <p>The Joint Board should update its financial regulations as a matter of urgency and submit them to the Board for approval.</p>	The regulations shall be updated taking into account a Highland Council update which is scheduled for September 2015.	Assessor/Treasurer	30 November 2015

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5 48/16	<p>Issue</p> <p>The Joint Board does not have a Business Continuity Plan for its in-house systems.</p> <p>Risk</p> <p>The Joint Board is unable to continue 'business as usual' in the event of a major incident.</p> <p>Recommendation</p> <p>The Joint Board should develop a Business Continuity Plan for its day to day operations and regularly test its effectiveness.</p>	A plan shall be submitted to the next meeting of the Board.	IT Systems Manager	30 November 2015