

Grampian Valuation Joint Board

Report to Members and the Controller of Audit on the 2008/09
Audit

October 2009



 AUDIT SCOTLAND

Grampian Valuation Joint Board

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Contents

Introduction	2	Final remarks	8
Financial statements	3	Appendix: Action Plan	9
Governance	6		



Introduction

1. This report summarises the findings from our 2008/09 audit of Grampian Valuation Joint Board. The scope of the audit was set out in our Annual Audit Plan issued in January 2009.
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 give a true and fair view of 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.



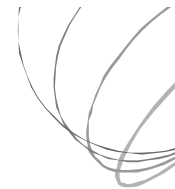
Financial statements

Introduction

4. In this section we summarise key outcomes from our audit of the Joint Board's financial statements for 2008/09. We also summarise key aspects of the Joint Board's reported financial position and performance to 31 March 2009.
5. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of 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 2008/09.
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 2008 (the 'SORP'). The 2008 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 reflects amendments made to FRS 17 'Retirement Benefits' to align its disclosure requirements more closely with those of IAS 19 'Employee Benefits'. 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 2009 shows net liabilities of £2.377 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 2008/09

12. The Joint Board's net operating expenditure in 2008/09 was £4.377 million. This was met by requisitions from constituent authorities of £3.884 million, resulting in an income and expenditure deficit of £0.493 million. After taking into account statutory and non-statutory adjustments, a general fund surplus of £0.207 million (5% 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. As in previous years, 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 £0.547 million in 2008/09 and was financed from the Capital Fund. The Joint Board is committed to further capital expenditure of £0.022 million in 2009/10 but has yet to decide what to do with the remaining balance on the Capital Fund.

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

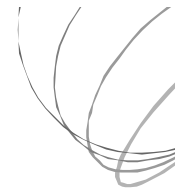
Pension liabilities

16. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, and 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 2009, exceeded its share of the assets in the Aberdeen City Council Pension Fund by £3.678 million, decreasing from £3.835million in the previous year. The 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. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Although some aspects of IFRS have already been adopted, 2009/10 is a key year in the transition to IFRS with Joint Boards expected to prepare a comparative balance sheet as at 1 April 2009.

Action plan no. 1



Governance

Introduction

20. In this section we comment on key aspects of the Joint Board's governance arrangements during 2008/09.

Overview of arrangements in 2008/09

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 2008/09, the Joint Board had systems in place that operated well within a sound control environment.
22. In 2007 CIPFA/SOLACE published a framework 'Delivering Good Governance in Local Government' which sets out standards to help local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of business. The Joint Board plans to assess its corporate governance structures against this framework during 2009/10.

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. Our assessment confirmed that the section operates in accordance with the CIPFA code of practice for internal audit in local government. As a result, we planned to rely on internal audit's work on payroll and creditors payments. Review of their payroll and creditors payments' files confirmed that the work done was sufficient to enable us to place formal reliance on internal audit's work in these areas in 2008/09. We will review Internal Audit's plan as part of our 2009/10 planning process in order to ensure that we can continue to obtain maximum benefit from the systems work undertaken by internal and external audit.



Statement on the system of internal financial control

25. 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.
26. The Statement highlights the following risks facing the Joint Board: reduced funding as a result of the significant financial pressures facing constituent authorities; the absence of a business continuity plan to reduce disruption caused by a major system failure or disaster; uncertainties surrounding the proposed replacement of council tax with a local income tax; and the absence of a formal lease for the office space rented from Aberdeenshire Council. The Joint Board has plans in place to address all of these risks with the exception of the proposed replacement of the council tax. The Scottish Government has postponed the necessary legislation until after the elections in 2011.
27. In accordance with good practice, the statement is supported by a high level review of the adequacy and effectiveness of internal financial controls undertaken by internal audit. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Systems of internal control

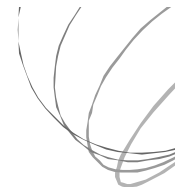
28. The Joint Board's financial transactions are processed through The Moray Council's financial systems. It is the responsibility of the Joint Board's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated 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.

Prevention and detection of fraud and irregularities

30. The Joint Board has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy; a confidential reporting (whistle blowing) policy; and code of conduct for staff.

Governance outlook

31. As noted at paragraph 12, the Joint Board faces challenges in recruiting and retaining suitably qualified professional staff. The Joint Board has sought to address this by introducing a programme to train and develop staff in-house.



Final remarks

32. 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.
33. The co-operation and assistance given to us by officers of the Joint Board is gratefully acknowledged.

Audit Scotland
October 2009



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	19	Adoption of International Financial Reporting Standards (IFRS) 2009/10 is a key year in the transition to IFRS, with Joint Boards expected to prepare a comparative balance sheet as at 1 April 2009. <i>Risk: the Joint Board will be unable to produce IFRS compliant financial statements within the required timescales.</i>	The implementation of IFRS for the Board is being taken forward as part of the Moray Council overall programme. The revised Balance Sheet will be produced by 31 January 2010.	Treasurer	31 January 2010