

Grampian Valuation Joint Board

**Report to Members and the Controller of Audit on the
2006/07 Audit**



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Introduction

1. This report summarises the findings from our 2006/07 audit of Grampian Valuation Joint Board. The scope of the audit was set out in our audit fee letter issued on 24 January 2007.
2. The financial statements of the joint board are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the joint board to prepare financial statements that present fairly its financial position and the income and expenditure for the year.
3. The members and officers of the joint board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
 - the joint board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
 - the joint board has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption
 - the joint board has proper arrangements for securing best value in its use of resources.



Financial statements

Introduction

4. In this section we summarise key outcomes from our audit of the joint board's financial statements for 2006/07. We also summarise key aspects of the joint board's reported financial position and performance to 31 March 2007.
5. We audit the financial statements and give an opinion on whether they:
 - present fairly the financial position of the joint board and its expenditure and income for the year and
 - have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the Statement on Internal Control by considering the adequacy of the process put in place by the joint board to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the joint board.

Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of Grampian Valuation Joint Board for 2006/07.
8. The unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. The joint board is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2006 (the 'SORP'). Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.



Financial position

Going concern

9. The joint board's balance sheet at 31 March 2007 shows net liabilities of £0.183 million. Auditing standards require auditors 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.
10. The net liability position is due to the requirements of Financial Reporting Standard 17 (retirement benefits) where there is an obligation to recognise the joint board's full pension obligations in the year they are earned. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met from employer's contributions and investment returns. In common with similar authorities, the joint board has considered it appropriate to adopt a going concern basis for the preparation of the financial statements.

Revenue performance 2006/07

11. The joint board's total revenue expenditure for 2006/07 amounted to £3.354 million (after elimination of FRS 17 pension adjustments). This was met by constituent authorities' contributions of £3.598 million and other income of £0.041 million.
12. The Treasurer summarises performance against budget in the Explanatory Foreword to the accounts. Overall there was an underspend of £0.285 million (8%) which will be refunded to the constituent authorities.

Financial outlook – pension liabilities

13. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. An Audit Scotland report on public sector pension schemes published in June 2006 highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion.



14. In accounting for pensions, FRS 17 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in large future liabilities being recognised in the annual accounts.
15. The joint board's estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the Aberdeen City Council Pension Fund by £1.715 million, reducing from £2.838 million in the previous year. The decrease in liability is largely as a result of changes to pension regulations which allow individuals to elect to receive a larger lump sum payment in return for a reduced annual pension.

Legality

16. Each year we request written confirmation from the Treasurer that the joint board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Treasurer has confirmed that, to the best of her knowledge and belief and having made appropriate enquiries of other senior officers, the financial transactions of the joint board were in accordance with the relevant legislation and regulations governing its activities.
17. There are no additional legality issues arising from our audit which require to be brought to members' attention.



Governance

Introduction

18. In this section we comment on key aspects of the joint board's governance arrangements during 2006/07.

Overview of arrangements in 2006/07

19. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. The joint board has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
20. Our review of the joint board's Standing Orders and Financial Regulations noted that these have not been reviewed since 1996 and 2005 respectively. We also noted that:
- the Financial Regulations do not cover the arrangements for capital budget preparation and monitoring, banking or investments
 - the Treasurer's responsibilities outlined in the Financial Regulations are quite limited (*'keeping accounting records up to date'*) compared to other comparable bodies (*'for the financial affairs of the Joint Board'*)
 - responsibility for monitoring compliance with Standing Orders and Financial Regulations is not clear.

Action plan no 1

Internal audit

21. Internal audit plays a key role in the joint board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The Moray Council's Internal Audit section provides an internal audit service to the joint board.



22. Each year we undertake an overview of internal audit arrangements which includes an assessment of whether or not we can place reliance on internal audit work in order to reduce our own input. Our overview identified that the joint board's internal control systems were last audited in 2005. Neither the Treasurer nor the joint board was aware that any internal audit work was planned for 2006/07. As a result, we did not plan to take any assurance from internal audit's work as part of our 2006/07 audit.
23. We were subsequently advised that time had been allocated to the review of the joint board's payroll and creditors systems in the Internal Audit plan reported to The Moray Council but that this had not been communicated to the Treasurer or to the joint board. Internal Audit's findings from these reviews and their assessment of the joint board's corporate governance arrangements were included in a report to the Assessor in September 2007.

Action plan no 2

24. We reviewed the work done by Internal Audit to ensure that there was sufficient evidence on file to support their findings and to assess whether we were able to place reliance on their work in these areas. We concluded that we were able to place formal reliance on Internal Audit's work in these areas but noted that a schedule summarising the findings from the audit work undertaken was not included in the file. Without such a summary, it is difficult to demonstrate that all key findings have been included in the report.

Action plan no 3

Statement on internal control

25. A Statement on Internal Control is included within the annual financial statements, and highlights the Assessor's view that reasonable assurance can be placed upon the adequacy and effectiveness of the joint board's internal control system. No areas have been highlighted as requiring improvement.
26. As noted above, Internal Audit does not undertake an annual review of the internal control systems in operation within the joint board. As a result, the Team Leader (Internal Audit) is unable to provide an independent assessment of the adequacy and effectiveness of these systems to support the Assessor in signing the Statement on Internal Control.

Action plan no 4

27. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.



Systems of internal control

28. The joint board's financial transactions are processed through The Moray Council's financial systems. It is the responsibility of the joint board's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
29. Our review of these systems was conducted as part of the audit of The Moray Council, supplemented by specific audit work on the joint board's financial statements. Overall there are no material issues of concern in relation to the operation of the main financial systems.
30. As noted at paragraph 23, Internal Audit reviewed the joint board's payroll and creditor payments systems and concluded that, during 2006/07, the control regime in operation within the creditor payments system was generally sound and that payroll processes were well controlled. One instance was identified, however, of a member of staff not receiving their pay increment due to the removal of a control within the payroll system following a recent pay and grading review. We have been advised that controls are now in place to prevent this happening in the future.

Prevention and detection of fraud and irregularities

31. Internal Audit's report highlights that the joint board approved an Anti-Fraud and Corruption Policy, Whistleblowing Policy, and Code of Conduct for Employees in October 2006 pending consultation with the trades unions. This consultation has still to be completed and, therefore, these documents remain in draft.
32. We reviewed the draft Anti-Fraud and Corruption Policy and noted an inconsistency regarding who is responsible for investigating activities suspected of involving fraud and corruption:
 - at paragraph 3.2, 'the Internal Auditor under the direction of the Treasurer, is required to investigate activities suspected of involving fraud and corruption'
 - paragraph 3.4 states that 'the Assessor & ERO will arrange for an investigation to be carried out where appropriate. An appointed senior officer who may be assisted by the Treasurer's Internal Audit Service will investigate all instances of fraud or irregularity in the Board.'

Action plan no 5



Final Remarks

33. The members of Grampian Valuation Joint Board are invited to note this report. We would be pleased to provide any additional information that members may require.
34. The co-operation and assistance given to us by officers of the joint board is gratefully acknowledged.

Audit Scotland
October 2007



Appendix: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	20	<p>Overview of governance arrangements</p> <p>Standing Orders and Financial Regulations have not been reviewed since 1996 and 2005 respectively. We noted that Financial Regulations do not cover the arrangements for capital budget preparation and monitoring, banking or investments, that the responsibilities of the Treasurer are quite limited in comparison to other comparable bodies, and that responsibility for monitoring compliance with Standing Orders and Financial Regulations is not clear.</p> <p><i>Risk: without up to date Standing Orders and Financial Regulations, the joint board may not be able to demonstrate the legality of its activities and transactions and that adequate arrangements are in place for the conduct of its affairs.</i></p>	<p>The Standing Orders will be reviewed and a report submitted to the next Board meeting.</p> <p>The Board has never incurred Capital Expenditure until 2006/07.</p> <p>The Moray Council undertakes treasury management on behalf of the Board.</p> <p>The Financial Regulations will be reviewed to reflect the points raised by External Audit and reported to the next Board meeting.</p>	<p>Clerk to the Board</p> <p>Treasurer</p>	<p>31 January 2008</p> <p>31 January 2008</p>



Action Point	Refer Para No	Risk Identified	Planned Action	Responsible Officer	Target Date
2	23	<p>Internal audit</p> <p>Neither the Treasurer nor the joint board were aware that internal audit planned to undertake work during 2006/07.</p> <p><i>Risks: members are unable to scrutinise and influence Internal Audit's plans if they are unaware of them. In addition, there may be duplication of effort between Internal and External Audit if Internal Audit's plans are not reported to the joint board.</i></p>	<p>Although audit work scheduled was disclosed in The Moray Council's Internal Audit Plan for 2006/07, it is accepted that this had not been highlighted to the Treasurer or to the Board.</p> <p>All work planned to be undertaken by Internal Audit will in future be reported to the General Purposes and Audit Sub-Committee.</p>	Treasurer/Internal Audit (Team Leader) – The Moray Council	30 April 2008
3	24	<p>Internal audit</p> <p>We concluded that we were able to place formal reliance on Internal Audit's work on corporate governance, payroll and creditors but noted that the working papers did not contain a schedule summarising the findings from the work undertaken.</p> <p><i>Risk: without clear documentation of findings and conclusions, there is a risk that all key findings are not included within the report.</i></p>	<p>The comment in relation to the summary of findings has been noted, but is not considered to be a material omission.</p>	Internal Audit (Team Leader) – The Moray Council	30 April 2008



Action Point	Refer Para No	Risk Identified	Planned Action	Responsible Officer	Target Date
4	26	<p>Statement on internal control</p> <p>The Team Leader (Internal Audit) does not prepare an Annual Report nor provide an independent opinion on the overall adequacy and effectiveness of the Joint Board's internal control system to support the Treasurer in signing the Statement on Internal Control.</p> <p><i>Risk: without an Annual Report from Internal Audit, the joint board has no independent assurance that the internal financial control systems in operation are adequate and effective</i></p>	<p>Professional Guidelines have in recent years promoted the concept of risk based auditing arguing until that audit resources should be directed to areas of greatest risk. Historically, Internal Audit has reviewed systems on a cyclical basis.</p> <p>External Audit now considers that Internal Audit should audit all core systems in each financial year. Due to the scarce staffing resource in Internal Audit within The Moray Council, further discussion is required on this issue given that the extensive testing of financial and valuation systems has disclosed little in the way of control weaknesses.</p>	Assessor/Treasurer/ Internal Audit (Team Leader) - The Moray Council.	31 January 2008
5	32	<p>Prevention and detection of fraud and irregularities</p> <p>The draft Anti-Fraud and Corruption Policy contains an inconsistency regarding who is responsible for investigating activities suspected of involving fraud and corruption.</p> <p><i>Risk: activities suspected of involving fraud and corruption will not be properly investigated.</i></p>	The Anti-Fraud and Corruption Policy will be amended to reflect the point made by External Audit before being finalised.	Assessor	31 January 2008