

Dunbartonshire and Argyll & Bute Valuation Joint Board

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Dunbartonshire and Argyll & Bute Valuation Joint Board and the Controller of Audit
15 September 2021

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Key messages

Audit of the 2020/21 annual accounts

- 1** Dunbartonshire and Argyll & Bute Valuation Joint Board's financial statements give a true and fair view for the year ended 31 March 2021, and were properly prepared in accordance with the financial reporting framework.
- 2** The audited section of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.
- 3** Despite the impact of Covid-19, the 2020/21 annual accounts were produced and audited in line with the original timetable.

Financial management and sustainability, and governance arrangements

- 4** An operating surplus of £118,000 was reported for the year ended 31 March 2021.
- 5** The longer-term financial plan continues to be revised and updated by the joint board. The plan indicates a widening gap between income and expenditure in the coming years.
- 6** The joint board recognises the challenges in meeting workforce requirements and has created an action plan to address these.
- 7** Appropriate disclosure has been made of the impact that Covid-19 has had on the joint board's governance arrangements in 2020/21.

Introduction

- 1.** This report summarises the findings from our 2020/21 audit of the Dunbartonshire and Argyll & Bute Valuation Joint Board (DABVJB).
- 2.** The scope of our audit was set out in our Annual Audit Plan presented to the 05/03/2021 meeting of the joint board. This report comprises the findings from:
 - an audit of the DABVJB's annual accounts
 - our consideration of financial sustainability
- 3.** The global coronavirus pandemic has had a considerable impact on DABVJB during 2020/21. This has had significant implications for the implementation of changes to Non-Domestic Rates, performance in relation to council tax valuations and statutory duties for the Scottish Parliamentary Election. Risks related to the pandemic were included in our annual audit plan, and we have adapted our planned audit work to assess any new emerging risks.

Adding value through the audit

- 4.** We add value to the Dunbartonshire and Argyll & Bute Valuation Joint 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 the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- 5.** We aim to help DABVJB promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

- 6.** Dunbartonshire and Argyll & Bute Valuation Joint 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. DABVJB is also responsible for compliance with legislation and 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. As public sector auditors we give independent opinions on the annual accounts. 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 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 of DABVJB.

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](#) which includes 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 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 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.

Part 1. Audit of 2020/21 annual accounts

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

Main judgements

Dunbartonshire and Argyll & Bute Valuation Joint Board's financial statements give a true and fair view for the year ended 31 March 2021, and were properly prepared in accordance with the financial reporting framework.

The audited section of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

Despite the impact of Covid-19, the 2020/21 annual accounts were produced and audited in line with the original timetable.

Our audit opinions on the annual accounts are unmodified

13. The annual accounts for the year ended 31 March 2021 were approved by the board on 15 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
- 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.

Despite the ongoing impact of Covid-19, the annual accounts were produced and audited in line with our planned timetable

14. We received the unaudited annual accounts in line with our agreed audit timetable on 1st June 2021. Although ongoing restrictions meant that DABVJB and audit staff worked remotely, we were able to gather sufficient audit evidence on which to draw our conclusions. The audit team received a good level of support from the joint board and finance staff during the final accounts audit process.

Our audit testing reflected the calculated materiality levels

15. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts, and is based on gross expenditure. Our materiality levels are summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£45,870
Performance materiality	£34,400
Reporting threshold	£1,350

Source: Audit Scotland

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

16. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts 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.

We have no significant findings to report on the annual accounts.

17. 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 our audit.

There is one unadjusted error within the accounts, with a total estimated value of £0.015m, which is below our materiality level

18. Holiday pay accrual: IAS 19 (Employee benefits) requires bodies to recognise the liability for any untaken holiday at the year end that can be carried forward. The initial draft accounts included an accrual of approximately £51,000 within trade payables relating to untaken staff holidays (accumulated absences accrual). This accrual included salary costs, but did not include associated employer's national insurance and pension contributions. In addition, the statutory adjustment in previous years included flexi leave and time off in lieu. However, this has been withdrawn in 2020/21 by the statutory guidance. Any element of the balance on the Employee Statutory Mitigation Account at 31 March 2021 that relates to flexi leave should be transferred and charged to the General Fund. Management has chosen not to correct this error and to amend

in 2021/22. Management has estimated if this was included, the accrual would increase by £0.015m. This is below our materiality threshold and does not affect our overall opinion on the accounts (Appendix 3).

19. 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. The gross sum of the unadjusted errors is below our materiality threshold and has not affected our opinion.

20. In addition to the issues set out above, and in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management.

Other matters noted during our audit

21. Pensions disclosures: The notes to the accounts include a breakdown of the transactions relating to the defined benefit pension scheme in accordance with IAS 19. The joint board relies on the work of a qualified actuary to produce these figures on their behalf. We noted a small number of transposition and additions errors had been entered into in the draft accounts, in particular when actuarial figures had been mapped across to the disclosure note. These have been corrected for both this year and the prior year. This did not affect the relevant net amounts in the core financial statements.

Good progress was made on prior year recommendations

22. Dunbartonshire and Argyll & Bute Valuation Joint Board has made good progress in implementing our prior year audit recommendations during 2020/21. For actions not yet complete, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management and sustainability, and governance

Main judgements

An operating surplus of £118,000 was reported for the year ended 31 March 2021.

The longer-term financial plan continues to be revised and updated by the joint board. The plan indicates a widening gap between income and expenditure in the coming years.

The joint board recognises the challenges in meeting workforce requirements and has created an action plan to address these

Appropriate disclosure has been made of the impact that Covid-19 has had on the joint board's governance arrangements in 2020/21

An operating surplus of £118,000 was reported for the year ended 31 March 2021

23. The joint board approved its initial 2020/21 budget in March 2020. This was set on the basis of gross expenditure of £2.965 million, funded from constituent contributions of £2.804m (including £0.193m for costs associated with the implementation of actions from the Barclay Review) and with a planned contribution from the Board's reserves of £0.153 million.

24. During the year, the board received additional funding to support areas which included contingency and resilience for the Scottish Parliament elections (£0.158 million) and household notification letters (£0.55 million).

25. The joint board reported an operating surplus of £0.118 million in 2020/21 with the majority of this underspend relating to employee costs. The board has reported this is due to a delay in filling vacancies, partly arising from an inability to attract appropriate candidates. This is an issue known to affect valuation boards across Scotland.

26. The actual outturn for the year was expenditure of £2.780m (£0.185m less than budgeted), and income of £2.898m (£0.087m more than budgeted). This operating surplus meant that no transfer from reserves was required. The board has agreed that reserves would continue to be held to help manage future budgets and the level of constituent authority contributions.

27. The surplus figure of £0.118 million differs from the deficit of £0.213 million reported in the Comprehensive Income and Expenditure Statement (CIES) due to the statutory accounting adjustments required for items such as pension benefits and depreciation. A reconciliation has been included in the 'Financial Performance' section of the management commentary in the annual accounts showing the impact of these adjustments.

Budgetary monitoring and reporting arrangements are in place and provide a good standard of financial information

28. Budgets are approved by the joint board and budget monitoring updates are considered on a regular basis at board meetings. The budget monitoring updates provide a good standard of financial information, providing sufficient detail on variances against budget and forecasts for year-end positions, and these are set in context. This allows members and officers to scrutinise the financial performance of DABVJB and to consider appropriate action to mitigate projected overspends.

The long-term financial plan projects a growing budget gap

29. We reviewed the joint board's approach to financial planning and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

30. In March 2021, the joint board approved its updated Long Term Financial Strategy. The strategy sets out anticipated income and expenditure for each of the next three years based on assumptions around factors such as pay inflation and future funding contributions. The strategy also uses scenario planning to project potential future budget gaps based on the likely, worst case and best case scenarios, Exhibit 3.

31. The strategy identifies future challenges and demands which will likely present future cost pressures. These include the proposed change from five-yearly NDR revaluations to three-yearly cycles, the review of the NDR appeals system and increased information provision resulting from the Barclay review.

32. We can conclude that the DABVJB has financial planning arrangements in place which provide a good basis for understanding future financial pressures.

33. The financial plan indicates the DABVJB anticipates a budget gap, ie an excess of expenditure over income, from 2021/22 onwards. The plan forecasts that without additional funding, the joint board will require to use a portion of its reserves each year for the foreseeable future.

Exhibit 2

Scenario planning to project potential future budget gaps

Indicative budget gap for DABVAB	2021/22 £m	2022/23 £m	2023/24 £m
Likely projection	0.129	0.158	0.227
Best case scenario	0.129	0.124	0.169
Worst case scenario	0.132	0.223	0.303

Source: Dunbartonshire and Argyll & Bute Valuation Joint Board Long Term Financial Strategy, March 2021

The joint board recognises the challenge in meeting workforce requirements and has created an action plan to address this

34. Employee costs totalled £2.195m in 2020/21, comprising 79% of total expenditure. The joint board has recognised the need for a longer-term approach and established its first workforce plan last year, which we reported as good practice. This will help ensure it meets the demands placed on it by its stakeholders.

35. In March 2021, the joint board revised the workforce plan, reporting that a significant number of the actions in the 2020 plan had been completed, including planned recruitments and provision of formal training. However, as has been reported in the management commentary, the joint board faces a difficulty in recruiting suitably qualified candidates, and a number of upcoming vacancies and retirements will create further challenges in 2021/22.

36. To assist management in addressing workforce requirements, an action plan has been created which analyses key drivers for staffing pressures, along with agreed actions, identified owners and progress updates. Actions are adjusted if they are not having the desired impact or if circumstances change.

37. The joint board will likely see an increase in its duties over the coming years including preparations for the non-domestic rating revaluation in 2023 following the Barclay review. The joint board recognises these challenges, and is actively seeking solutions to mitigate these.

The Non-Domestic Rates (Scotland) Act 2020 and Barclay review will increase the joint board's statutory workload

38. As reported in 2019/20, the Non-Domestic Rates (Scotland) Act 2020, resulting from the Barclay review, will have far-reaching implications for the DABVJB and will increase its statutory workload. Due to Covid-19 some of the changes have been delayed and won't be implemented until 2022/23. Funding has been made available by the Scottish Government to cover the costs incurred in 2020/21.

The joint board formally assessed the impact of Covid-19 on its governance and risk processes during 2020/21

39. Public bodies have had to quickly change how they deliver services in response to the ongoing Covid-19 outbreak and the related restrictions introduced. The widespread use of virtual working and the rapid introduction of new programmes and working practices continues to create a range of potential financial risks and challenges to internal controls. In its annual governance statement, the joint board has made appropriate disclosure of the impact that Covid-19 has had on its governance arrangements in 2020/21 and the steps it has taken in response to this.

40. In March 2021, the joint board reported its review of its governance and risk processes using Audit Scotland's [Covid-19 – Guide for audit and risk committees](#). This was designed to obtain assurance around internal controls and assurance, financial management and reporting, governance and risk management. The joint board's self-assessment did not identify significant issues, however some actions have been either completed or are ongoing.

Internal audit has provided assurance over the joint board's system of internal controls

41. West Dunbartonshire Council provides support in key areas of the board's business, particularly in finance, legal and information technology. As part of our audit, we reviewed the high-level controls in a number of the systems used by West Dunbartonshire Council for the processing and recording of transactions and the preparation of the annual accounts of the joint board.

42. Internal audit provides the joint board with independent assurance on risk management, internal control, and corporate governance processes. The annual assurance statement from the Shared Service Manager - Audit & Fraud concluded that 'reasonable assurance' can be placed upon the adequacy and effectiveness of the joint board's internal control system. This assurance has been disclosed in DABVJB's annual governance statement.

National performance audit reports

43. 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

Prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Impact of Covid-19 on future financial plans</p> <p>The Long Term Financial Strategy was developed prior to the Covid-19 outbreak in the UK.</p> <p><i>Risk – There is a risk that the future financial plans are significantly impacted by Covid-19.</i></p>	<p>This Long Term Financial Strategy should be revisited once here is sufficient certainty around the extent of the longer-term financial impact on the organisation.</p>	<p>Consideration of the effects of the COVID-19 outbreak were considered in the LTFS approved by the Joint Board in March 2021 and any ongoing effects of Covid and other issues which may impact the financial position will be reviewed annually.</p>
<p>5. Member attendance at Joint Board meetings</p> <p>Joint board meetings have been poorly attended during the year.</p> <p><i>Risk – There is a risk that this impacts on the effectiveness of scrutiny and governance arrangements, and that business critical decisions are not approved due to meetings not being quorate.</i></p>	<p>The constituent councils should remind representatives of their responsibilities as a member of the joint board to ensure that an adequate number of members are in attendance at future meetings.</p>	<p>The Clerk to the Joint Board issued a letter to the Leaders of each constituent Council asking that they remind Members of their responsibilities and requesting that they ensure adequate attendance. Meetings have been held remotely and Standing Orders have been amended to explicitly permit such virtual meetings.</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 due to fraud caused by the 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>Testing of accruals and prepayments</p> <p>Testing of significant transactions that are outside the normal course of business.</p>	<p>Our audit testing of journal entries, accounting estimates, accruals and prepayments, and evaluation of significant transactions outside the course of normal business did not highlight any instance of fraud, nor management override of controls.</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p>2. Non-Domestic Rates (Scotland) Act 2020</p> <p>The requirements of the Non-Domestic Rates (Scotland) Act 2020 has a direct increase on the statutory workload of the DABVJB.</p> <p>There is a risk that the DABVJB will be unable to meet the increased statutory workload due to insufficient resources.</p>	<p>Monitor Scottish Government and joint board updates on the implementation of the Act.</p> <p>Monitor joint board performance reports on statutory activity.</p>	<p>Due to Covid-19, the NDR revaluation has been delayed until 2023. The risk of increased statutory workload remains for the DABVJB, however the joint board recognises this and is seeking to mitigate these challenges.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3. Scottish Parliamentary Elections</p> <p>Scottish Parliamentary Elections are scheduled for Thursday 6 May 2021. A substantial amount of work is required for this and a significant increase in postal votes is expected due to Covid-19. There is a risk that this increased workload, and the associated costs, impacts on the other core activity of the DABVJB.</p>	<p>Monitor joint board updates on preparation for 2021 elections.</p> <p>Review budget monitoring reports to identify additional costs and income associated with the elections.</p>	<p>The joint board reported in June 2021 that the deadlines for supply of data for issue of poll cards and postal ballot packs were all achieved.</p> <p>The Scottish Government provided funding of £158,274 to meet the additional costs of effecting suitable resilience and contingency measures. The Scottish Government also funded the cost (£55,448) of issuing of Household Notification Letters.</p>

* In our Annual Audit Plan for 2020/21 which was presented to DABVJB in March 2021, we identified a risk of material misstatement in the financial statements caused by fraud in expenditure. However, prior to commencing our audit of the draft accounts in 2020/21 we reconsidered this risk taking into account the results of interim audit work at West Dunbartonshire Council and the requirements laid out in auditing standards. As a result, we rebutted the presumption that a material risk exists from fraud over expenditure. This is on the basis of the extent of expenditure which is issued to other parts of the public sector. We also reconsidered the extent of risk associated with IAS 19 and pension liability entries, and found the risk to be lower than first assessed.

For the areas that are subject to some risk, we assessed that the volume of transactions that would need to be fraudulent to prove a material risk, is implausible. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We also review controls over key areas of risk.

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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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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