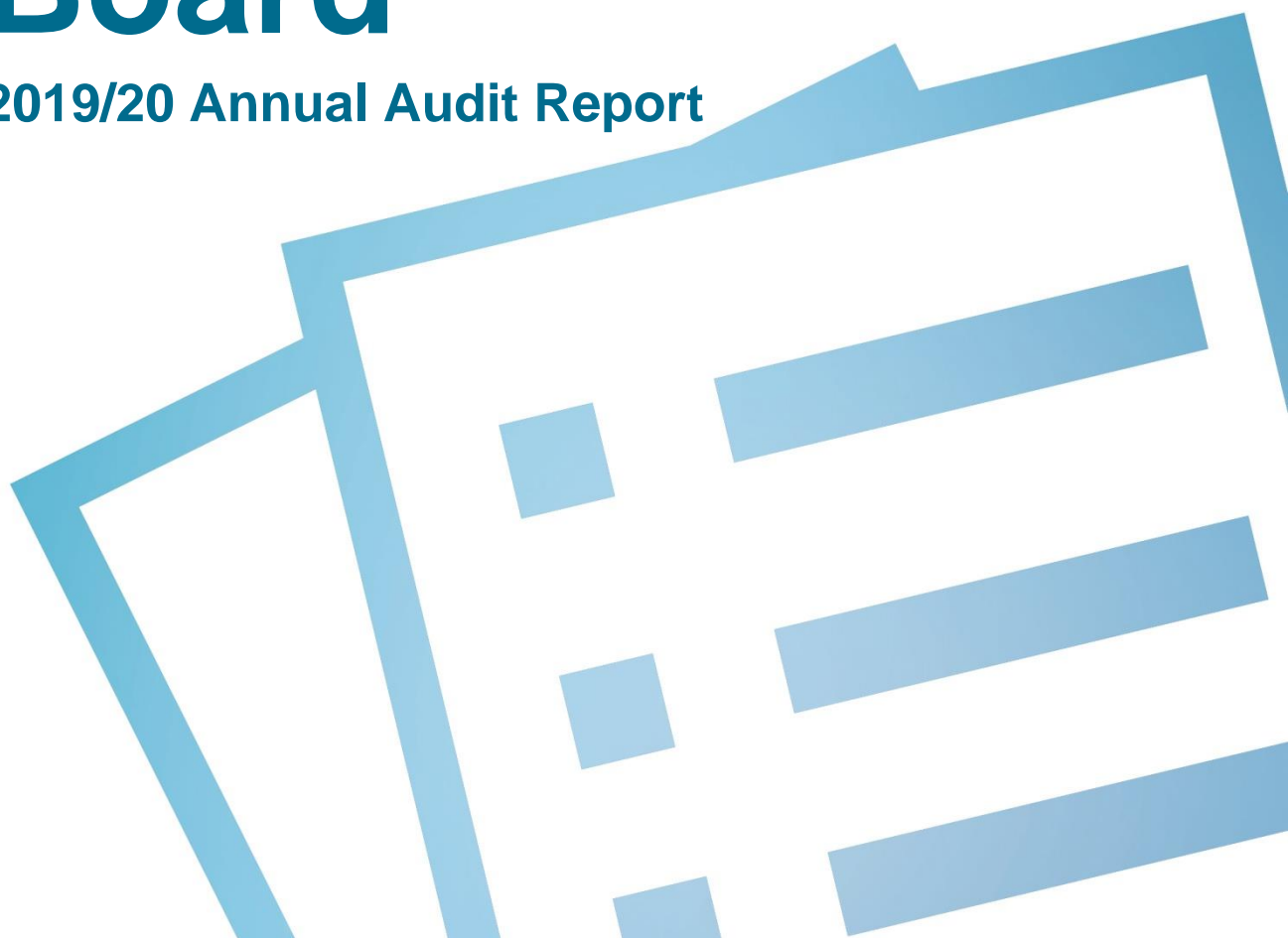


# Central Scotland Valuation Joint Board

2019/20 Annual Audit Report



 AUDIT SCOTLAND

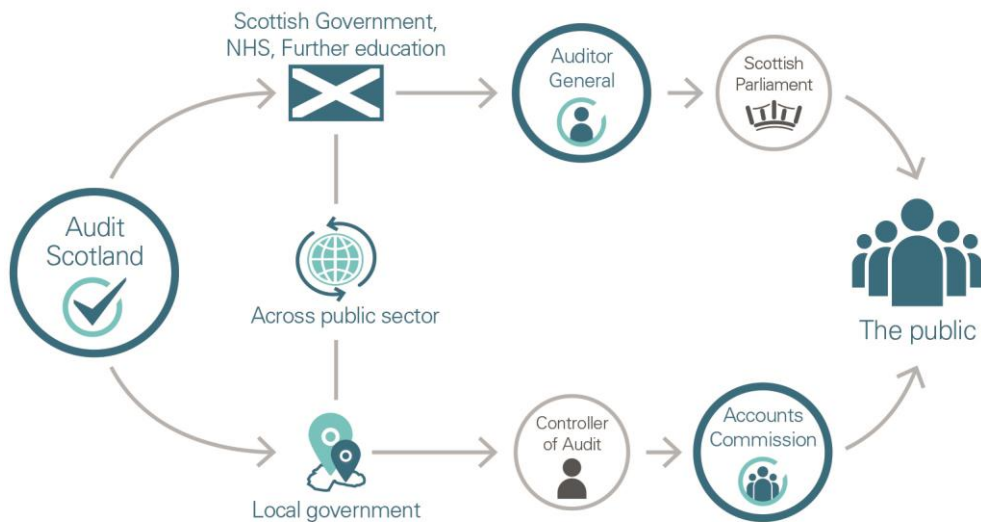
Prepared for the Central Scotland Valuation Joint Board and the Controller of Audit

September 2020

## 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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## 2019/20 annual report and financial statements

- 1** The financial statements of Central Scotland Valuation Joint Board (the board) give a true and fair view and were properly prepared.
- 2** The audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.
- 3** The unaudited annual report and financial statements were provided to us in line with the agreed timetable, but there was a delay in board members considering these as the June board meeting was postponed until August.

## Financial sustainability and annual governance statement

- 4** The board operated within its revenue budget for 2019/20.
- 5** The board faces a challenging financial position and is forecasting a likely funding gap of £0.442 million by 2022/23. The board, supported by its constituent local authorities, needs to continue to identify ways to achieve savings and deliver services more efficiently to bridge this gap.
- 6** 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 2019/20 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 March 2020 meeting of the board. This report comprises the findings from:

- an audit of the board's annual report and financial statements
- our consideration of financial sustainability.

**3.** After publication of the Annual Audit Plan, in common with all public bodies, the board had to respond to the Covid-19 pandemic. This impacted on the final month of the year and will continue to have significant impact into financial year 2020/21. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements.

## Adding value through the audit

**4.** We add value to the board through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear conclusions on financial sustainability.

**5.** 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.

## Responsibilities and reporting

**6.** The board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and financial statements that are in accordance with proper accounting practices. 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 appointed by the Accounts Commission 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.** In addition to our responsibilities for the annual accounts, we have wider scope responsibilities in respect of Best Value. We meet these responsibilities by auditing financial sustainability and the annual governance statement.

**9.** As public sector auditors we give independent opinions on the annual report and financial statements. Additionally, we conclude on the appropriateness of governance statement disclosures and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and

the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

**10.** 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. As highlighted in our 2019/20 Annual Audit Plan, due to the nature of the board's activities and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2019/20 audit.

**11.** This report raises matters from our audit. 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.

**12.** 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.

## **Auditor Independence**

**13.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £7,450 as set out in our Annual Audit Plan, remains unchanged.

**14.** We are not aware of any relationships that could compromise our objectivity and independence.

**15.** This report is addressed to both 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.

**16.** We would like to thank the management and staff for their cooperation and assistance during the audit.

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# Part 1

## Audit of 2019/20 annual report and financial statements

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### Main judgements

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The financial statements of Central Scotland Valuation Joint Board (the board) give a true and fair view and were properly prepared.

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The audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

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The unaudited annual report and financial statements were provided to us in line with the agreed timetable, but there was a delay in board members considering these as the June board meeting was postponed until August.

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### Our audit opinions on the annual report and financial statements are unmodified

17. The annual report and financial statements are the principal means of accounting for the stewardship of the board's resources and its performance in the use of those resources.

18. The annual report and financial statements for the year ended 31 March 2020 were approved by the board on 14 August 2020.

19. As reported in the independent auditor's report:

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

### The accounting framework was changed due to the Covid-19 pandemic

20. Statutory guidance permits, but does not require, a local government body to disapply some content requirements for the Management Commentary in response to Covid-19. The board decided not to reduce the content of the Management Commentary. It covers the effects of Covid-19 on services, operations, performance, strategic direction, resources and financial sustainability.

### Unaudited annual report and financial statements

21. The unaudited annual report and financial statements were received in line with our agreed audit timetable on 30 June 2020. The board meeting was delayed but the financial statements were still considered before the end of August in line with the Local Authority Accounts (Scotland) Regulations 2014. The Coronavirus

(Scotland) Act 2020 amends certain statutory duties in light of the impact of Covid-19. The board had the option to postpone publishing its unaudited accounts by two months, but it did not require this extension.

**22.** The board has successfully supported homeworking during the Covid-19 pandemic with all work continuing except physical surveys.

**23.** The unaudited annual report and financial statements provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Overall materiality is £32,000

**24.** The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**25.** On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that no changes were required to our planned levels.

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## Exhibit 1

### Materiality values

Overall materiality	£32,000
Performance materiality	£24,000
Reporting threshold	£2,000

Source: Audit Scotland

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### Appendix 2 identifies the main risks of material misstatement and our audit work to address these

**26.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and financial statements. It also summarises the work we have done to gain assurance over the outcome of these risks. We have no issues to report from our work on the risks of material misstatement.

### Significant findings to report on the financial statements

**27.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the board's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. We have one significant finding to report.



## 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 (IAS 19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce IAS 19 reports using estimated data for part of the year.</p> <p>In July 2020, the UK Government announced its proposed remedy to the McCloud legal judgement on transitional age protection. The actuarial report used to prepare the board's unaudited financial statements did not reflect this.</p>	<p>The board obtained an updated IAS 19 report from the actuary which made an allowance for the implications of the McCloud remedy.</p> <p>The board has adjusted the annual accounts to reflect its share of pension fund assets and liabilities based on the updated IAS 19 report. This reduced the board's pensions liability by £40,000. Local government accounting means this adjustment does not affect the board's outturn for the year or its general fund balance.</p> <p>We are content with the process the board has gone through and the changes it has made to the financial statements.</p>

Source: Audit Scotland

### The board has made progress on prior year recommendations

**28.** The board has made some progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

# Part 2

## Financial sustainability and annual governance statement



### Main judgements

The board operated within its revenue budget for 2019/20.

The board faces a challenging financial position and is forecasting a likely funding gap of £0.442 million by 2022/23. The board, supported by its constituent local authorities, needs to continue to identify ways to achieve savings and 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 sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Financial performance in 2019/20

**29.** The board is mainly funded by the contributions from the local authorities within which it operates: Falkirk Council (£1.215 million), Stirling Council (£0.869 million) and Clackmannanshire Council (£0.381 million). Other funding sources include income from fees and charges.

**30.** The board approved its 2019/20 budget in February 2019. Total budgeted expenditure and income was set at £2.845 million and £0.098 million respectively, and the board received funding of £2.547 million from constituent authorities. This resulted in a budget gap of £0.201 million which the board agreed to meet using reserves.

**31.** Actual outturn for the year was an under/overspend of £0.129 million. This differs to the deficit of £0.457 million reported in the financial statements due to the impact of statutory accounting adjustments such as pension benefits.

### Medium to long term 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. These forecasts are based on assumptions for variables such as Cabinet Office funding, inflation and pay awards.

**33.** The board approved its 2020/21 budget in March 2020 with proposed total net expenditure of £2.938 million. Contributions from member authorities are budgeted at £2.812 million. This is higher than previous years as a result of additional funding for the implementation of the Barclay review. This results in a funding gap of £0.127 million which will be funded from reserves.

**34.** The board faces a challenging financial position. Future pressures include:

- uncertainty over the level of future funding streams from constituent authorities
- the ability of the board to make reductions in net expenditure while dealing with a 17% increase in revaluation appeals
- the challenge of recruiting and retaining qualified staff; and
- a move from five to three yearly valuations under the Barclay review.

**35.** The board also recognises that 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 £0.442 million by 2022/23.



### Recommendation 1

**The board should work with its constituent authorities to continue to develop savings plans to address its challenging financial position.**

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## Annual Governance Statement

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

**37.** The schedule of internal audit work has been disrupted as a result of the Covid-19 pandemic. The internal audit reports for 2019/20 are still to be finalised and the board intends to formally consider these and the internal audit assurance report in 2020/21.

**38.** We first reported in 2016/17 that some of the board's policies needed to be updated. The board accepted our recommendation to review and update its policies and procedures. It is in the process of presenting these for approval at board meetings. Officers reviewed the code of conduct during 2018/19 and confirmed that no changes were required. The standing orders relating to meetings were presented to the board in June 2019. The remaining policies are expected to be considered by the board throughout the rest of the year. These are:

- Scheme of Delegation
- Contract Standing Orders
- Financial Regulations.



### Recommendation 2

**The board should present updated policies and procedures to the board for approval and implementation.**

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## **National performance audit reports**

**39.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Appendix 3 highlights reports published in 2019/20.

# Appendix 1

## Action plan 2019/20



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 level of future funding streams from constituent authorities, the ability of the board to make reductions in net expenditure while dealing with an increase in revaluation appeals, the challenge of recruiting and retaining qualified staff and a move from five to three yearly revaluations under the Barclay review. 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 £0.442 million by 2022/23.</p> <p><b>Risk</b></p> <p>The board is unable to provide the services required of it.</p>	<p>The board should work with its constituent authorities to continue to develop savings plans to address its challenging financial position.</p> <p><a href="#">Paragraph 35</a></p>	<p>The Assessor and the Treasurer will continue to work to review the budget and ensure that efficiencies are identified and cost pressures mitigated where possible. Support will also be sought from constituent authorities to achieve this.</p> <p>Responsible officer: Assessor and Treasurer</p> <p>Agreed date: Ongoing</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. The board accepted our recommendation to review and update its policies and procedures. It is in the process of presenting these for approval at board meetings. The standing orders relating to meetings were presented to the board in June 2019. An update to the Scheme of Delegation, Contract Standing Orders and Financial</p>	<p>The board should present updated policies and procedures to the board for approval and implementation.</p> <p><a href="#">Paragraph 38</a></p>	<p>Policies and procedures continue to be reviewed and will be presented in due course when time permits within our current priority constraints.</p> <p>Responsible officer: Treasurer</p> <p>Agreed date: March 2021</p>



**No.**   **Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

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Regulations has not yet been considered by the board.

**Risk**

Policies are out of date and do not reflect the board's current arrangements.

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# 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.

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We tested journal entries, accruals and prepayments. We reviewed accounting estimates and found no material errors or transactions outside the normal course of business.</p>
<p><b>2 Risk of material misstatement caused by fraud in expenditure</b></p> <p>Guidance on auditing standards requires public sector auditors to consider the risk of fraud over expenditure, extending the requirements of ISA 240. The extent of the board's expenditure means that there is an inherent risk of fraud.</p>	<p>Testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Substantive cut-off testing of expenditure to ensure it is recognised in the correct financial year.</p>	<p>Our substantive testing found no instances of fraud over expenditure.</p>

# Appendix 3

## Summary of national performance reports 2019/20



**2019/20  
Reports**

		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up



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