

Highland and Western Isles Valuation Joint Board

Report to Members and the Controller of Audit on the 2007/08 Audit



15 September 2008



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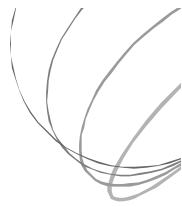
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Introduction

1. This report summarises the findings from our 2007/08 audit of Highland and Western Isles Valuation Joint Board. The scope of the audit was set out in our annual audit plan issued on 15 February 2008.
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 2007/08. We also summarise key aspects of the Joint Board's reported financial position and performance to 31 March 2008.
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 2007/08.
9. 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'). Overall, we were satisfied that the financial statements were prepared in accordance with the SORP. There were no adjustments made to the figures included in the un-audited financial statements provided for public inspection.

Financial position

Going concern

10. The Joint Board's balance sheet at 31 March 2008 shows net liabilities of £1.793 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.



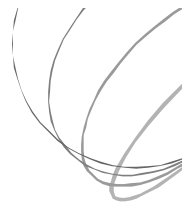
11. The net liability position is due to the requirements of Financial Reporting Standard 17 (retirement benefits) where there is an obligation to recognise the Joint Board's full pension obligations in the year they are earned. This is discussed further below. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met, as they fall due, by contributions from constituent authorities in the normal way. 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 2007/08

12. The Joint Board's net operating expenditure for 2007/08 amounted to £2.511 million (after elimination of FRS 17 pension adjustments) and was met by constituent authorities' contributions of £2.622 million resulting in underspending for the year of £0.111 million. This will be refunded to the constituent authorities. The Treasurer's Report to the Board contained within the financial statements summarises performance against budget. The major factors contributing to the underspending were savings in staff costs; property costs and supplies and services.

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 and involves many areas of uncertainty that are the subject of assumptions.
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 2008 exceeded its share of the assets in the Highland Council Pension Fund by £1.793 million (£1.762 million in 2006/07). The increase is due to the accrual of pension liabilities in accordance with FRS 17.
16. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 6% of salary. The actuary's assessment shows that contributions from employing authorities are expected to rise from 280% of employee contributions in 2007/08 to 290% in the 2008/09 financial year.



Legality

17. 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.

18. There are no additional legality issues arising from our audit which require to be brought to members' attention.



Governance

Introduction

19. In this section we comment on key aspects of the Joint Board's governance arrangements during 2007/08.

Overview of arrangements in 2007/08

20. 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, to ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
21. 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.
22. The statement complies with accounting requirements and is consistent with the findings of our audit.

Systems of internal control

23. 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.
24. 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.
25. 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 Highland Council's Internal Audit section provided an internal audit service to the Joint Board during 2007/08.



26. 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. We concluded that internal audit work within the Board continues to be of a sufficient standard to allow us to rely on it.

Prevention and detection of fraud and irregularities

27. The Joint Board has appropriate arrangements for the prevention and detection of fraud and corruption. These arrangements include a strategy for the prevention and detection of fraud and corruption, written procedures for the investigation of suspected cases of fraud and corruption and a whistle blowing policy.

Governance - outlook

28. 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. Although the Joint Board has not established its own key performance indicators for electoral registration it has seen the performance measures being proposed by the Electoral Commission. It is anticipated that performance data will be collected for the Electoral Commission's performance measures from the start of the annual canvass in September 2008.
29. It has been reported to the Board that there are issues relating to succession planning at the advanced professional level due to generational change. Difficulties are also being experienced recruiting suitable clerical staff. These risks are included in the Joint Board's risk register. The Assessor and the Joint Board's personnel advisers are addressing these issues and a report will go to the next meeting of the Joint Board.



Final Remarks

30. 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.

31. The co-operation and assistance given to us by officers of the Joint Board is gratefully acknowledged.

Audit Scotland
15 September 2008