

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

THE 2005/06 AUDIT OF HIGHLAND HEALTH BOARD

1. I submit the audited accounts of Highland Health Board and the auditors' 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 46 – 48 of the accounts, is qualified due to a difference of view concerning the accounting treatment for two Private Finance Initiative contracts.
3. The auditors have qualified their opinion as a result of the accounting treatment of the lease of the Mental Health Facility PFI at New Craigs. The auditors have reported that the accounting treatment of the total finance charges relating to the lease has not been accounted for in accordance with Statement of Standard Accounting Practice 21 (SSAP 21). This has been accounted for in the same way since the facility was opened in July 2000. Recent changes in International Auditing Standards now require a slightly different approach to assessing materiality and the impact of uncorrected errors. This, and the cumulative effect of the mis-statement for the period to 31 March 2006, has resulted in a qualification to the audit opinion.
4. The auditors' report is also qualified in respect of the accounting treatment of the Primary Care Resource Centre at Easter Ross. I also prepared a report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000 on this issue in September 2005. The Board had taken the view, in 2004/05 that the transaction should be accounted for as an operating lease on the basis that substantially all of the risks and rewards of ownership reside with the PFI contractor. The Board, however, was unable to provide sufficient evidence to the auditors to support its estimates. Given the lack of supporting evidence, and in the interest of transparency, the auditors concluded in 2004/05 that the arrangement should be accounted for as a finance lease and as a result qualified their opinion on the annual accounts. The matter has been further discussed between the Board and the Scottish Executive Health Department during 2005/06, but the Board has been unable to provide any further evidence to support its view and the auditors' qualified opinion continues in 2005/06:

“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 £8.7m and long-term liabilities by £1.067m, depreciation would increase by £0.223m, and finance charges increase by £0.944m, resulting in a net additional charge of £0.15 million being made in the Operating Cost Statement.”
5. I will also prepare an overview report commenting on significant issues arising from the 2005/06 audits of NHS bodies including qualifications by auditors and financial performance.



ROBERT W BLACK

Auditor General for Scotland
11 September 2006