

Grampian Valuation Joint Board

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



October 2008

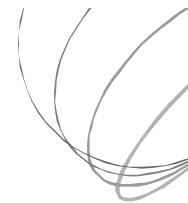


Grampian Valuation Joint Board

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Audit**

Contents

Introduction	2	Final remarks	9
Financial statements	3	Appendix: Action Plan	10
Governance	6		



Introduction

1. This report summarises the findings from our 2007/08 audit of Grampian Valuation Joint Board. The scope of the audit was set out in our Annual Audit Plan issued in 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
 - 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 Grampian Valuation Joint Board for 2007/08.
8. The unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly. Audited accounts were finalised by the end of August, a month ahead of the target date of 30 September and are now available for presentation to the joint board and publication.
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 2007 (the 'SORP'). The 2007 SORP contained a number of changes to the presentation of the financial statements. The key change impacting on the financial statements of the joint board was the replacement of the fixed asset restatement account and capital financing account with a revaluation reserve and capital adjustment account. The joint board coped well with these changes and we are satisfied that the financial statements have been prepared in accordance with the revised SORP.



Financial position

Going concern

10. The joint board's balance sheet at 31 March 2008 shows net liabilities of £2.222 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 technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met from employees' and 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 its financial statements for the reasons outlined above.

Operating performance 2007/08

12. The joint board's net operating expenditure in 2007/08 was £3.388 million. This was met by requisitions from constituent authorities of £3.815 million, resulting in an income and expenditure surplus of £0.427 million. After taking into account statutory and non-statutory adjustments, a general fund surplus of £0.297 million (8% of budget) was achieved which will be refunded to the constituent authorities. The Treasurer summarises performance against budget in the Explanatory Foreword to the accounts. This highlights that the majority of the underspend is due to reduced staff costs resulting from difficulties in recruiting professional staff.
13. Capital expenditure on the new Banff Office totalled £0.165 million in 2007/08 and was financed from the Capital Fund. The joint board is committed to further capital expenditure of £0.537 million on the Banff Office in 2008/09.

Legality

14. 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.
15. There are no additional legality issues arising from our audit which require to be brought to members' attention.



Financial outlook

Pension liabilities

16. 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.
17. 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.
18. The joint board's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Aberdeen City Council Pension Fund by £3.794 million, increasing from £1.715 million in the previous year. The increase in liability will be made good by increased contributions over the remaining working lives of the employees, as assessed by the scheme's actuary.

IFRS adoption

19. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas, including PFI.



Governance

Introduction

20. In this section we comment on key aspects of the joint board's governance arrangements during 2007/08.

Overview of arrangements in 2007/08

21. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviour 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. Based on the work undertaken, we concluded that, during 2007/08, the joint board had systems in place that operated well within a sound control environment.
22. Last year we reported that the joint board's Standing Orders and Financial Regulations had not been reviewed since 1996 and 2005 respectively and noted there were some omissions in the documents. In response, the joint board revised its Standing Orders and Financial Regulations and these were approved with effect from June 2008.

Internal audit

23. 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.
24. 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. Last year, we highlighted concerns about the joint board's internal audit arrangements including failure to submit internal audit plans to the Treasurer or joint board and provide an independent assessment of the adequacy and effectiveness of the joint board's internal control systems.
25. During the past year, internal audit addressed both these concerns by submitting the 2008/09 internal audit plan to the Board meeting in June 2008 and producing an Annual Report providing an independent assessment of the joint board's control environment during the year to 31 March 2008.



26. We did not take any specific assurance from the work done by Internal Audit in 2007/08 as we had already obtained the controls assurances we required for our audit of the financial statements by the time we were advised of Internal Audit's work plan in February 2008. We will review Internal Audit's plan as part of our 2008/09 planning process in order to ensure that maximum benefit is gained from the systems work undertaken by internal and external audit.

Statement on the system of internal financial control

27. 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 systems. No areas have been highlighted as requiring improvement. The Statement complies with accounting requirements and is not inconsistent with the findings of our audit.
28. As noted at paragraph 25, the Statement is supported by a high level review of the adequacy and effectiveness of the internal control environment undertaken by internal audit. We noted, however, that the Annual Report was not completed until after the financial statements containing the Statement had been submitted for audit. In future, the Annual Report should be provided to the Treasurer in sufficient time to enable her to consider its contents prior to preparing the Statement.

Action plan no 1

Systems of internal control

29. 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.
30. 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.



Prevention and detection of fraud and irregularities

31. Last year we reported that the joint board approved an Anti-Fraud and Corruption Policy, Confidential Reporting (Whistleblowing) Policy, and Code of Conduct for Employees in October 2006 pending consultation with the trade unions and that as that consultation had never been completed, the documents remained in draft. In addition, we highlighted an inconsistency in the draft Anti-Fraud and Corruption Policy regarding who is responsible for investigating activities suspected of involving fraud or corruption.
32. In January 2008, the joint board approved a number of policies including the Anti-Fraud and Corruption Policy, Confidential Reporting (Whistleblowing) Policy, and the Code of Conduct for Employees. The Anti-Fraud and Corruption Policy has been revised to clarify who is responsible for investigating suspected cases of fraud or corruption.

Governance outlook

33. The joint board faces a number of challenges with regard to its workforce. As noted at paragraph 12, there are difficulties in recruiting and retaining suitably qualified professional staff. The joint board has sought to address this through a programme to train and develop staff in-house. Uncertainties surrounding the proposed replacement of council tax with a local income tax also impact on management's ability to develop longer term workforce plans.



Final remarks

34. 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.
35. The co-operation and assistance given to us by officers of the joint board is gratefully acknowledged.

Audit Scotland
October 2008



Appendix: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Management Response and Planned Action	Responsible Officer	Target Date
1	28	<p>Statement on the System of Internal Financial Control</p> <p>The Statement is supported by Internal Audit's Annual Report which summarises the findings from their high level review of the adequacy and effectiveness of the internal control environment. The Annual Report was not completed until after the financial statements containing the Statement had been submitted for audit.</p> <p><i>Risk: there is insufficient evidence to support the Treasurer's opinion that reasonable assurance can be placed on the adequacy and effectiveness of the joint board's internal financial control systems.</i></p>	<p>The Treasurer was in contact with the Internal Auditor prior to signing of the Statement on the System of Financial Control to ensure that no material control weaknesses had been disclosed during the audit.</p> <p>The overlap was a matter of days and the risk accordingly is not considered to be material.</p> <p>The timing of the annual Internal Audit is influenced by the External Auditor's requirement for full year assurance and the scale of the Board's activities are such as not to merit interim reviews.</p> <p>In consequence, future internal audit work is likely to be carried out after the year end. Every effort will be made to provide the Internal Audit Annual Report prior to the Accounts being submitted to the External Auditor.</p>	Treasurer/ Internal Auditor	31 May 2009