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Central Scotland
Valuation Joint Board

Central Scotland Valuation Joint Board

Final report to CS VJB Board on the 2023/24 audit

Issued on 20 February for the meeting on 28 of February 2025

Contents

Partner introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Board of the Central Scotland Valuation Joint Board (the) "CS VJB" for the 2023/24 audit. The report summarises our findings and conclusions in relation to the audit of the Annual Accounts and the wider scope requirements, the scope of which was set out within our planning report presented to the Board in June 2024.

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date, we expect to issue an unmodified audit report.

The Management Commentary and Annual Governance Statement comply with the statutory guidance and proper practice and are consistent with the Annual Accounts and our knowledge of the CS VJB. We provided management with comments and suggested changes based on review of the first draft and an update has been received confirming compliance.

The auditable parts of the Remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8.

No material errors have been identified to date and there are no uncorrected misstatements.

Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Accounts audit

We have concluded all our planned procedures. All findings and matters from the audit are reported herein.

Conclusions from wider scope audit work

Financial sustainability

As set out in our Audit Plan, we concluded that the CS VJB is a "less complex body". Our work was therefore restricted to considering the financial sustainability of the CS VJB with conclusions below:

We have concluded that the CS VJB is financially sustainable in the short term due to the VJB setting a balanced budget in 2024/25 and a surplus (net contribution) in 2023/24. There remains a risk that robust medium-to-long term planning arrangements are not in place to ensure that the CS VJB can manage its finances sustainably and deliver services effectively.

The CS VJB continues to find areas of savings and the CS VJB does recognise the relevant risks that would come from the economic climate moving forward.

Next steps

An agreed Action Plan is included on pages 34 to 37 of this report, including a follow-up of progress against prior year actions.

Added value

Our aim is to add value to the CS VJB by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the CS VJB promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

We have also included our "sector developments" on pages 28-32 where we have shared our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to the local government.


Annual Accounts Audit

Quality indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason	Further detail
Timing of key accounting estimates	Mature	We are satisfied with the timing of key accounting estimates. Information was provided by the requested deadline and covered the points required.	N/A
Adherence to deliverables timetable	Mature	Management provided deliverables within agreed timelines.	N/A
Access to finance team	Mature	The audit team always had access to the finance team and key personnel from beginning through to the end of the audit process.	N/A
Quality and accuracy of management accounting papers	Mature	Management produced quality working papers for the purposes of audit.	N/A
Quality of draft Annual Accounts	Mature	The initial version of the draft Annual Accounts was of appropriate quality. We identified disclosure recommendations which have been corrected by management.	N/A
Response to control deficiencies identified	Mature	We noted a finding in relation to review of creditors and debtors and a finding in relation to lack of evidence of disposals. We are satisfied with responses from Management.	Page 13
Volume and magnitude of identified errors	Mature	We identified two misstatements above our reporting threshold. These were corrected by Management.	Page 39

! Lagging ! Developing Mature

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Determine materiality

When planning our audit, we set our materiality at £64,000 based on forecast gross expenditure. We have updated this to reflect final figures and completed our audit to materiality of £62,000, performance materiality of £43,000 and report to you in this report all misstatements above £3,400.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Board's attention our conclusions on the significant audit risks. In particular the Board must satisfy themselves that management's judgements are appropriate.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. We would like to draw to your attention to our other findings, further detail of which is found on page 13.

Our audit report

Following conclusion of the audit, we have issued an unmodified audit report.

Significant risks
Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls	✓	DI	Satisfactory	Consistent
Cut off and completeness of Non-payroll expenditure	✓	DI	Satisfactory	Consistent

Consistency of judgments with Deloitte's expectations

- Inconsistent
- Improvement required
- Consistent

Controls approach adopted

DI Assess design & implementation

Significant risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

- We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Accounts. In designing and performing audit procedures for such tests, we have:
- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements.

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates and judgements considered is provided on the next page; and.
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Accounts of the prior year.

Significant and unusual transactions

Falkirk Council’s last instalment to the CS VJB was missed by the Council due to human error and led to the income being missed in the Council’s last payment run of the 2023/24 year.

Due to successful performance of the income reconciliation control at the end of the year, this was detected by the CS VJB. Subsequently, the CS VJB received the income in April 2024. Hence, the control was effective.

Deloitte view

We have not identified any instances of management override of controls from our testing to date.

Significant risks (continued)

Management override of controls (continued)

Key estimates and judgements The key estimates and judgments in the Annual Accounts includes areas which management inherently has the potential to use their judgement to influence the Annual Accounts. As part of our work on this risk, we reviewed and challenged management's key judgement below:

Judgement	Details of management's position	Deloitte Challenge and conclusions
Provisions	The CS VJB acquired office accommodation at Hillside House by entering into an operating lease which ended on 31 May 2023. A new lease was entered into at Glendevon House from 14 April 2023 for 10 years. As at 31 March 2023, the CS VJB had a provision of £243,000 for dilapidations. This provision was fully utilised in the 2023/24 financial year resulting from the move in premises from Hillside House to Glendevon House. A £17,000 shortfall in relation the actual dilapidations cost was met from designated reserves approved by the Board. In May 2023, the CS VJB relocated to a new facility. Based on information from Hardies, a dilapidation provision of £58,380 is estimated to cover the estimated cost of restoring the Glendevon House buildings to their original condition at the end of the 5-year break option in the lease agreement. Hence, a rounded provision of £12,000 was set aside for each year from 2023/24 to 2029/29. Deloitte identified this approach as non-compliant with IAS 37, which mandates recognizing the full estimated dilapidation liability, discounted to its present value, when the lease obligation arises.	We have assessed the use of information provided by the independent experts and confirmed the existence of the obligation to provide for dilapidations within the lease agreements. We have reviewed evidence, and concluded that the value provided is reasonable. The client updated their accounts with the revised dilapidation provision, aligning their treatment with IAS 37. Deloitte requested the updated financial statements and statutory note disclosures for internal quality review and partner approval, ensuring a robust and compliant outcome. This case highlights the importance of accurate accounting for provisions and the value of expert guidance in navigating complex accounting standards.

Significant risks (continued)

Cut off and completeness of non-payroll expenditure

Risk identified and key judgements

In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We have therefore considered the risk of fraud and error on expenditure. A large proportion of the VJB's expenditure is payroll expenditure which is well forecast and agreed to underlying payroll systems therefore there is less opportunity for the risk of misstatement within this expenditure stream. There remains material non-payroll expenditure where there is a risk around the year end where management may look to alter the financial position in the context of achievement of financial targets and balancing budgets. We have therefore pinpointed our alternative significant fraud risk to cut-off and completeness of the non-payroll expenditure.

Deloitte response and challenge

We have performed the following procedures:

- Evaluated the design and implementation of controls around monthly monitoring of financial performance and the estimated accruals and prepayments made at the year-end;
- Performed focused testing of a sample of non-payroll accruals and prepayments made at the year end;
- Performed focused cut-off testing of a sample of invoices received and paid around the year end; and
- Obtained schedules and analysis related to the non-payroll expenditure and the reconciliation to the general ledger, and testing the reconciliation to the general ledger and trace any reconciling items to sufficient appropriate audit evidence.

Deloitte view

We have concluded that the cut off and completeness of non-payroll expenditure is satisfactory.

We have however identified two instances of incorrect treatment between prepayments and accruals as detailed in the Appendix to this report.

Other Areas of Audit Focus

Defined benefits pension scheme

Background

The VJB participates in the Falkirk pension fund which is a defined benefit scheme. Over the accounting period to 31 March 2024, on an IAS 19 basis, the net asset/liability position has decreased from a net asset of £2,327k to a net asset (after the asset ceiling has been applied) of £1,089k.

The projected pension accounting figures for the 31 March 2024 financial statements incorporate an asset ceiling adjustment, as advised by the actuary. While the initial IAS 19 disclosure report indicated a fully recognisable surplus, Deloitte raised a query regarding the asset ceiling calculation. This prompted a subsequent reassessment, resulting in a revised asset ceiling of £1,839k at the reporting date. Consequently, the presented figures, including a restricted surplus of £1,089k recognised by the Employer, reflect this adjusted ceiling.

Deloitte response (subject to finalization of pension work)

- Assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- Reviewed and challenge the assumptions made by Hymans Robertson LLP;
- Obtained assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- Assessed the reasonableness of the entity's share of the total assets of the scheme with the Pension Fund annual accounts;
- Reviewed and challenge the calculation of the impact of the McCloud and Goodwin cases on pension liabilities; and
- Reviewed the disclosures within the accounts against the Code;
- We have confirmed that VJB can access the economic benefit arising from the asset in terms of reduced contributions or a refund, and as such have recognised the net defined benefit as an asset appropriately.

Deloitte view

We have finalized the work relating to pensions scheme. A misstatement relating to the Goodwin case and Pension Interest has been identified . Please see page 39 for further details.

Your control environment and findings

Control deficiencies and areas for management focus

Low priority

Medium Priority

High Priority

Below are the findings to date surrounding control deficiencies and areas for management focus.

Observation		Deloitte recommendation	Management response and remediation plan
During Clackmannanshire Council's reconciliation process, an outstanding debtor was discovered for the CS VJB. This was for 3 credit notes outstanding on the creditor account for Vodafone.	!	Management should carry out review of transactions more appropriately to ensure all items within the CS VJB's scope, are captured.	See page 34 for management response.
The CS VJB classified two invoices both as an Accrual, and as a Prepayment. This was found to be incorrect as the expense related to post year-end, and the payment was also made post year-end.	!	Management should ensure that appropriate controls around year-end cut off are in place to ensure transactions are correctly accounted for in the correct year and correctly classified.	See page 34 for management response.
When performing testing on Disposals, we were not able to confirm that two samples of IT equipment were disposed of and were also not able to confirm their scrap value amounts. The lack of appropriate documentation in relation to Disposals led to a finding raised on the grounds of insufficient evidence for the purposes of audit.	!	Management should implement a proper record-keeping system for documenting disposals. This should include when the equipment was disposed of, how it was disposed, why it was disposed of, who authorised the disposal, evidence of approval, and whether it was sold for any scrap value. The VJB should also maintain evidence of this scrap value amount. This would enhance the audit trail.	See page 35 for management response.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The VJB's Annual Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (the "Code"). Following our audit work, we are satisfied that the accounting policies are appropriate.

Significant matters discussed with management:

There were no significant matters raised with management.

Regulatory change

IFRS 16, Leases, was due to come into effect on 1 April 2022, however, has been deferred to be effective from 1 April 2024 and will be included in the 2024/25 Code. Public bodies may adopt it in preceding financial periods if deemed appropriate.

The CS VJB has disclosed this within note 4 of the Annual Accounts and concluded that due to the implementation not happening for two years, that the impact has not been calculated yet, as it will not impact the 2023/24 accounts.

Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings. The audit team conducted independent testing procedures and, as a result, did not rely on the work of internal audit.

We will obtain written representations from the CS VJB on matters material to the Annual Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the Annual Accounts

Our opinion on the financial statements is expected to be unmodified.

Going concern

We have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment that the continued existence of a particular body.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in any other matter paragraph.

Other reporting responsibilities

The Annual Accounts is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 33.

Your Annual Accounts

We are required to provide an opinion on the auditable parts of the Remuneration report, the Annual Governance Statement and whether the Management Commentary is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The report outlines the CS VJB's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the CS VJB.	We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
The Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Employees of the CS VJB.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulations.
The Annual Governance Statement	The Annual Governance Statement reports that the CS VJB's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Accounts and has been prepared in accordance with the Delivering Good Governance in Local Government Framework. Following updates made as agreed during the audit for minor improvements we can conclude that the Annual Governance Statement is consistent with the Annual Accounts, our knowledge and the accounts regulations.

Our approach to quality

FRC 2023/24 Audit Quality Inspection and Supervision report

Audit quality shapes our vision of the business we want to be, driving our priorities and defining our successes.

In July 2024, the Financial Reporting Council ("FRC") issued individual reports on each of the six largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2023/24 cycle of reviews. We value the observations raised by both the FRC Supervision teams and the ICAEW Quality Assurance Department ("QAD"), both in identifying areas for improvement and also the ongoing focus on sharing good practice to drive further and continuous improvement.

We are proud that the results of our FRC inspections show that 94% (2022/23: 82%) of our public interest audits were rated as 'good' or 'limited improvements' and that 100% (2023: 100%) of our audits reviewed by the ICAEW's QAD were assessed as good or generally acceptable.

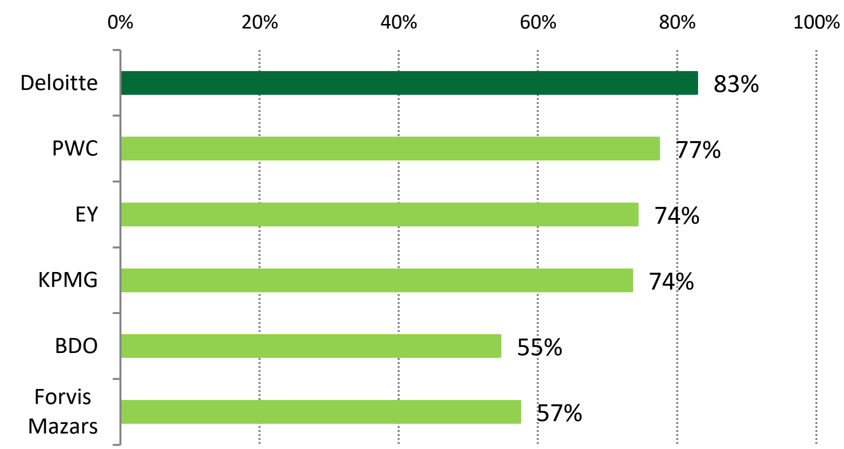
These sets of results reflect the continuous investment we are making and our commitment to acting in the public interest to deliver confidence and trust in business through our high-quality audits. We recognise we still have more we want to do to ensure that we consistently meet the high standards we expect of ourselves. We take inspection, system of quality management ("SoQM") and supervision focus areas seriously and place a significant level of resource and effort into understanding how we continually improve going forward.

We are pleased to see the positive impact of actions taken over the last 12 months to address findings raised by the FRC. We have a reduction in the number of key findings and none of the AQR findings from the 22/23 inspection cycle have recurred as key findings in this year's cycle.

We welcome the breadth and depth of good practice points raised by the FRC and ICAEW, particularly in respect of effective group oversight, contract accounting and the challenge of management, where we have continued to take action to support the high-quality execution of audit work.

All the AQR public reports are available on the FRC's website.

Percentage of Tier 1 audits rated 'Good or limited improvements required' by AQR over the last five years



Our approach to quality

FRC 2023/24 Audit Quality Inspection and Supervision report - overall comments

The boxes below detail the FRC's overall comments and Deloitte responses as published in the overview page of the 23/24 public report.

The AQR's 2023/24 Audit Quality Inspection and Supervision Report on Deloitte LLP:

"Deloitte has continued to respond positively to and has made good progress on actions to address our previous findings. This has resulted in improvements which are reflected across the audit inspections."

"The percentage of audits inspected by the FRC requiring no more than limited improvements was 94%, which shows a continued improvement on the prior year. The equivalent results for FTSE 350 audits inspected was 100%. One of the audits we inspected was found to require significant improvements. The findings that contributed most to this year's inspection results related to the audit of impairment assessments. We have previously identified key findings and examples of good practice in this audit area. The firm should review the effectiveness of its actions to ensure greater consistency.

The overall results profile for inspections by the ICAEW was 100% classified as good or generally acceptable. The firm's internal quality monitoring results show a year-on-year improvement."

Deloitte response to Audit Quality Inspection key findings

"We are pleased to see the positive impact of actions taken over the last 12 months to address findings raised by the FRC. We have a reduction in the number of key findings and none of the AQR findings from the 22/23 inspection cycle have recurred as key findings in this year's cycle."

The following page sets out our response to key findings in relation to the 23/24 cycle.

Review of the firm's system of quality management (SoQM):

"Deloitte has implemented ISQM (UK) 1, including monitoring and remediation processes, and completed its first annual evaluation of its SoQM. Deloitte has invested considerable effort into implementing its new system. The firm has already begun the iterative process of improving and refining it, including in response to our feedback. The firm needs to strengthen aspects of its SoQM, including certain elements of monitoring processes, and enhance its evidencing of its SoQM, especially its monitoring and annual evaluation processes."

Deloitte response to review of SoQM

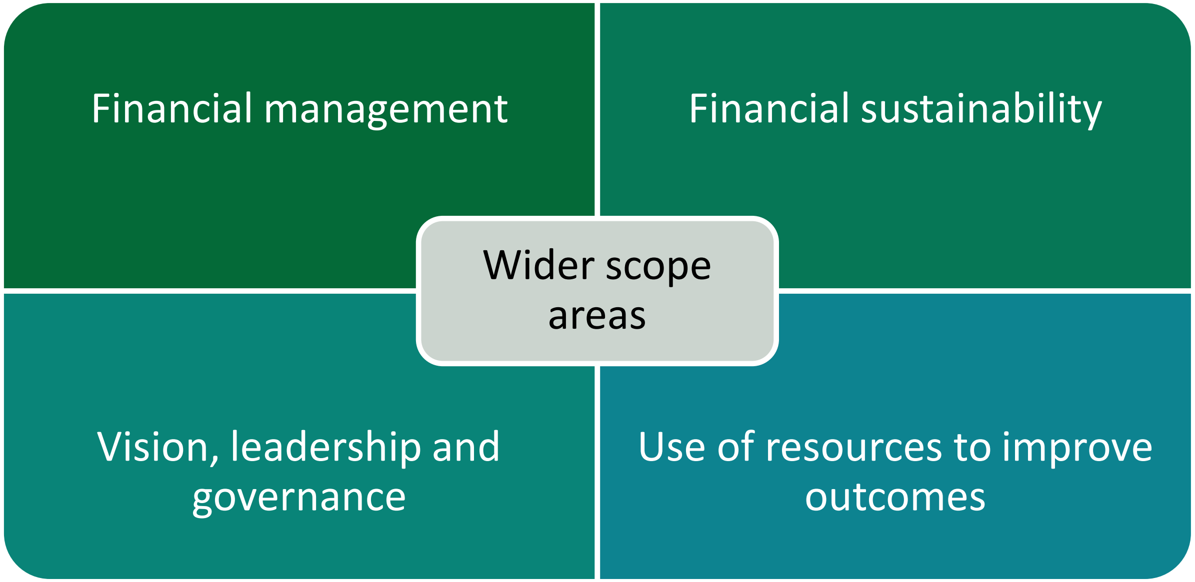
"Audit quality is always front and centre and we believe that an effective SoQM is crucial for its delivery. ISQM (UK) 1 implementation facilitated a critical assessment and enhancement of our existing SoQM. On 31 May 2023, we were pleased to be able to issue our first conclusion on the effectiveness of our SoQM, being satisfied that our SoQM provides the firm with reasonable assurance that the objectives of ISQM (UK) 1 are being achieved. We have valued the independent review performed by the FRC, and the further objective insights this has brought. We have already taken action to address the matters raised by the FRC, improving the evidencing of the rigour of our responses in areas of judgement and working to standardise the capture of risks and responses. The environment in which we operate continues to evolve, and we remain focussed on identifying and investing in the changes required to keep our SQM effective."

Wider scope audit

Wider scope requirements

Overview

As set out in our audit plan, reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



As highlighted in our Audit Plan and agreed with the Board we concluded that the VJB was assessed as “less complex” in accordance with Audit Scotland planning guidance and therefore our wider scope work was limited to assessing the financial sustainability of the CS VJB.

Wider scope requirements

Financial sustainability

Can short-term (current and next year) financial balance be achieved?

Is there a medium and longer-term plan in place?

Is the body planning effectively to continue to deliver its services or the way in which they should be delivered?

Financial Sustainability

Significant risks identified in Audit Plan

There remains a potential risk that robust medium to long term planning arrangements are not in place to ensure that the VJB can manage its finances sustainably and deliver services effectively. There currently is no separate MTFP document in place, except from commentary within the 2023/24 budget.

2024/25 budget setting

The CS VJB's Net expenditure for 2024/25 is forecasted to be £3.167m and the CS VJB has set a balanced budget for this through a proposed requisition of £3.122m allocated amongst the constituent authorities, and utilisation of £45k of uncommitted reserves to meet the funding gap.

The proposed requisition to constituent bodies includes a Barclay Review settlement agreed allocation 2023/24 of £0.305m, Barclay Review settlement additional allocation of £0.042m for 2024/25, and an increase of funding from constituent authorities of 4.5%. A pay award of 3.6% has been approved for 2024/25, which is above the 3% budgeted. This has created a shortfall of £0.017m.

Some of the Key potential risks considered by the Board in setting its Budget included:

- *uncertainty over the level of future funding streams;*
- *uncertainty over the impact of changes to the Non-Domestic Rating system;*
- *uncertainty around the cost of the Elections Act 2022 measures; and*
- *uncertainty of the resources required from differing approaches to absent vote applications.*

Wider scope requirements (continued)

Financial sustainability

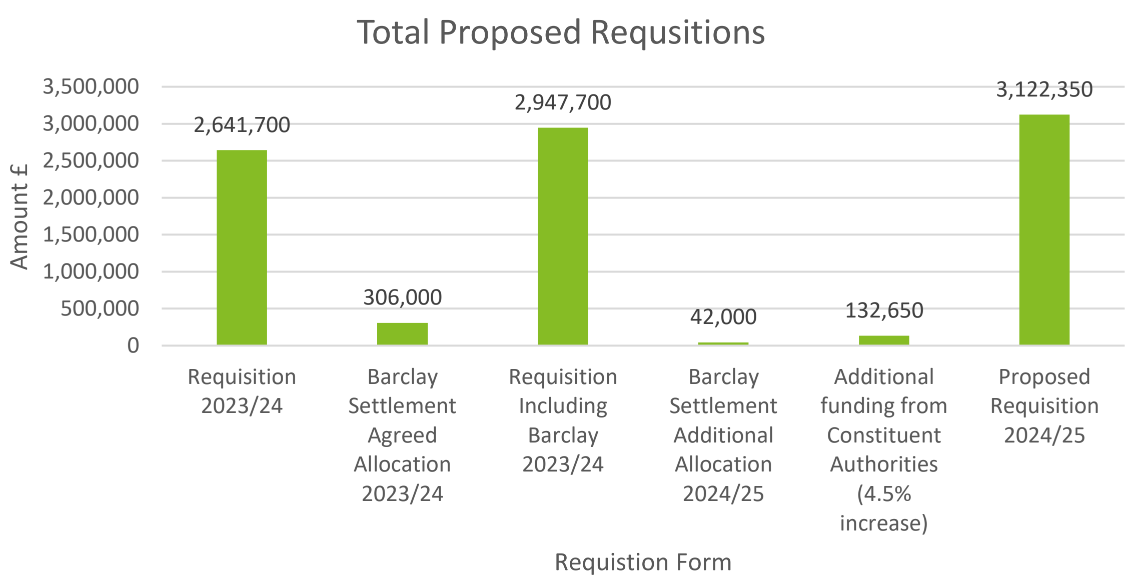
2024/25 budget setting (continued)

The CS VJB has proposed a budget which reflects an increase in expenditure of 5.1% (£153k).

We note that this has been caused by the salary shortfall for 2023/24, salary inflation increases (£131k), additional staffing (£106k), and through increased costs associated with the relocation of premises due to the first full year of rent (£19k) and increases in postages (£24k).

These pressures have been offset by efficiency savings on property costs, superannuation, and vacancy management. The superannuation saving of £66k has occurred as a result of the revaluation of the pension fund by the pension fund actuaries. The actuary has proposed a reduction in the contribution rate of 3.5% from 25% to 21.5% for 2024/25 – 2026/27.

This therefore shows the entity is maintaining its ambition of having sustainable expenditure levels. The CS VJB aim to continue to monitor pressures closely.



Wider scope requirements (continued)

Financial sustainability

Reserves

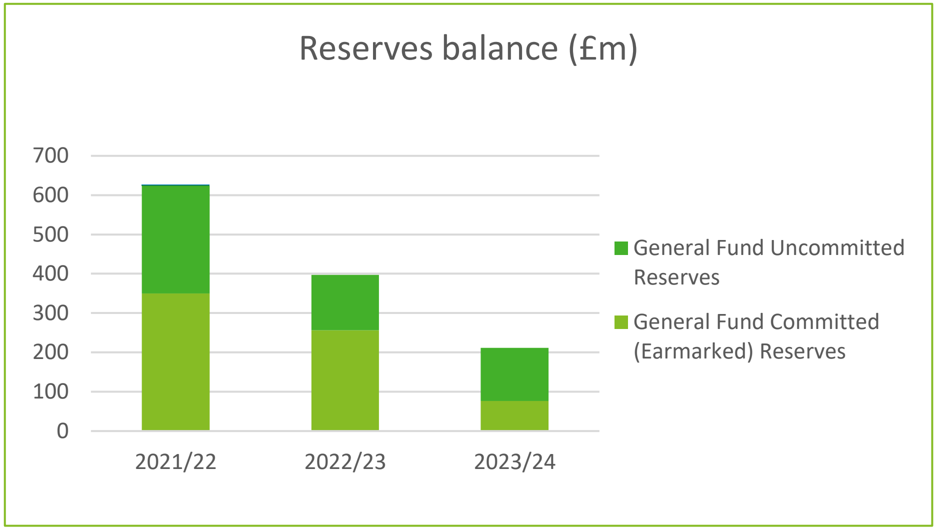
In 2022/23, there were £397k usable reserves, with £230k earmarked for specific purposes. This was approved by the Board in March 2023. This included additional funding approved by the constituent authorities to partly fund the agreed pay awards in 2022/23 and 2023/24 above 2%.

Based on the 2024/25 budget that was presented on 1 March 2024, it was projected that there would be total reserves of £211k at 31 March 2024, comprising £76k earmarked reserves and £135k of uncommitted reserves. Earmarked reserves are comprised of:

- *Funding to support the 2024/25 shortfall of £45k; and*
- *Underspend on New Burdens funding provided in 2023/24 of £31k.*

Based upon these commitments and the proposed 2024/25 budget, projected reserves to 31 March 2025 represent an uncommitted reserve level of £135k, which equates to 4.3% net expenditure.

When the Board approved the 2024/25 Budget, approval was given to maintain the minimum uncommitted reserve balance at a range of 3% to 6% of budgeted net expenditure to allow for year-on-year flexibility. The 4.3% level is therefore still within the thresholds of the reserves policy.



At the 2023/24 year-end, the useable reserves has increased slightly to £241k. This results in £162k uncommitted, representing a level of 5.1% of budgeted net expenditure.

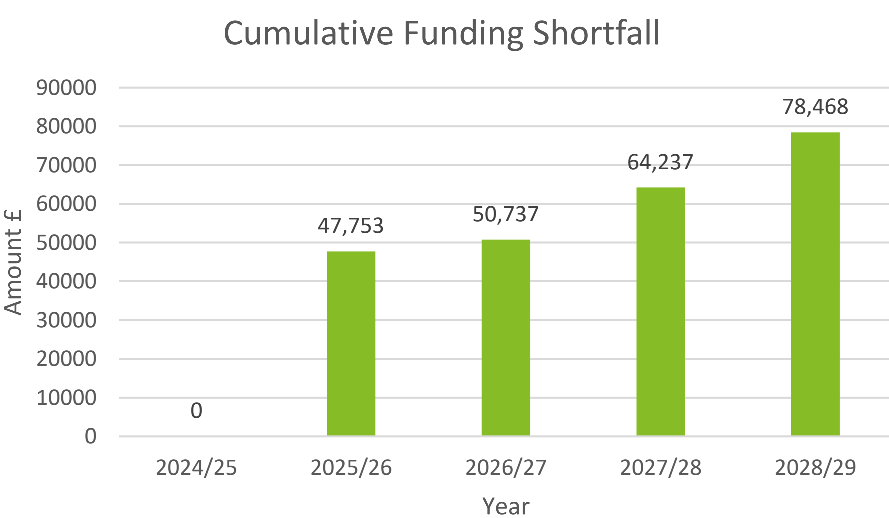
When the Board approved the 2024/25 Budget on 1 March 2024, approval was given to maintain the minimum uncommitted reserve balance at a range of 3% to 6% of budgeted net expenditure to allow for year-on-year flexibility. The current level of 6.3% falls just above this range and will be reviewed during the year by the Board's Treasurer to ensure that this level is prudent to ensure the financial sustainability of the Board.

Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning

Within the 2024/25 budget, the CS VJB have planned for up to 2028/29 showing the cumulative shortfall in the funding gap. The predecessor auditors recommended in the 2021/22 audit that the VJB produce a longer-term budget of 5 years, instead of 4. This was not undertaken during the 2022/23 financial year ready for the 2022/23 audit. We are pleased that this has now been incorporated into the budget. This shows that there will be a cumulative funding shortfall over the 5 years totalling £78,468. This gap also assumes that the Barclay Review funding will continue, an uncertain prospect.



This plan on funding does recognise the risk of economic challenges including:

- Requisitions from constituent authorities will include a 2% increase each year and continue to passport Barclay review funding of £348k;
- Pay inflation at 3% for 2024/25, and 2% thereafter;
- General demand pressures for new/changes in activity in future years assumed to be offset by savings; and
- Average contract inflation of 3%.

Additionally, constituent authorities may be asked for an increase above 2% on the requisition, if additional savings cannot be incurred. Strategies for closing the gap must be identified by the VJB and must form part of the Board's budget setting process. We will be monitoring this in future years. Please see the graph which illustrates the CS VJB's funding assumptions.

Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning

As part of the Spending Review, the Scottish Government expects public bodies to set an annual efficiency target of 3% and expects them to explore the scope to maximise the use of shared services across the public sector landscape. These savings plans are not explained in detail in the budget. We therefore recommend that savings plans and plans to attain efficiency targets are included in the next budget.

Due to the introduction of the new 5-year approach to the budget, it is now clearer that the CS VJB is planning for longer term risks that may arise from the operations. The 5-year approach provides a longer-term planning horizon, allowing the CS VJB to align budgetary decisions and provides a more transparent approach to funding requirements and shortfalls. Hopefully, this enables better service delivery planning.

Deloitte view – Financial sustainability

The CS VJB is financially sustainable in the short term due to the CS VJB setting a balanced budget in 2024/25 and a surplus (net contribution) in 2023/24.

We note that the current level of reserves is appropriate to the entity. Whilst the CS VJB continues to experience external pressures, it is managing to maintain a stable level of reserves in order to meet any challenges or funding gaps. Measures to address the gaps must be established by the Board, and these should feed into reporting and monitoring via a benefits and realisation framework.

Medium term financial projections also demonstrate that the VJB is expecting to be financially sustainable over the next five years. The CS VJB continues to find areas of savings and the VJB does recognise the relevant risks that would come from the economic climate moving forward.

The CS VJB should establish a detailed savings plan that shows how these measures contribute to addressing the funding gap. This should include a RAG rating against the savings plan to show the likelihood of savings being achieved, where there are risks of non-achievement, implications for both current and future years.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Accounts.
- Our internal control observations
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the Annual Accounts.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the CS VJB, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the CS VJB.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Glasgow | 20 February 2025

Sector developments

Sector developments

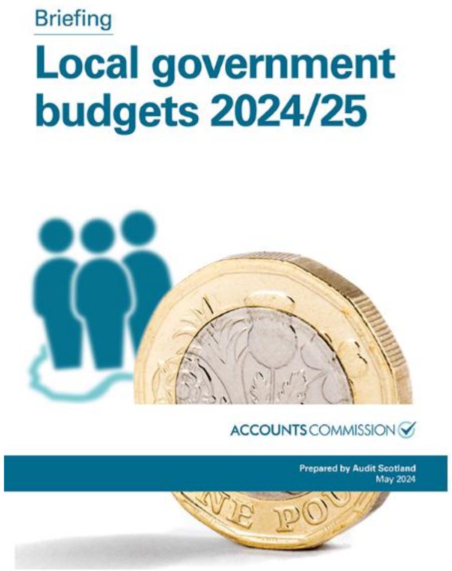
Audit Scotland: Local Government Budgets 2024/25

Background and overview

Scotland's councils are facing a significant gap in the money needed to deliver local services and the money they have available. This means councils will have to make increasingly difficult decisions about how councils are run, how they can deliver services and what services can continue.

Key Messages:

- In real terms, the 2024/25 Scottish Budget allocation of total revenue funding to local government has increased by 5.7 percent, however funding remains constrained as most of the increase is directed funding to deliver Scottish Government priorities and agreed pay deals.
- At the time of setting budgets, councils identified a difference of at least £585 million between their anticipated expenditure and the funding and income they expect to receive (the 'budget gap') for 2024/25, representing an estimated 3.5 per cent of councils' total revenue budget.
- Councils have had to make difficult budget setting decisions for 2024/25, and most worked with their communities to inform or consult on the challenges faced.
- Budget setting processes vary across councils, partly reflecting differences in organisational structures and local priorities.



Next steps

The full report is available at [Local Government Budgets 2024/25 (Audit Scotland)]

Sector developments

Audit Scotland: Delivering for the future – why leadership matters

Background and overview

Each year the Commission selects a particular thematic area of Best Value to focus on, recognising the risks and challenges councils face. The theme this year is the 'Leadership of the development of new strategic priorities'.

The Commission reported that councils are operating in a complex and increasingly volatile environment, which requires strong leadership from councils to make difficult decisions about where and how to spend highly pressured resources.

Next steps

The full report is available at Delivering for the Future (Audit Scotland)

Sector developments

Audit Scotland: The important role of a CFO

Background and overview

As the challenges across the public sector intensify, the role of CFOs is increasingly in the spotlight. As CIPFA highlight, with existing frameworks on governance and decision-making being pushed to their limits, with public services becoming more complex, the CFO is expected to take an active leadership role, not just within the finance function, but across their organisation, sector and public services as a whole.

When budgets tighten, Audit Scotland highlight that often corporate, or 'back office' functions face the hit, to avoid immediately impacting front line services. Against this background, it is important that in the pursuit of back-office efficiencies, the effectiveness of the financial function is not put at risk.

This is an area of interest for Audit Scotland, and in this report it is outlined that they will be taking an interest in auditor conclusions on the resourcing of the finance function as part of their consideration of the 2023/24 annual accounts.

Next steps

The full report is available at [The Important Role of a CFO (Audit Scotland)]

Sector developments

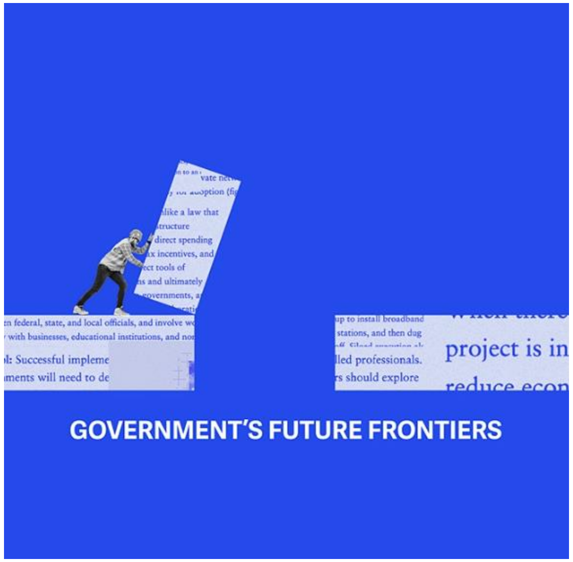
How collaborative leadership can create solutions to big global issues on government's future frontiers

Background and overview

Infrastructure. Security. Health. Technology. The on-the-ground realities of homelessness. The infinite possibilities of space.

These are all big issues, bigger than any one organization can handle alone. Truly tackling the problems and opportunities inherent in these pressing societal concerns could take a concerted effort from all walks of society: Public agencies and private companies, nonprofits and academics, multinational foundations and community activists. But no matter what teams are assembled, government is expected to play a key role in constructing the scaffolding on which solutions are built.

In this publication, Deloitte speak to Bill Eggers and Don Kettl, authors of *Bridgebuilders: How Government Can Transcend Boundaries to Solve Big Problems*. They have more than 75 years of combined experience in the world of public management between them, and they have studies countless efforts to redesign government to make it more agile and responsive.



Next steps

The full publication is available at [Government's Future Frontiers (deloitte.com)]

Sector developments

Government Trends 2023

Background and overview

In the age of discontinuity, governments are moving from hierarchies to networks to enable intragovernment collaboration and nurturing collaborative public-private ecosystems to achieve shared outcomes.

This report outlines nine transformational trends that illustrate governments "bringing down walls" to deliver solutions. The trends outlined are:

- Fluid government workforce models
- Bridging the data-sharing chasm
- Tackling funding silos
- Tailored public services
- Back-office innovations improving mission performance
- Regulation that enables innovation
- Teaming up to deliver whole health
- End-to-end justice
- Security by network

Next steps

The full publication is available at Government Trends 2023 (deloitte.com)

Appendices

Action Plan

The following recommendations have arisen to date from our 2023/24 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
1. Debtors Reconciliation Management should ensure a process is in place to detect all types of debtors, before being discovered by Clackmannanshire Council. This recommendation is in response to the corrected misstatement on page 39.	This will be added as a specific task within the workplan for preparing the year end accounts.	High	Senior Accountancy Assistant / Assistant to the Treasurer.	31st March 2025
2. Year-end Classification of Prepayments and Accruals Management should ensure that appropriate controls around year-end cut off are in place to ensure transactions are correctly accounted for in the correct year and correctly classified. This recommendation is in response to the corrected misstatement on page 39.	This will be added as a specific task within the workplan for preparing the year end accounts.	High	Senior Accountancy Assistant / Assistant to the Treasurer.	31st March 2025

Action Plan (continued)

The following recommendations have arisen from our 2023/24 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
3. Maintain Records of Disposals Management should implement a proper record-keeping system for documenting disposals. This should include when the equipment was disposed of, how it was disposed, why it was disposed of, who authorised the disposal, evidence of approval, and whether it was sold for any scrap value. The VJB should also maintain evidence of this scrap value amount. This would enhance the audit trail.	This will be discussed with staff at the Valuation Joint Board to ensure the asset register includes the information recommended by the auditors and documentation is retained, where necessary.	High	Senior Accountancy Assistant / Assistant to the Treasurer/ Assessor.	31st March 2025
4. Lack of Signed Documentation Deloitte were only able to obtain a draft, unsigned version of the lease agreement for the Glendevon House. Management should ensure documentation has been appropriately signed and finalised to ensure appropriate audit trail.	The Assessor at the VJB signed the lease agreement for the move to Glendevon House, in March 2024. However, we have been unable to obtain a copy of the signed lease from the lessor, despite having chased several times.	Medium	Assessor / Treasurer.	31st March 2025

Action Plan (continued)

The following recommendations have arisen from our 2023/24 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
6. Incorrect Accounting Treatment Deloitte identified this approach for calculating dilapidation provision is non-compliant with IAS 37, which mandates recognizing the full estimated dilapidation liability, discounted to its present value, when the lease obligation arises. Moving forward, we recommend management should proactively review relevant accounting standards, engage early with accounting experts for complex transactions, and maintain thorough documentation of key assumptions to ensure continued compliance and accurate financial reporting.	Management will proactively review relevant accounting standards to review complex transactions and maintain accurate documentation.	Medium	Senior Accountancy Assistant / Assistant to the Treasurer / Treasurer and Assessor.	31st March 2025

Action Plan (continued)

We have followed up the recommendations made in 2022/23.

Recommendation	Management Response 2022/23	Management Update 2023/24
1. Review of leases and corresponding accounting treatment Management should carry out an annual review and consider whether provisions need to be created or updated in accordance with the Code.	We will add this as a specific task within the workplan for preparing the year end accounts.	**Fully Implemented -** Task was included in the workplan for 2023/24 and leases checked. Provision was made for dilapidations on lease for Glendevon House. No other leases identified that required a provision.
2. Review of transactions with other public bodies and corresponding accounting treatment. Management should carry out a review of their transactions with other public bodies to ensure the accounting treatment of the transactions including any recognition of income or expenses is appropriate. Management should maintain an agreement with all parties involve to ensure appropriate documentation to support nature of transactions.	We will add this as a specific task within the workplan for preparing the year end accounts.	**Fully Implemented -** Task added to the workplan. No new transactions identified during 2023/24.
3. Savings plan to address funding shortfall A savings plan needs to be developed to demonstrate how the VJB is going to address the funding shortfall projected over the next 4 years.	As part of the annual budget setting process the Board will look to identify savings to mitigate ongoing costs and pressures in order to reduce any increases in requisitions to constituent authorities. This will incorporate forecasted increases in funding requirements from constituent authorities to ensure a balanced budget.	**Fully Implemented -** The Board agreed a balanced budget in March 2024 for 2024/25 which included a number of savings to reduce the increase in the requisitions from the constituent authorities. Savings will continue to be identified each year to minimise any increase in funding required however, the constituent authorities have an obligation to fund any shortfall.

Audit adjustments

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/(credit) CIES £	Debit/(credit) in net assets £	Debit/(credit) prior year reserves £	Debit/(credit) Equity £	If applicable, control deficiency identified
Misstatements identified in Current year						
Debtors	[1]		**4,966**			See page 13
Income		**(4,966)**				
Prepayments	[2]		**(49,062)**			See page 13
Accruals			**49,062**			
Total		**(4,966)**	**4,966**			

[1] The entity has not accounted for an outstanding debtor. Please see page 13 for further details.

[2] Two invoices were found to incorrectly be within both prepayments and accruals. Please see page 13 for further details.

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which is above our clearly trivial threshold but cumulatively considered not material. Uncorrected misstatements decrease the surplus by £26,000, decrease in net assets by £20,000 and decrease reserves by £6,000. (The numbers are rounded to 000)

		Debit/(credit) CIES £	Debit/(credit) in net assets £	Debit/(credit) prior year reserves £	Debit/(credit) Equity £	If applicable, control deficiency identified
Misstatements identified in current year						
Provisions	[1]		(20,000)			N/A
Expenditure		20,000				
Pension interest	[2]	(8,000)				N/A
Employee costs		8,000				
Prior Period Misstatements corrected in current year						
Expenditure	[3]	6,000		(6,000)		N/A
Total		**26,000**	**(20,000)**	**(6,000)**		

[1] The VJB has not accrued a provision in relation to the Goodwin case for its pension liabilities. This hence has been taken as an uncorrected misstatement.

[2] We observe that interest on the service cost has been included in the interest cost. Under IAS 19, we believe it should instead be included in the service cost. The interest on service cost amounts to c.£8k. We note that this is a presentational point as the impact on the service cost and interest cost nets to zero.

[3] The VJB had over accrued for an expense in Prior period. The entity has accrued on a best estimate basis and the actual expense was much lower base on subsequent invoicing from the supplier this will have no impact on closing equity but a surplus for the current year will reduce by 6k and prior period will increase by c.£6k.

Our other responsibilities explained

Fraud responsibilities and representations

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the CS VJB to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the CS VJB.

We have also asked the CS VJB to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.

Audit work performed:

In our planning we identified the risk of fraud in Completeness of Non-payroll expenditure and management override of controls as a key audit risk.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Board on the process for identifying, evaluating and managing the system of internal financial control.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Concerns:

No issues or concerns have been identified in relation to fraud.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the CS VJB and our objectivity is not compromised.
Fees	The expected fee for 2023/24, as communicated by Audit Scotland in December 2023 is analysed below:

	£
Auditor remuneration	23,450
Audit Scotland fixed charges:	
• Audit support costs	850
• Sectoral cap adjustment	(14,970)
Total agreed fee	**9,330**
Additional fees:	
• Additional procedures on pension and dilapidation	4,632
Total expected fee	**13,962**

Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the CS VJB's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the CS VJB, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.