

Central Scotland Valuation Joint Board

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Central Scotland Valuation Joint Board and the Controller of Audit
September 2022

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Key messages

2021/22 annual accounts

- 1 Central Scotland 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.

Financial sustainability and Annual Governance Statement

- 3 A surplus of £105,000 for the financial year 2021/22 was achieved, compared to a budgeted breakeven position.
- 4 The audited annual accounts confirm a useable reserves balance of £623,000 as at 31 March 2022. Management is intending to use reserves in the coming years but will look to maintain the minimum uncommitted reserve balance at a range of 3 per cent to 6 per cent of budgeted net expenditure to allow for year on year flexibility.
- 5 The financial planning arrangements in place have allowed management to plan for future pressures and take action where required.
- 6 Disclosures in the Annual Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.

Introduction

1. This report summarises the findings from our 2021/22 audit of Central Scotland Valuation Joint Board (CSVJB).
2. The scope of our audit was set out in our 2021/22 Annual Audit Plan. This was presented to members of the Joint Board at the meeting on 01 July 2022. This report comprises the findings from:
 - an audit of the CSVJB's annual accounts
 - our consideration of financial sustainability and the Annual Governance Statement.

Adding value through the audit

3. We add value to the CSVJB through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice guides
 - providing clear conclusions on financial sustainability and disclosures in the Annual Governance Statement.
4. In so doing, we aim to help CSVJB promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

5. CSVJB 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. CSVJB 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. Also, 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 CSVJB's Best Value arrangements is focussed on their use of resources to secure financial sustainability.
7. 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 2016](#) and supplementary guidance.

8. 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 Annual Governance Statement and the financial sustainability of the body and its services. As highlighted in our 2021/22 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2021/22 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 outstanding actions from last year and progress against these.

Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £7,820 as set out in our 2021/22 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

Audit appointment from 2022/23

14. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

15. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Deloitte will be the appointed auditor for CSVJB. We are working closely with the new auditors to ensure a well-managed transition.

16. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

17. We would like to thank Board members, the Assessor, the Treasurer and other staff, particularly those in finance for their co-operation and assistance over the last six years.

Part 1. Audit of 2021/22 annual accounts

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

Main judgements

CSVJB'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.

Our audit opinions on the annual accounts are unmodified

18. The annual accounts for the year ended 31 March 2022 were approved by the Joint Board on 30 September 2022. 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
- 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

19. The unaudited annual accounts were received in line with our revised agreed audit timetable on 01 July 2022. There has been limited impact of Covid-19 on the audit process. The physical limitations on access to records and systems did not impact on or delay the audit and CSVJB staff were supported in homeworking during the period of the outbreak.

20. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Overall materiality is £51,000

21. 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 summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£51,000
Performance materiality	£38,000
Reporting threshold	£3,000

Source: Audit Scotland

We have one significant finding to report on the accounts

22. 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 one significant finding to report from the audit.

Exhibit 2 Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Accrued Income</p> <p>As part of our testing we identified a balance of £703,000 as being disclosed within cash and cash equivalents. On review it was found that this balance was still due to be received from a constituent authority, and therefore debtors were understated, and cash was overstated.</p> <p>This resulted in an adjustment of £703,000 to increase the value of debtors, and a corresponding decrease in cash.</p> <p>There was no impact on the CSVJB's net result.</p>	<p>This was corrected within the audited accounts.</p> <p>Recommendation 1 (Appendix 1)</p>

Source: Audit Scotland

23. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified

in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks from the audit of the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Evaluate significant transactions outside the normal course of business. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. <p>Focussed testing of accounting accruals and prepayments.</p>	<p>Results & Significant Judgements:</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>

Other areas of audit focus

24. We identified in our 2021/22 Annual Audit Plan one area where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The area of specific audit focus was:

- **Measurement and judgements applied to the valuation of pension liabilities:** As at 31 March 2022, the Board recognised a net liability of £5.4 million relating to its share of the

Falkirk Pension Fund liability. 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.

25. We have kept this area under review throughout our audit and there are no matters which we need to bring to your attention.

All identified misstatements have been corrected in the audited accounts

26. The cumulative total of misstatements identified was £710,000. This included the reclassification of £703,000 of accrued income between cash and debtors, as detailed at exhibit 2 above. A further adjustment was made for the recognition of an additional £7,000 of depreciation. This resulted in an increase in the net cost of services and a corresponding reduction in value of non-current assets.

27. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

28. Adjustments made in the audited accounts increased the Deficit on the Provision of Services and Comprehensive Income and Expenditure Statement by £7,000.

29. 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. Management have adjusted all identified misstatements above our reporting threshold; there are no unadjusted errors to report.

Part 2. Financial sustainability and Annual Governance Statement

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

A surplus of £105,000 for the financial year 2021/22 was achieved, compared to a budgeted breakeven position.

The audited annual accounts for 2021/22 confirm a useable reserves balance of £623,000 as at 31 March 2022.

Audit work has addressed the wider scope risks identified in our Annual Audit Plan

30. [Exhibit 4](#) sets out the significant risks of material misstatement we identified in our 2021/22 audit, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

Exhibit 4

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

Audit risk	Assurance procedure	Results and conclusions
<p>Financial Sustainability</p> <p>The board faces a challenging financial position. Future pressures include uncertainty over the level of future funding from constituent authorities and inflationary cost pressures particularly in relation to employee costs. The board is currently</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>Results & Significant Judgements:</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 in 2022/23 to achieve financial balance. However, a prudent use of reserves is planned, and</p>

Audit risk	Assurance procedure	Results and conclusions
<p>forecasting an anticipated cumulative funding gap of £1.09 million to £1.92 million by 2026/27. Use of reserves is anticipated during 2022/23 to achieve financial balance, and strategies for closing the funding gap will be developed as part of the board's annual budget setting process.</p>		<p>management will look to maintain reserves at a range between 3 – 6 per cent of net expenditure.</p> <p>Conclusion: CSVJB 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 and resources for the delivery of future services.</p>

Financial performance in 2021/22

31. The Joint Board approved the 2021/22 budget in February 2021. Total budgeted expenditure was £2.966 million and total budgeted income was £2.838 million, with a planned drawdown of £128,000 of reserves to achieve a break-even position. Income also included £27,000 of Barclay requisition that is passed on to CSVJB from the member councils.

32. Actual outturn in 2021/22 was total expenditure of £2.992 million and total income of £3.097 million resulting in a surplus of £105,000. The main factors regarding variances are set out in the Management Commentary in the annual accounts.

Short term financial planning

33. The largest source of income for CSVJB is requisitions from members of the Joint Board. Other sources of income include income from sales, fees, and charges.

34. The Joint Board approved the 2022/23 budget in March 2022. Total budgeted expenditure was £3.098 million and total budgeted income was £2.890 million, with a planned drawdown of £208,000 of reserves to achieve a break-even position.

Medium to long term financial planning

35. 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.

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

37. The audited annual accounts for 2021/22 confirm a useable reserve balance of £623,000. Use of reserves is anticipated in 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 three per cent of net expenditure to provide flexibility for unforeseen circumstances.

38. From the work carried out, we have concluded that CSVJB has adequate financial planning arrangements in place. Cost pressures are expected to arise in the medium term. However, the financial planning arrangements in place have allowed management to plan for these pressures and ensure necessary actions are taken when required.

Annual Governance Statement

39. 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 system of internal control which operated in the financial year. The statement also summarises internal audit findings with the Chief Internal Auditor's assurance statement concluding that a 'reasonable level of assurance' can be placed upon the adequacy and effectiveness of Central Scotland Valuation Joint Board's internal control, risk management and governance arrangements.

40. 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.

41. We first recommended in 2016/17 that some of the Joint Board's policies needed to be updated. CSVJB accepted our recommendation and planned to update the two remaining policies in 2021/22 – the scheme of delegation and contract standing orders. The update of the contract standing orders remains outstanding.

National performance audit reports

42. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 2](#) highlights a number of the reports published in 2021/22.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Submission of annual accounts for audit</p> <p>We received the 2021/22 unaudited annual accounts and working papers package in line with our agreed audit timetable. The annual accounts were generally of an acceptable standard, but inconsistencies were identified on review of key working papers. This resulted in adjustments to the accounts.</p> <p>Risk – The audit is delayed and CSVJB is unable to approve its annual accounts in accordance with its agreed timetable.</p>	<p>The CSVJB should introduce additional steps to ensure the accounts presented for audit and the related working papers are complete and reviewed prior to audit.</p> <p>Paragraph 22.</p>	<p>We are reviewing the working papers as part of the planning for 2022/23 Annual Accounts.</p> <p>Responsible officer: Assistant to the Treasurer</p> <p>Agreed date: June 2023</p>
<p>2. Governance policies and procedures</p> <p>We recommended last year that the Joint Board complete its review and update of its policies and procedures but updating the scheme of delegation and contract standing orders. The scheme of delegation was updated during the year however, the 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>As we recommended last year, CSVJB should update the contract standing orders as soon as possible.</p> <p>Paragraph 41.</p>	<p>The Scheme of Delegation was updated and approved by the Board in 2021/22. The review of Contract Standing Orders (CSO's) was on hold following migration from paper based processes to automated processes via TechnologyOne Financial System. This has now been completed and the review of CSO's will be completed during 2022/23 and presented to the Board for approval.</p> <p>Responsible officer: The Assessor</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Financial sustainability and longer-term financial planning</p> <p>The board continues to face a challenging financial position and is forecasting an anticipated funding gap of £1.09 million to £1.92 million by 2026/27. The five-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 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>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>Paragraph 36.</p>	<p>Agreed date: March 2023</p> <p>Financial forecasting has been extended from 3 years to a 5 year horizon as part of the Budget Strategy for 2022/23. Due to the uncertainty surrounding Local Government finance a range of scenarios to forecast the funding gap were modelled. The high level of uncertainty over the medium term makes it extremely difficult to forecast beyond this time frame, however extending the forecasting beyond 5 years will be considered.</p> <p>Responsible officer: Treasurer and Assessor</p> <p>Agreed date: March 2023</p>

Appendix 2. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Central Scotland Valuation Joint Board

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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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