

Renfrewshire Valuation Joint Board

2019/20 Annual Audit Report

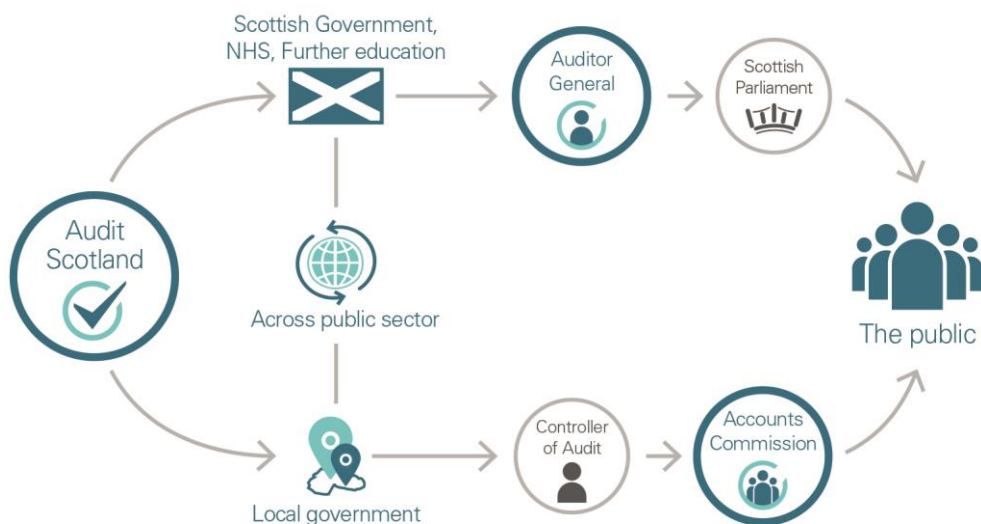


Prepared for Renfrewshire Valuation Joint Board and the Controller of Audit
September 2020

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

- The Auditor General for Scotland 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 for Scotland 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

2019/20 annual report and accounts

- 1** Renfrewshire Valuation Joint Board's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2** The Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.
- 3** The financial statements were adjusted to reflect an updated estimate of the impact of the McCloud / Sargeant judgement on the pension liability. This resulted in a decrease of £135,000 in expenditure, with a corresponding decrease in the pension liability and pension reserve.

Financial sustainability

- 4** A surplus of £268,728 for the financial year 2019/20 was achieved, compared to budgeted surplus of £92,191, which represents an underspend of £176,537.
- 5** The audited annual accounts confirm a useable reserves balance of £399,063 as at 31 March 2020. Management are intending to use reserves in the coming years but will look to maintain reserves of at least five per cent of net expenditure.

Introduction

1. This report summarises the findings from our 2019/20 audit of Renfrewshire Valuation Joint Board (RVJB).
2. The scope of our audit was set out in our [Annual Audit Plan](#) presented to the 28 February 2020 meeting of the Joint Board. This report comprises the findings from:
 - an audit of the RVJB annual report and accounts
 - consideration of the financial sustainability and Annual Governance Statement.
3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, RVJB has had to respond to the COVID-19 pandemic. This impacted on the final month of the year and will continue to have a significant impact into the 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 RVJB through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations; and
 - providing clear conclusions on financial sustainability and disclosures in the Annual Governance Statement.
5. In so doing, we aim to help RVJB promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. RVJB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. RVJB 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. Local government bodies have a responsibility to have arrangements in place to demonstrate Best Value in how they conduct their activities. Our audit work on RVJB's Best Value arrangements is focussed on the bodies use of resources to secure financial sustainability.
8. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on the appropriateness of disclosures in the Annual Governance Statement and the appropriateness and effectiveness of the arrangements in place for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice and supplementary guidance.

9. The Code of Audit Practice 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 Annual Governance Statement and the financial sustainability of the body and its services. As highlighted in our 2019/20 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 2019/20 audit.

10. 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.

Auditor Independence

11. 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.

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

13. This report is addressed to both the Joint Board and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

14. We would like to thank the management and staff for their cooperation and assistance during the audit, particularly given the difficulties of auditing remotely during the COVID-19 pandemic.

Part 1

Audit of 2019/20 annual accounts



Main judgements

Renfrewshire Valuation Joint Board's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

The Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The financial statements were adjusted to reflect and updated estimate of the impact of the McCloud / Sargeant judgement on the pension liability. This resulted in a decrease of £135,000 in expenditure, with a corresponding decrease in the pension liability and pension reserve.

Our audit opinions on the annual accounts are unmodified

15. The annual accounts are the principal means of accounting for the stewardship of the RVJB'S resources and its performance in the use of those resources.

16. The annual accounts for the year ended 31 March 2020 were approved by the Joint Board on 18 September 2020.

17. 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 Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements; and
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

The annual accounts were signed off in line with the agreed timetable

18. The unaudited annual accounts were received in line with our agreed audit timetable on 1 June 2020. There has been limited impact of COVID-19 on the audit process. The physical limitations on access to records and systems did not delay the audit and RVJB staff were supported in homeworking during the period of the outbreak.

19. The unaudited annual accounts 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 £29,000

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

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

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£29,000
Performance materiality	£22,000
Reporting threshold	£1,000

Source: Annual Audit Plan 2019/20

Appendix 1 identifies the main risks of material misstatement and our audit work to address these

22. [Appendix 1](#) provides our assessment of risks of material misstatement in the annual accounts. It also summarises the work we have done to gain assurance over the outcome of these risks.

The significant findings from the audit are outlined in Exhibit 2

23. 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 body's accounting practices covering accounting policies, accounting estimates, and financial statements disclosures. We have no significant findings to report around the qualitative aspects. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2 Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Pension liability</p> <p>The pension liability in the financial statements included the estimated impact of the McCloud / Sargeant legal judgements. The estimated impact was first assessed by the pension fund actuary in 2018/19 and this was reflected in the 2019/20 unaudited financial statements using the most up-to-date information at that time. A potential remedy for the legal judgements was since announced and the actuary estimated this could result in a decrease of up to 50% on the initial estimate.</p>	<p>Management agreed to adjust the financial statements to reflect the updated estimate from the actuary.</p>

Finding	Resolution
<p>Management requested an updated pension valuation report from the actuary and have adjusted the financial statements to reflect the updated estimate. This net impact was to reduce expenditure by £135,000, with a corresponding decrease in the pension liability and the pension reserve.</p>	

Source: Audit Scotland

Other findings

24. Management recognised a provision of £28,111 in the 2019/20 financial statements in relation to untaken staff leave. This had been recognised as an accrual in prior years' financial statements. Following discussions with management, it was agreed that recognising this as a provision was not appropriate and should continue to be recognised as an accrual. Management agreed to this adjustment and reclassified the balance. As this was a classification adjustment, this did not impact on net expenditure for the year or the net Balance Sheet position.

Adjustments of £163,111 were processed in the accounts, these were greater than our performance materiality, but we did not need to revise our audit approach

25. Total adjustments of £163,111 were processed in the financial statements. These related to the pension liability discussed above in [Exhibit 2](#) and the provision for untaken staff leave discussed in paragraph 24. We have concluded that the adjustments were due to the specific circumstances around the items in question, were isolated and identified in their entirety, and do not indicate further systemic error.

26. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. Although, the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

27. There were no adjustments, other than those outlined in paragraph 25, above our reporting thresholds identified from our audit.

Part 2

Financial sustainability



Main judgements

A surplus of £268,728 for the financial year 2019/20 was achieved, compared to budgeted surplus of £92,191, which represents an underspend of £176,537.

The audited annual accounts confirm a useable reserves balance of £399,063 as at 31 March 2020. Management are intending to use reserves in the coming years but will look to maintain reserves of at least five per cent of net expenditure.

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

28. The Joint Board approved the 2019/20 budget in January 2019. Total budgeted expenditure was £2.388 million and total budgeted income was £2.388 million, resulting in a breakeven position. However, this anticipated savings of £29,600 being delivered to achieve this position.

29. At the Joint Board meeting in May 2019, the Treasurer presented further detail as to how the unallocated savings in the 2020/21 and 2021/22 Revenue Estimates would be achieved. Additional funding of £200,000 to support the implementation of the Barclay Review was factored into the revised budget for 2020/21 and 2021/22 respectively.

30. The revised budget for 2019/20 anticipated increasing reserves by £92,191, superseding the previously reported position of required savings of £29,600. It also contrasted with the position in recent years where reserves had reduced steadily each year since 2014/15. This increase is temporary and results from the timing of spend in relation to the implementation of the Barclay Review. It is expected to be partly drawn down in 2020/21.

31. Actual outturn in 2019/20 was total expenditure of £2.426 million and total income of £2.695 million. This resulted in a surplus of £268,728 for the year which was £176,537 higher than the budgeted figure. Details on variances are outlined in the Management Commentary within the annual accounts.

Short term financial planning

32. The largest source of income for RVJB is requisitions from members of the Joint Board. Other sources of income have included funding from the Cabinet Office for Individual Electoral Registration (IER), which ended on 31 March 2020, and income from sales, fees, and charges.

33. In 2019/20, RVJB benefited from a reduction in property costs by vacating the upper floor in the Robertson Centre. The new arrangement started on 1 October

2018, with Renfrewshire Leisure Limited taking on the lease from Renfrewshire Council and the full year benefit realised in 2019/20.

34. The Joint Board approved the 2020/21 budget in February 2020. Total budgeted expenditure was £2.786 million and total budgeted income was £2.786 million, resulting in a breakeven position. However, this position is based on using £10,000 of reserves to address an anticipated shortfall. Income also includes £471,000 of Barclay requisition that is passed on to RVJB from the member councils.

35. The 2021/21 budget included a reduction of one per cent in requisitions from member councils. However, future reductions are not sustainable and an increase in requisitions of 1.8 per cent and 2.5 per cent was proposed for 2021/22 and 2022/23 respectively.

Medium to long term financial planning

36. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

37. As part of the budget setting process, revenue estimates are prepared for a three-year period. This allows management and members to identify pressures and take early actions to mitigate against these pressures.

38. The audited annual accounts for 2019/20 confirm a useable reserves balance of £399,063 as at 31 March 2020. Use of reserves is anticipated each year to 2022/23 to achieve financial balance and maintain sustainable requisition increases. However, a prudent use of reserves is planned, and these will be maintained at a minimum of five per cent of net expenditure to provide flexibility for unforeseen circumstances.

39. From the work carried out, we have concluded that RVJB has sound financial planning arrangements in place. There are pressures that could impact on RVJB's financial sustainability and ability to deliver services. However, the financial planning arrangements have allowed management to take mitigating actions against these pressures.

Annual Governance Statement

40. Our review of the Annual Governance Statement assessed the assurances which are provided to the Joint Board and management regarding the adequacy and effectiveness of the joint board's system of internal control which operated in the financial year. The statement also summarises internal audit findings with the Chief Internal Auditor's annual assurance statement concluding that 'reasonable assurance can be placed upon the adequacy and effectiveness of the Renfrewshire Valuation Joint Board's internal control, risk management and governance arrangements'.

41. We concluded that the information in the Annual Governance Statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

Appendix 1

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
Risks of material misstatement in the financial statements		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No unusual or inappropriate transactions were identified as part of our detailed journal testing.</p> <p>A review of accounting estimates did not show any evidence of bias.</p> <p>Focused testing of accruals and prepayments did not identify any balances that were incorrectly held on the Balance Sheet.</p> <p>Focused testing on a sample of transactions outside the normal course of business did not show any evidence of management override of controls.</p> <p>Conclusion: no evidence of management override of controls.</p>
<p>2 Risk of material misstatement caused by fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be materially misstated in the financial statements.</p> <p>RVJB incurs expenditure on a range of activities. The extent and complexity of expenditure means that there is an inherent risk of fraudulent or erroneous reporting of expenditure to achieve a desired financial position.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on whether expenditure is processed in the correct accounting year.</p>	<p>Analytical procedures were carried out over all expenditure streams and satisfactory responses were provided for all significant variances.</p> <p>Detailed testing of expenditure transactions confirmed these were normal business transactions and had been accounted for in the correct year.</p> <p>Conclusion: no evidence of fraud over expenditure.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Risk of material misstatement caused by accounting for pensions</p> <p>RVJB recognised a net liability of £3.083 million relating to its share of Strathclyde Pension Fund at 31 March 2019. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates, and changes can result in material changes to the valuation.</p> <p>Additionally, successful legal action was brought against the UK government in relation to pension schemes for judges and firefighters in 2018/19, on the grounds of age discrimination. The judgements for these pension schemes will impact on Strathclyde Pension Fund as it had similar arrangements in place. Uncertainty remains over the remedy for the legal judgements. The expected impact of the legal judgements, or remedy if agreed, will need to be reflected in the pension fund liability valuation in 2019/20.</p>	<p>Completion of 'review of the work of Management's expert' for the pension fund actuary.</p> <p>Review of the estimates used, and assumptions made in calculating the pension fund liability.</p>	<p>A review of the actuary and the assumptions made in calculating the estimated pension liability was carried out and found the approach and assumptions used by the actuary to be reasonable and in line with expectation.</p> <p>As outlined in Exhibit 2, an adjustment was processed to reflect an updated estimate of the impact of the McCloud / Sargeant legal judgements.</p> <p>Conclusion: the estimates and judgements made to calculate the net pension liability were reasonable.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>4 Financial sustainability</p> <p>The 2019/20 Revenue Estimates highlight increasing costs in the medium-term, putting pressures on available resources. Funding from the Cabinet Office for Individual Electoral Registration (IER) will cease in 2020/21 and RVJB will need to meet the costs associated with IER from its core budget. RVJB has also experienced difficulties in recruiting and retaining professionally qualified staff to assist in the delivery of the new duties on Assessor's following the Barclay review of non-domestic rates. This issue</p>	<p>Review of budget monitoring reports and future Revenue Estimates and discussions with management on RVJB's medium-term financial position.</p> <p>Conclude on financial position and financial sustainability within the Annual Audit Report.</p>	<p>A review of budget monitoring reports and the financial statements highlight reserves have increased in year. It is anticipated that reserves will be used each year to 2022/23 to achieve financial balance. However, a prudent use of reserves is planned, and management will look to maintain reserves at a minimum of five per cent of net expenditure.</p> <p>Conclusion: RVJB continues to operate in a challenging financial climate, with pressures in delivering existing services with the current levels of resources. Management continues to review options</p>
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Audit risk	Assurance procedure	Results and conclusions
<p>will need to be closely monitored going forward.</p> <p>There is also uncertainty around funding for implementing the recommendations of the Barclay review. Funding has been announced by the Scottish Government. Local authorities will also be allocated funding for the Barclay review with the expectation that this will be passed on to valuation joint boards. The arrangements for the passing through of this funding have yet to be agreed between RVJB and its member authorities.</p> <p>Due to the pressures above, it is likely savings will be required over the medium-term to achieve a breakeven position and maintain reserves at an appropriate level.</p>		<p>and resources for the delivery of future services.</p>

Renfrewshire Valuation Joint Board

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