

# Central Scotland Valuation Joint Board

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Members of Central Scotland Valuation Joint Board and the Controller of Audit  
September 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2017/18 annual accounts

- 1** In our opinion, the financial statements of Central Scotland Valuation Joint Board give a true and fair view and were properly prepared.
- 2** The audited part of the remuneration report, the management commentary and the annual governance statement are consistent with the financial statements and were properly presented.

## Financial sustainability and governance statement

- 3** The board operated within its revenue budget for 2017/18.
- 4** The board faces a challenging financial position and is forecasting a likely funding gap of £0.4 million by 2020/21. It needs to identify ways to deliver services more efficiently to bridge this gap.
- 5** The information in the annual governance statement is consistent with the financial statements and complies with guidance.

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# Introduction

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**1.** This report summarises the findings from our 2017/18 audit of Central Scotland Valuation Joint Board (the board).

**2.** The scope of our audit was set out in our Annual Audit Plan presented to the 2 February 2018 meeting of the board. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the board's financial sustainability and annual governance statement.

**3.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are:

- financial sustainability,
- financial management,
- governance and transparency, and
- value for money.

**4.** The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.

**5.** As highlighted in our 2017/18 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2017/18 audit of the board.

**6.** The board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The board is also responsible for compliance with legislation, putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

**7.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance, and International Standards on Auditing in the UK.

**8.** As public-sector auditors we give independent opinions on the annual report and accounts and conclusions on securing financial sustainability and the appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.

**9.** The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**10.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

**11.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2017/18 audit fee of £7,080 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

**12.** Our aim is to add value to the board by providing insight and foresight on financial sustainability and by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

**13.** This report is addressed to members of the board and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**14.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2017/18 annual report and accounts



### Main judgements

**In our opinion, the financial statements of Central Scotland Valuation Joint Board give a true and fair view and were properly prepared.**

**The audited part of the remuneration report, the management commentary and the annual governance statement are consistent with the financial statements and were properly presented.**

### Audit opinions on the annual report and accounts

**15.** The financial statements for the board for the year ended 31 March 2018 were approved by the board on 28 September 2018. We reported, within our independent auditor's report, that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, the management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with requirements.

**16.** We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

### Submission of annual report and accounts for audit

**17.** We received the unaudited annual report and accounts on 29 June 2018 in line with our agreed audit timetable.

**18.** The working papers provided with the unaudited annual report and accounts were of a good standard and finance staff provided good support to the audit team during the audit.

### Risks of material misstatement

**19.** [Appendix 2](#) sets out risks of material misstatement that we identified during the audit planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

### Materiality

**20.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material we consider both the amount and nature of the misstatement.

**21.** We carried out our initial assessment of materiality for the annual report and accounts during the planning phase of the audit. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they

remained appropriate. The materiality levels we applied during the audit are summarised in [Exhibit 1](#).

## Exhibit 1

### Materiality values

Materiality level	Amount
Overall materiality	£28,000
Performance materiality	£21,000
Reporting threshold	£5,000

Source: Audit Scotland

## Evaluation of misstatements

**22.** It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

**23.** The board has made a material adjustment to the unaudited financial statements due to the timing of actuarial reports on the board's share of pension fund assets. The board accounts for its share of the assets and liabilities of Falkirk Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS19 reports using estimated data for the final part of the year. Asset returns estimated for the final part of the year were significantly lower than actual returns. Following discussions with officers, the audited financial statements have been adjusted. This adjustment reduces the board's pensions liability by £69,000 and increases its pensions reserve by the same amount (see [Exhibit 1](#), page 9).

**24.** We did not identify any errors below our materiality level but above our reporting threshold.

## Significant findings from the audit (ISA 260)

**25.** International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 2](#).

**26.** The findings include our views about significant qualitative aspects of the council's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements

- Misstatements in the annual accounts
- Disagreement over any accounting treatment or financial statements disclosure

## Exhibit 2

### Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. Valuation of pension assets</b></p> <p>The board accounts for its share of the assets and liabilities of Falkirk Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS19 reports using estimated data for the final part of the year. Asset returns estimated for the final part of the year were significantly lower than actual returns. As a result, the pension fund assets reported in the accounts presented for audit have been understated by £69,000.</p>	<p>The board obtained an updated IAS19 report from the actuary based on actual asset returns. It has adjusted its financial statements to reflect its share of pension fund assets based on this report. This reduces the board's pensions liability by £69,000 and increases its pensions reserve by the same amount. Local government accounting regulations do not require the general fund to be charged with amounts calculated under IAS19. This means this adjustment does not impact the board's outturn for the year or its general fund balance.</p>

Source: Audit Scotland

## Other findings

**27.** Our audit identified some presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

## Follow up of prior year recommendations

**28.** We have followed up actions previously reported and assessed progress with implementation. These are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

**29.** In total, two agreed actions were raised in 2016/17. One of these actions has not been implemented and a revised response and timescale has been agreed with management in [Appendix 1](#).

# Part 2

## Financial sustainability and governance statement



### Main judgements

The board operated within its revenue budget for 2017/18.

The board faces a challenging financial position and is forecasting a likely funding gap of £0.4 million by 2020/21. It needs to identify ways to deliver services more efficiently to bridge this gap.

The information in the annual governance statement is consistent with the financial statements and complies with guidance.

### Financial performance in 2017/18

**30.** In February 2017 the board approved its budget for 2017/18. Total budgeted expenditure was £2.584 million and total budgeted income was £0.095 million. This resulted in a budget gap of £0.120 million which the board agreed to meet using reserves.

**31.** Actual outturn for the year was an underspend of £0.156 million. This differs from the deficit of £0.383 million reported in the financial statements due to the impact of statutory accounting adjustments such as pension benefits.

### Financial planning

**32.** The board prepares its budget on an annual basis. Officers prepare a three-year service plan and forecasts of the board's funding position for the next three years. These forecasts are based on assumptions for variables such as Cabinet Office funding, inflation and pay awards.

**33.** The board approved its 2018/19 budget in February 2018 with proposed total expenditure of £2.583 million. The board has budgeted for contributions from member authorities of £2.465 million. This results in a funding gap of £0.119 million which will be funded from reserves.

**34.** The board uses its reserves to support financial planning and address any unforeseen costs. In 2017/18 the overall level of useable reserves held by the board increased from £0.505 million to £0.541 million. £0.318 million of these reserves are earmarked for specific purposes, leaving uncommitted reserves of £0.223 million which represents 8.6% of budgeted net expenditure. The board has agreed to maintain a minimum uncommitted reserve balance of 6% in anticipation of future funding pressures.

**35.** The board faces a challenging financial position. Future pressures include uncertainty over the timing and duration of Cabinet Office funding, pay inflation and a move from five to three yearly revaluations. The board also recognises it will come under increasing pressure to reduce the level of contributions required from its constituent authorities. The board forecasts it will have a funding gap of £0.446 million by 2020/21.

**36.** The board has been working to identify efficiencies and savings in its operating costs. It has made some progress through digitising paper records which allows

Financial sustainability looks forward to the longer-term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.

more flexible working practices and in time will reduce the need for office space. The board recognises that the scale of its financial challenge means it needs to review all aspects of service delivery. The board is working with the chief financial officers of constituent authorities to identify potential savings and efficiencies.



### Recommendation 1

**The board should work to develop savings plans to address its substantial funding gap.**

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## Annual governance statement

**37.** Our review of the annual governance statement assessed the assurances provided to the assessor as accountable officer regarding the adequacy and effectiveness of the board's system of internal control which operated in the financial year. Based on our knowledge and work performed, we concluded that the annual governance statement is consistent with the financial statements and complies with guidance.

**38.** We reported last year that some of the board's policies require to be updated, including:

- scheme of delegation
- contract standing orders
- financial regulations and financial codes
- employee code of conduct.

The board accepted our recommendation to review and update its policies and procedures but has not yet done this.

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### Recommendation 2

**The board should review and update its policies and procedures to reflect its current arrangements.**

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## Other matters

**39.** The General Data Protection Regulation (GDPR) became enforceable on 25 May 2018. The regulation made changes to data protection laws and the ways in which entities address data protection compliance. Failure to comply with the regulation could result in significant sanctions.

**40.** The board considered the Information Commissioner's Office (ICO) guidance on the main steps organisations should take in preparation for the introduction of GDPR. It reported its progress to its June 2018 board meeting. It has made good progress against the ICO's recommendations, including:

- providing training for all staff on data protection and GDPR
- carrying out a full audit of all personal information processed by the board, assessor and electoral registration officer functions
- revising privacy notices

- appointing a data protection officer
- revising its data breach, data protection and data security breach policies
- requiring all new contracts to be GDPR compliant
- reviewing all data processing agreements to ensure compliance
- undertaking privacy impact assessments prior to any changes involving the processing of personal information.

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Financial sustainability</b></p> <p>The board faces a challenging financial position. Future pressures include uncertainty over the timing and duration of Cabinet Office funding, pay inflation and a move from five to three yearly revaluations. The board also recognises it will come under increasing pressure to reduce the level of contributions required from its constituent authorities. The board forecasts it will have a funding gap of £0.446 million by 2020/21.</p> <p><b>Risk</b></p> <p>The board is unable to provide the services required of it.</p>	<p>The board should work to develop savings plans to address its substantial funding gap.</p> <p><a href="#">Paragraph 36</a></p>	<p>The assessor and the treasurer continue to work together to review the budget and ensure increasing costs are mitigated resulting in requisitioning authorities' contributions being maintained at the same level for a number of years.</p>
2	<p><b>Governance policies and procedures</b></p> <p>We reported last year that some of the board's policies require to be updated, including:</p> <ul style="list-style-type: none"> <li>• scheme of delegation</li> <li>• contract standing orders</li> <li>• financial regulations and financial codes</li> <li>• employee code of conduct.</li> </ul> <p>The board accepted our recommendation to review and update its policies and procedures but has not yet done this.</p>	<p>The board should review and update its policies and procedures to reflect its current arrangements.</p> <p><a href="#">Paragraph 38</a></p>	<p>During 2017/18 the board focused on the GDPR regulation changes. The assessor will present a revised timetable for completion of all other reviews to the November board meeting.</p>

### Follow up of prior year recommendations



No.	Issue/risk	Recommendation	Agreed management action/timing
<b>b/f 1</b>	<p><b>Financial sustainability</b></p> <p>The board is facing challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in funding. The Board forecasts its funding gap will rise to £0.445 million by 2019/20.</p> <p><b>Risk</b></p> <p>The board is unable to deliver its required services.</p>	<p>The board should work to develop savings plans to address funding gaps.</p>	<p>The board operated within its revenue budget for 2017/18. It is forecasting a likely funding gap of £0.4 million by 2020/21 and will need to make further efficiencies to bridge this gap. See action plan point 1.</p>
<b>b/f 2</b>	<p><b>Governance policies and procedures</b></p> <p>A number of the board's policies require to be updated. These include the:</p> <ul style="list-style-type: none"> <li>• scheme of delegation</li> <li>• contract standing orders</li> <li>• financial regulations and financial codes</li> <li>• employee code of conduct</li> </ul> <p><b>Risk</b></p> <p>Without up to date policies and procedures there is a risk that services are not delivered effectively and failures in governance could occur.</p>	<p>The board should review and update its policies and procedures to reflect its current arrangements.</p>	<p>No progress made, see action plan point 2.</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focussed testing of accruals and prepayments.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p>	<p>We tested journal entries, accruals and prepayments and reviewed accounting estimates and found no material errors.</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to give consideration to the risk of fraud over expenditure. The extent of expenditure, for example other operating costs, means that that there is an inherent risk of fraud.</p>	<p>Focused substantive testing on higher risk areas.</p>	<p>Our analytical procedures and substantive testing found no instances of fraud over expenditure.</p>
<b>Wider dimension risks</b>		
<p><b>3 Financial sustainability and financial management</b></p> <p>The board is facing challenges maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in funding. The board forecasts its funding gap will rise to £0.445 million by 2019/20.</p> <p>There is a risk that funding pressures affect the board's ability to deliver services.</p>	<p>Review financial monitoring reports and the financial position.</p> <p>Focused cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.</p> <p>Review budget monitoring and medium term financial plans.</p>	<p>We did not identify any errors from our cut-off testing.</p> <p>The board operated within its revenue budget for 2017/18. It is forecasting a likely funding gap of £0.4 million by 2020/21 and will need to make further efficiencies to bridge this gap. See action plan point 1.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>4 Data security</b></p> <p>The General Data Protection Regulation (GDPR) comes into force in May 2018. This strengthens data protection regulations and increase fines for breaches.</p> <p>The board, the assessor and the electoral registration officer hold a large amount of personal information. There is a risk that a significant data loss could lead to financial and reputational losses for the board.</p>	<p>Review of the board's data protection policies to ensure the board is sufficiently prepared for GDPR.</p>	<p>The board considered the Information Commissioner's Office (ICO) guidance on the main steps organisations should take in preparation for the introduction of GDPR. It has made good progress against the ICO's recommendations.</p>

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# Central Scotland Valuation Joint Board

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