

Highland and Western Isles Valuation Joint Board

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

27 September 2007



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Introduction

1. This report summarises the findings from our 2006/07 audit of Highland and Western Isles Valuation Joint Board. The scope of the audit was set out in our audit fee letter issued on 1 February 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
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the Statement on the System of Internal Financial 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 Highland and Western Isles Valuation Joint Board for 2006/07.
8. The unaudited financial statements were submitted to the Controller of Audit in advance of 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 (the 'SORP'). The SORP requires all bodies to provide an objective analysis in the income and expenditure account whereas the Joint Board uses a subjective analysis. This analysis does not impact on the audit opinion as the financial statements are consistent with previous years and on that basis present fairly the financial position at 31 March 2007.

Action point 1



Financial position

Going concern

9. The Joint Board's balance sheet at 31 March 2007 shows net liabilities of £1.762 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 Board's net operating expenditure for 2006/07 amounted to £2.378 million (after elimination of FRS 17 pension adjustments). This was met by constituent authorities' contributions of £2.378 million.
12. The Treasurer's Report to the Board contained within the financial statements summarises performance against budget. Overall there was an underspend of £55,000 (2.3%) 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 and the estimation process is complex involving 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 financial statements.



15. The Joint Board's estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the Highland Council Pension Fund by £1.762 million, reducing from £2.351 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 his 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. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Joint Board's internal financial control system.
21. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Systems of internal control

22. The Joint Board's financial transactions are processed through Highland Council's financial systems. It is the responsibility of the Council'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.
23. Our review of these systems was conducted as part of the audit of the Highland 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.

Prevention and detection of fraud and irregularities

24. The Joint Board has its own policy for the prevention and detection of fraud and corruption.



Governance - outlook

25. New obligations for the Board arise from the Electoral Administration Act 2006. These obligations relate to the arrangements for canvassing for the electoral register and the ingathering of personal identifiers to allow greater checking of postal votes in elections.

26. The First Minister has set out his legislative plans for the next year in the Programme for Government. Within the programme there is a proposal to work with local authorities to freeze council tax at 2007-08 levels and begin detailed consultation on proposals to replace council tax with a local income tax based on ability to pay. There is no specific timetable at present for the abolition of council tax and, until a decision is taken, the Assessor will need to continue maintaining the valuation list until such time a decision is taken.



Final Remarks

27. The members of Highland and Western Isles Valuation Joint Board are invited to note this report. We would be pleased to provide any additional information that members may require.
28. The co-operation and assistance given to us by officers of the Joint Board to allow earlier completion of the audit is gratefully acknowledged.

Audit Scotland
27 September 2007



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	8	<p>Financial statements</p> <p>Although financial statements are consistent with previous years and, on that basis, present fairly the financial position at 31 March 2007. The SORP requires all bodies to provide an objective analysis in the income and expenditure account whereas the Joint Board uses a subjective analysis.</p> <p><i>Risk: the financial statements do not comply with accounting requirements.</i></p>	<p>Agreed to review the format of the financial statements and to consider the most appropriate presentational style.</p>	Treasurer	March 2008