INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Central Scotland Valuation Joint Board

Annual audit report for 2005-06 to members of Central Scotland Valuation Joint Board and the Controller of Audit

27 September 2006

AUDIT

Contents

Notice: About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ('the Code') and Statement of Responsibilities of Auditors and Audited Bodies.

This report is for the benefit of only Central Scotland Valuation Joint Board and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the requirements or circumstances of anyone other than the beneficiaries

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Executive summary

Financial statements

On 27 September 2006 we issued an audit certificate expressing an unqualified opinion on the financial statements of the Central Scotland Valuation Joint Board for the year ended 31 March 2006.

During the audit of the draft financial statements, we identified no significant audit adjustments, with only some minor presentational issues identified. These were communicated to the Joint Board's management and the financial statements amended accordingly.

Financial position

During the financial year 2005-06 the Joint Board returned a deficit of £138,873 (2004-05 surplus of £144,310). Any deficit recorded by the Joint Board is required to be met by the constituent authorities and is therefore recognised in the balance sheet.

The Joint Board's balance sheet shows a net liability of £2,992,000 at 31 March 2006 (2005, liability of £2,598,000) due to liabilities recognised under FRS 17 from its participation in the local government pension scheme administered by Falkirk Council. Due to the Joint Board being a statutory body and the constituent authorities being required to meet its costs on an annual basis, the financial statements continue to be prepared on a going concern basis.

Corporate governance

The 2005-06 statement on internal control prepared by management does not disclose any major weaknesses.

The Joint Board's financial systems are the same as those operated by Clackmannanshire Council; the reviews of these systems were conducted simultaneously to those carried out as part of the Council's audit. Appropriate checking of the draft financial statements back to these systems was undertaken at the year end. No audit findings relating uniquely to the Joint Board were identified during work carried out at the Council.

The Joint Board's internal audit service is provided by the internal audit department of Clackmannanshire Council. The internal audit annual report for the Joint Board concludes that "authorisation controls over ordering and invoices were not operating correctly. However, new procedures have been agreed and implemented which will result in improvements. Our overall conclusion is that once the improved purchasing arrangements are in place, controls operating over the system will be satisfactory."

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Introduction

Background

2005-06 was the final year of our five-year appointment as external auditors of Central Scotland Valuation Joint Board ("the Joint Board"). This report summarises our opinion and conclusions and highlights significant issues arising from our work.

Our audit was carried out in accordance with our statutory responsibilities, statements of auditing standards and wider responsibilities embodied in the Code of Audit Practice ("the Code"), issued by Audit Scotland during July 2001. The respective responsibilities of KPMG LLP as auditors and Joint Board management are embodied within Audit Scotland's Statement of responsibilities of auditors and audited bodies. The Code states the auditor's objectives are to:

- provide an opinion on whether the Joint Board's financial statements present fairly the financial position of the Joint Board in accordance with standards and guidance issued by the Auditing Practices Board; and
- review and report on the Joint Board's corporate governance arrangements.

Work against these objectives has been undertaken during the year and this report covers the principal matters arising from that work. Given the relative size of the Joint Board and the way in which its activities are undertaken, we have taken reliance from our audit work on corporate governance and other arrangements undertaken at Clackmannanshire Council ("the Council") where it was appropriate to do so.

We focus our work on the areas most likely to give rise to a material misstatement in the financial statements. The significant risk areas identified may impact the Joint Board's financial statements or the regularity of its transactions and subsequently our audit opinion:

- the disclosure of pension fund liabilities within the financial statements; and
- the classification of expenditure between capital and revenue.

Basis of information

External auditors do not act as a substitute for the Joint Board's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

No significant issues have arisen from the completion of our audit procedures.

To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the Joint Board. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of KPMG LLP except where explicitly stated as being so.

Acknowledgement

Our audit has brought us in contact with a wide range of Joint Board staff. We wish to place on record our appreciation of the continued co-operation and assistance extended to us by staff in the discharge of our responsibilities. It is our intention to minimise the disruption to the Joint Board from a change in auditor through briefing and liaison on unresolved issues with the incoming auditor's staff.

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Financial position

Revenue account

The Joint Board returned a deficit for 2005-06 of £139,000 from income of £2,337,000, the vast majority of which is funding from the constituent authorities. A summary of the Joint Board's revenue account for 2005-06 outturn against budget is shown in figure one.

Figure 1: 2005-06 outturn against budget

	Budget £000	Actual £000	Variance £000
Employee costs	1816	1,813	3
Other costs	656	732	(76)
Capital financed from revenue	-	30	(30)
Income	(11)	(111)	100
Net cost of services	**2,461**	**2,464**	**3**
Asset management revenue account	0	(32)	(32)
Net operating expenditure	**2,461**	**2,432**	**(29)**
Contribution from pension reserve	-	(68)	(68)
Income from constituent authorities	2,225	(2,225)	0
Net deficit		**139**	

A deficit of £139,000 was generated principally as the result of £200,000 of accumulated surpluses owed to the constituent authorities being reimbursed (the surpluses refunded to the constituent authorities being reflected in the financial statements as a reduction in income), plus planned additional expenditure from the use of these surpluses. This was offset by additional, unbudgeted income of £90,000 received at the year end from the Department of Constitutional Affairs in relation to implementing a new electoral registration system. .

The deficit for the year was transferred against the residual balance remaining as refundable to constituent authorities.

The refund of accumulated surpluses followed a review in accordance with our 2004-05 audit report recommendation.

The Joint Board also overspent against budget by £52,000 in supplies costs, mainly due to increased postage and equipment costs. There have been small overspends against budget in other areas, resulting in a £76,000 overspend in other costs. It was noted that budgets had not been set for capital financed from revenue, nor the asset management revenue account. Best practice would suggest setting a budget for these items to ensure setting a robust budget.

Balance sheet

The Joint Board's balance sheet position at 31 March is summarised in figure two

Figure 2: Balance sheet position as at 31 March

	2005 £000	2006 £000	Movement £000
Fixed assets	87	90	3
Current assets	602	737	135
Current liabilities	(602)	(737)	(135)
Pension liability	(2,685)	(3,082)	(397)
Total liabilities	**(2,598)**	**(2,992)**	**(394)**

The increase in the Joint Board's net liabilities position at the balance sheet date from the prior year is due to the following factors:

- Current assets have increased as a result of the £90,000 of one off funding confirmed, but not paid, by the Department of Constitutional Affairs at the year end and an increase in funds held on behalf of the Joint Board by the Council including additional funding of £320,000 as the lead partner in the portal project to develop a shared database amongst Scotland's valuation boards. The funding for this has been obtained from the Scottish Executive's Modernising Government Fund and income from other assessors.

Financial position (continued)

- Current liabilities have increased due mainly to the £139,000 deficit for the year being transferred to creditors and the increased funds held as part of the Modernising Government initiative being held as a creditor owed to the project. This increase is partly offset by the return of £200,000 of creditor balances to the constituent authorities in relation to accumulated surpluses.
- The Joint Board's net pension liability, as a result of its share of the assets and liabilities within the local government pension scheme, has increased by £397,000, with a year end net pension liability of £3,082,000 as at 31 March 2006.

The Joint Board's net worth at the year end, however, remains negative. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the Joint Board's other sources of income, may only be met by future requisitions from the constituent authorities. Under the terms of the Valuation Joint Boards (Scotland) Order 1995, requisitions from the constituent authorities are based on expenses incurred in the forthcoming financial year and not with reference to liabilities falling due in future years. Requisitions for 2006-07, taking into account the amounts required to meet the Joint Board's expenses falling due in that year, have already been determined and agreed. It has accordingly been considered appropriate to adopt the going concern basis for the preparation of these financial statements.

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Corporate governance

Overall arrangements

The head of finance at the Council acts as the Joint Board's treasurer. The Joint Board's financial systems are the same as those operated by the Council; the reviews of the systems were conducted simultaneously to those carried out as part of the Council's external audit. Appropriate checking of the draft financial statements back to these systems was undertaken at the year-end.

No audit findings relating uniquely to the Joint Board were identified during the work carried out at the Council.

Statement of internal financial control

In order to ensure the proper financial conduct of its business, the Joint Board has a responsibility to develop and implement systems of internal financial control. Audit Scotland has issued guidance to auditors on their role in relation to review of the statement of internal financial control. The objective of our review is to assess whether the description of the process in reviewing the effectiveness of the system appropriately reflects the process. We are not required to provide an opinion on the Joint Board's systems of internal financial control.

The Joint Board's statement describes the component parts of the internal financial control framework and the process by which the treasurer has reviewed the effectiveness of the internal financial control system enabling him to conclude that reasonable assurance can be placed on the adequacy and effectiveness of the internal financial control system. The statement prepared by the Joint Board expresses its framework of control and is consistent with our understanding of the established framework.

Standards of conduct and prevention and detection of corruption

Public business should always be conducted with fairness and integrity including matters such as the avoidance of personal gain from such business, even handedness in the appointment of staff, open competition in the letting of contracts and the avoidance of waste and extravagance. We are required to consider whether the Joint Board has put in place adequate arrangements to maintain and promote proper standards of financial conduct and detect corruption. Our work over the five year period of our appointment in relation to this element of the Code was reflected within our long term plan.

Fraud and irregularity

During 2005-06 we had regard to Statement of Auditing Standards 110: *Fraud and Error* and International Standards on Auditing 240: *The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements* when completing our audit work in this area.

From discussion with management and completion of our audit procedures, we have not identified any suspected or actual fraud.

Performance audit

The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.

No performance audit studies were identified by Audit Scotland for the Joint Board during 2005-06.

Implementation of prior year audit recommendations

The 2004-05 annual audit report included four recommendations to the Joint Board. Of these, three were fully implemented during the year with one not implemented. The Council has as yet not implemented a capitalisation policy as recommended. Best practice suggests that a formal policy should be implemented which details the criteria when expenditure on assets should be capitalised. Details of the recommendations can be found at appendix II.

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Audit opinion

On 27 September 2006 we issued an audit certificate expressing an unqualified opinion on the financial statements of the Joint Board for the year ended 31 March 2006.

Audit completion

An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in Figure three the three key elements of the audit process with which we require the Joint Board to engage.

Figure 3: Key elements of the audit process

Completeness of draft financial statements

We received a completed draft of financial statements for the Joint Board in line with the agreed timetable for the audit.

Quality of supporting working papers

In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. The documents provided were to a high standard.

Response to audit queries

We are pleased to note that all audit queries were dealt with in a timely manner

Financial adjustments and confirmations

During the audit of the financial statements we identified no significant audit adjustments and a number of presentational issues. There were no remaining unadjusted audit differences.

Confirmations and representations

We confirm that as of 27 September 2006, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of audit staff is not impaired. This has been confirmed separately in writing to the Board of the Central Scotland Valuation Joint Board.

In accordance with auditing standards, we will obtain representations from the Joint Board's directors on material issues prior to signing our opinion.

Significant accounting issues

No significant accounting issues were identified during the course of the audit.

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Appendix I – implementation of prior year recommendations

This appendix summarises the progress made by the Joint Board in implementing performance improvement observations we identified during the 2004/05 financial statements audit. Each of our observations has been allocated a risk rating, which is explained in Figure 1.

Figure 1: risk rating for performance improvement observations

(red)	**Grade one (significant) observations are those relating to business issues, high level or other important internal controls.** These are significant matters relating to factors critical to the success of the Joint Board or systems under consideration. The weakness may therefore give rise to loss or error.	(amber)	**Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future.** The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	(green)	**Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors.** The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

Original recommendation		Management response	Responsible officer and implementation timetable	Position at July 2006
1	It is again recommended that the Joint Board reviews the acceptable level of accumulated surplus repayable to constituent authorities and establishes plans to reduce the retained surplus to such levels that are deemed acceptable.	Agreed. The Treasurer will present a paper recommending a repayment to constituent authorities in the next cycle of meetings.	Muir Wilson 31 December 2005	**Implemented** £200,000 was returned to the constituent authorities during 2005-06.
2	It is recommended that internal audit are asked to review relevant operations and the systems of internal control so as to provide additional assurance to management over the internal control environment.	Agreed. Internal audit are currently carrying our work on the Joint Board's activities and this will continue into next year's annual audit plan.	Jim Clarke 31 March 2006	**Implemented** Internal audit completed a review of the Joint Board's operations during 2005-06.

Appendix I – implementation of prior year recommendations (continued)

3	Council staff should be instructed only to post valid items to the Joint Board's capital additions ledger code. This will reduce the level of manual adjustments at the year end and ensure that the information contained in the financial ledger is accurate.	Agreed. This will be implemented for the year end process of the current year.	Muir Wilson 31 March 2006	**Implemented** Review of manual adjustments found fewer adjustments to capital additions ledger code.
4	A formal capitalisation policy should be established and approved by the Valuation Joint Board. This should include a formal *de minimis* limit above which all items of capital expenditure should be capitalised on the balance sheet. This will ensure consistency of treatment and provide clarity over capitalisation thresholds.	Agreed. A paper detailing such policy will be presented to the Board before the end of the current year.	Muir Wilson 31 March 2006	**Not implemented** No capitalisation policy has been established or authorised.