

A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF
THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

THE 2004/05 AUDIT OF HIGHLAND HEALTH BOARD

1. I submit the audited accounts of Highland Health Board and the auditor's report in terms of section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report which I have prepared under section 22(3) of the Act.
2. The auditors' report, which is incorporated at pages 22 – 23 of the accounts, is qualified due to a difference of view concerning the accounting treatment for a Private Finance Initiative contract.
3. The Board procured the provision of a Primary Care Centre at Easter Ross through a Private Finance Initiative contract. The auditors for the former Highland Primary Care NHS Trust were asked for a preliminary view on the proposed accounting treatment of the PFI contract in March 2003. The Trust's proposal, based on advice from their financial advisers to the project, was to treat the transaction as similar to an operating lease, in that the asset, and the related liability, would not appear on the Trust's balance sheet. The auditors reported in 2003 that the evidence available to them did not represent a conclusive argument in favour of the proposed accounting treatment. In particular the assumptions underpinning the estimates were not supported by any independent data and were entirely a matter of judgement; there was a lack of statistical data supporting risk estimates; and demand and residual value risk remained with the Trust. The contractor indicated that the asset would be accounted for on its balance sheet which provided some assurance in favour of the Trust's proposed accounting treatment. At the time the auditors therefore accepted that it should not appear on the balance sheet of the former Trust.
4. The contract was signed in November 2003 and the facility became operational in February 2005. Highland Health Board's 2004/05 accounts are therefore the first accounts to reflect fully the concluded transaction. The contractor has since decided that the asset should not appear on its balance sheet as 'substantially all the risks and rewards of ownership' had been transferred to the former Highland Primary Care NHS Trust. Taking these new developments into account the auditors conclude that there is insufficient evidence to support the accounting treatment and have qualified their opinion on the 2004/05 accounts:

"In our opinion, the Board should have accounted for this asset as a finance lease and included a fixed asset and a related liability on the Balance Sheet. Had the Board adopted this treatment it would have increased the fixed assets by £8.8m and long term liabilities by a similar amount."
5. I will also prepare an overview report commenting on significant issues arising from the 2004/05 audits of NHS bodies including qualifications by auditors and financial performance.



ROBERT W BLACK
Auditor General for Scotland
23 September 2005