

Central Scotland Valuation Joint Board

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Central Scotland Valuation Joint Board and the Controller of Audit
September 2021

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Key messages

2020/21 annual report and accounts

- 1 The financial statements of Central Scotland Valuation Joint Board give a true and fair view and were properly prepared in accordance with the financial reporting framework and applicable legislation.
- 2 The audited part of the remuneration report was properly prepared in accordance with regulations.
- 3 Management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Financial sustainability

- 4 The board operated within its budget for 2020/21, with an underspend of £0.246 million resulting in a high level of reserves at 31 March 2021.
- 5 The board continues to face a challenging financial position and is forecasting a likely funding gap of £0.457 million by 2023/24. Developing a longer-term financial strategy for the next five to ten years would further inform planning and decision-making.

Introduction

1. This report summarises the findings from our 2020/21 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 board on 25 June 2021. This report comprises the findings from:
 - an audit of the board's annual report and financial statements
 - our consideration of financial sustainability.

Adding value through the audit

3. 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.
4. 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

5. The board 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. 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.
6. 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 the board's Best Value arrangements is focussed on its use of resources to secure financial sustainability.
7. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of governance and performance management arrangements, the financial position, 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 (the Code) and supplementary guidance.

8. 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, 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 2020/21 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 2020/21 audit.

9. 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.

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 any outstanding actions from last year and progress against these.

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 2020/21 audit fee of £7,610, as set out in our 2020/21 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. This report is addressed to the board and the Controller of Audit and will be published on Audit Scotland's [website](#) in due course.

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

Part 1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

The financial statements of Central Scotland Valuation Joint Board give a true and fair view and were properly prepared in accordance with the financial reporting framework and applicable legislation.

The audited part of the remuneration report was properly prepared in accordance with regulations.

Management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

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

14. The annual report and financial statements for the year ended 31 March 2021 were approved by the board on 24 September 2021. 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 and applicable legislation
- the audited part of the remuneration report was properly prepared in accordance with regulations
- management commentary and the annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

15. We received the unaudited annual report and financial statements on 25 June 2021, in line with our agreed audit timetable. We are pleased that our overall approach, and cooperation between the board's finance team and the audit team, enabled completion of the audit in accordance with the agreed timetable. The finance team provided excellent support to the audit team which helped ensure the audit process ran smoothly.

Overall materiality is £32,000

16. We carried out our initial assessment of materiality during the planning phase of the audit. On receipt of the unaudited annual report and financial statements, we reviewed our materiality calculations and concluded that they remained appropriate as summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£32,000
Performance materiality	£24,000
Reporting threshold	£2,000

Source: Audit Scotland

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

17. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and financial statements and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

18. In line with auditing standards, we have reviewed our assessment of audit risks and the planned audit approach originally included in the 2020/21 Annual Audit Plan. As a result of this review, we have updated audit risks and adapted our planned audit work as follows:

- In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the presumed financial statements risk of fraud over expenditure on the basis of our assessment of the likely incidence of fraud in individual expenditure streams such as employee costs (63% of the board's prior year expenditure), property costs, operating costs, and support services costs. We have assessed that the volume of expenditure transactions that would need to be fraudulent to result in a material risk is implausible. Additionally, there is no history of material misstatement or error in recording expenditure, and therefore no requirement for additional audit procedures.
- We have added the financial statements risk of estimation and judgements as there is a significant degree of subjectivity in the measurement and valuation of the material area of pensions.

We have no significant findings to report on the annual report and financial statements

19. 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. We have no significant issues to report from the audit.

Some key controls in the financial systems of internal control did not operate as expected

20. Clackmannanshire Council (the council) provides key financial systems to the board under a service level agreement. These include the general ledger, payroll and cash and banking. We requested assurances from the council's external auditors over the key controls within the core financial systems.

21. During 2020/21 the council operated in challenging circumstances while supporting the response to the Covid-19 pandemic. The introduction of remote working and significant capacity issues have impacted on the control environment at the council with a number of key controls not operating as expected. These findings informed our approach to the financial statements audit, with the extent of control weaknesses requiring us to increase our substantive testing which identified no issues.

Annual governance statement

22. As part of our review of the annual governance statement, we assessed the assurances provided to the assessor on the adequacy and effectiveness of the board's system of internal control which operated in the financial year. We suggested some updates to the narrative, and on review of these updates, we concluded that the annual governance statement is consistent with the financial statements and complies with guidance.

23. During the Covid-19 pandemic, the board's staff have been working from home. The board delegated powers to determine urgent issues during the Covid-19 pandemic to the assessor in March 2020. This arrangement was in place until August 2020 when the board met virtually for the first time.

24. We first recommended in 2016/17 that some of the board's policies needed to be updated. The board accepted our recommendation and planned to update the three remaining policies in 2020/21 – the scheme of delegation, contract standing orders and the financial regulations. Due to the impact of Covid-19, only financial regulations have been updated so far.

25. The board's management team has been restructured with the Assistant Assessor post removed and replaced by the upgrade of two Divisional Valuers to Divisional Assessors. This new structure emphasises the need for the scheme of delegation to be updated.

Recommendation 1

The board should update its scheme of delegation and contract standing orders as soon as possible.

The board has made progress on prior year recommendations

26. 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

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

Main judgements

The board operated within its budget for 2020/21, with an underspend of £0.246 million resulting in a high level of reserves at 31 March 2021.

The board continues to face a challenging financial position and is forecasting a likely funding gap of £0.457 million by 2023/24. Developing a longer-term financial strategy for the next five to ten years would further inform planning and decision-making.

The board operated within its budget for 2020/21 and had a high level of reserves at 31 March 2021

27. The board is mainly funded by the contributions from the local authorities within which it operates: Falkirk Council, Stirling Council and Clackmannanshire Council. Other funding sources include income from fees and charges.

28. The board approved its 2020/21 budget in March 2020. Total budgeted expenditure and income was set at £2.950 million and £0.012 million respectively, and the board received funding of £2.811 million from constituent authorities (1.392 million from Falkirk Council, £0.979 million from Stirling Council and £0.440 million from Clackmannanshire Council). This resulted in a budget gap of £0.127 million which the board agreed to meet by using reserves.

29. The board reported an outturn of £2.692 million, remaining within its 2020/21 budget with an underspend of £0.246 million. This differs from the deficit of £0.145 million reported in the annual report and financial statements due to the impact of statutory accounting adjustments such as pension benefits.

30. The underspend is mainly related to delays in recruitment with Covid-19 impacting the board's ability to fill vacant posts. The board has also made savings as a result of the management team restructuring.

31. The underspend has resulted in a high level of reserves at 31 March 2021, with the total earmarked reserves of £0.289 million and uncommitted reserves of £0.229 million. The board's reserves strategy states that it should retain uncommitted reserves at a minimum level between 3 and 6 per cent of net expenditure but the actual position at the end of March 2021 was 7.7 per cent. The board plans to review the level of reserves along with savings and pressures as part of the budget process for 2022/23. It may use reserves to fund any 'spend to save' proposals to allow further reduction in future spending.

The board continues to face a challenging financial position

32. The board approved its 2021/22 budget in February 2021 with proposed net expenditure of £2.966 million. Contributions from constituent authorities are budgeted at £2.838 million, resulting in a funding gap of £0.128 million which the board is planning to meet using reserves. This is based on the constituent authorities providing 100 per cent of the funding for implementation of the Barclay review, which includes an additional £0.027 million for 2021/22.

33. Preparing to implement the Barclay Review continues to have an impact for the board. Barclay funding is expected to be available until 2025. While the board had to repay its Barclay underspend of £0.140 million in 2020/21, the Scottish Government confirmed that the 2019/20 underspend does not need to be returned. The board decided to earmark this underspend of £0.007 million to offset future Barclay spending.

34. The board continues to face a challenging financial position and is forecasting a likely cumulative funding gap of £0.457 million by 2023/24. Employee costs are the main pressure for the board with over 70 per cent of the budget relating to this area. The inflationary cost pressures were funded by the constituent authorities in 2020/21, but the board expects to fund them internally through achieving savings in 2021/22. The board also recognises the increasing pressure to reduce the level of contributions required from its constituent authorities.

35. The board has a three-year service plan and financial forecasts in place. These forecasts are based on assumptions for variables such as Cabinet Office funding, inflation and pay awards. The three-year financial forecast provides the board with a good basis for monitoring financial performance but there is scope for developing this into an overarching longer-term financial strategy for the next five to ten years. This would help to set the context for the annual budget for the board. It would also enhance financial planning and further inform decision-making.

Recommendation 2

The board should continue to work with its constituent authorities to develop savings plans to address its challenging financial position. To enhance financial planning and further inform decision-making, the board should consider developing an overarching longer-term financial strategy for the next five to ten years.

National performance audit reports

36. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.

[Appendix 3](#) highlights a number of the reports published in 2020/21.

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Governance policies and procedures</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 but, due to the impact of Covid-19, only financial regulations have been updated so far. The scheme of delegation and contract standing orders have not yet been updated.</p> <p>Risk – policies are out of date and do not reflect the board's current arrangements.</p>	<p>The board should update the scheme of delegation and contract standing orders as soon as possible.</p> <p>Paragraphs 24-25</p>	<p>Financial Regulations have been updated and presented to the Board at its meeting in February 2021. The Scheme of Delegation has been updated and is being presented to the Board at its meeting in September 2021. Contract Standing Orders is scheduled to be reviewed by end of March 2022.</p> <p>Responsible officer: Assessor</p> <p>Agreed date: March 2022</p>
<p>2. Financial sustainability and longer-term financial planning</p> <p>The board continues to face a challenging financial position and is forecasting a likely funding gap of £0.457 million by 2023/24. The three-year financial forecast provides the board with a good basis for monitoring financial performance but there is scope for developing this into an overarching longer-term financial strategy. This would enhance the information</p>	<p>As we recommended last year, the board should continue to work with its constituent authorities to develop savings plans to address its challenging financial position. It should also consider developing an overarching longer-term financial strategy for the next five to ten years to help identify problems with affordability at an early stage. The strategy should include scenario planning, whereby assumptions about different levels of future income,</p>	<p>The current 3 year financial planning gives the Board an indicative view of the pressures over the medium term recognising a level of uncertainty around future funding and pressures outwith the Boards control. We will look to take a longer term view for the 2022/23 budget setting including scenario planning as suggested whilst recognising the greater uncertainty over this period.</p> <p>Responsible officer:</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>available to the board and allow it to understand fully its financial position in the longer term, including any difficult decisions that may be required in future years.</p> <p>Risk – the board is unable to achieve the required savings to provide the services required of it. Without a longer-term financial strategy, the board may not have the information required to make informed financial decisions that will be required in future years.</p>	<p>expenditure and activity are made.</p> <p>Paragraphs 34-35</p>	<p>Treasurer and Assessor</p> <p>Agreed date: March 2022</p>

Appendix 2. Significant audit risks

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.

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement caused by management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements due to fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to management override of controls.</p>	<ul style="list-style-type: none"> • Testing of journal entries. • Review of accounting estimates. • Testing of accruals and prepayments. • Evaluation of significant transactions that are outside of the normal course of business. 	<p>We tested journal entries, accruals, and prepayments. We reviewed accounting estimates.</p> <p>Conclusion: Satisfactory – we found no material errors or transactions outside the normal course of business.</p>
<p>2. Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' in respect of the actuary including a review of actuarial assumptions. • Testing of pension disclosures, including data that the board provides to actuaries. 	<p>We reviewed the work of the actuary for the board and actuarial assumptions used. We tested the pension disclosures in the accounts and reviewed data that the board provided to the actuary.</p> <p>Conclusion: Satisfactory – we found no material errors and were satisfied with the work of the expert.</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p>3. Financial sustainability</p> <p>The board faces a challenging financial position. Future pressures include uncertainty over the level of future funding steams from constituent authorities, the ability of the board to make reductions in net expenditure while dealing with an increase in revaluation appeals and the ability to retain and recruit qualified staff. The move from five to three yearly revaluations under the Barclay review will require additional staff resources during a time of increased pressures across the public sector due to Covid19.</p>	<ul style="list-style-type: none"> Assess the effectiveness of financial planning in identifying the risks to financial sustainability in the short, medium, and long terms. Examine the arrangements in place to address identified funding gaps. 	<p>We assessed the effectiveness of the board's three-year financial plan in identifying the risks to financial sustainability in the short, medium, and long terms.</p> <p>We examined the existing arrangements in place to address funding gaps.</p> <p>Conclusion: The board continues to face a challenging financial position. We recommend the board implements longer term financial planning. Refer to Appendix 1, action point 2.</p>

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

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www.audit-scotland.gov.uk/accessibility



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