



Central Scotland Valuation Joint Board

Final report to the VJB board on the 2022/23 audit
Issued on 21 September for the meeting on the 29 September 2023

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1.1 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 Central Scotland Valuation Joint Board (“the VJB”) for the 2022/23 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 VJB in June 2023.

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 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](#). The VJB met its financial targets for 2022/23, achieving a small surplus of £17,000.

We have identified material errors which have now been corrected. They relate to two corrected misstatements in excess of our materiality which has been identified up to the date of this report. We have also identified an uncorrected misstatement that is in excess of our clearly trivial threshold of £3,400. Further details are included within the Appendix to this Report.

1.2 Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Accounts audit

Outstanding matters to conclude the audit include:

- Receipt of final Annual Report and Accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2023.

Conclusions from wider scope audit work

Financial sustainability

As set out in our Audit Plan, we concluded that the VJB is a “less complex body”. Our work was therefore restricted to considering the financial sustainability of the VJB. We we have concluded that the VJB is financially sustainable in the short term as it reported a surplus (net contribution) in 2022/23 and a balanced budget has been set for 2023/24. However, medium term financial projections are currently showing a significant gap over the next three years. The VJB is therefore not financially sustainable over the medium term and it is critical that savings plans are developed to demonstrate how the gap is going to be reduced.

Best Value

The VJB has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development as part of their ongoing operations

Next Steps

An agreed Action Plan is included on page [29](#) of this report, including a follow up of progress against prior year actions.

Added Value

Our aim is to add value to the 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 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 [25](#) to [27](#) 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 Local Government.

Pat Kenny
Associate partner







Annual Accounts Audit



2.1 Quality indicators

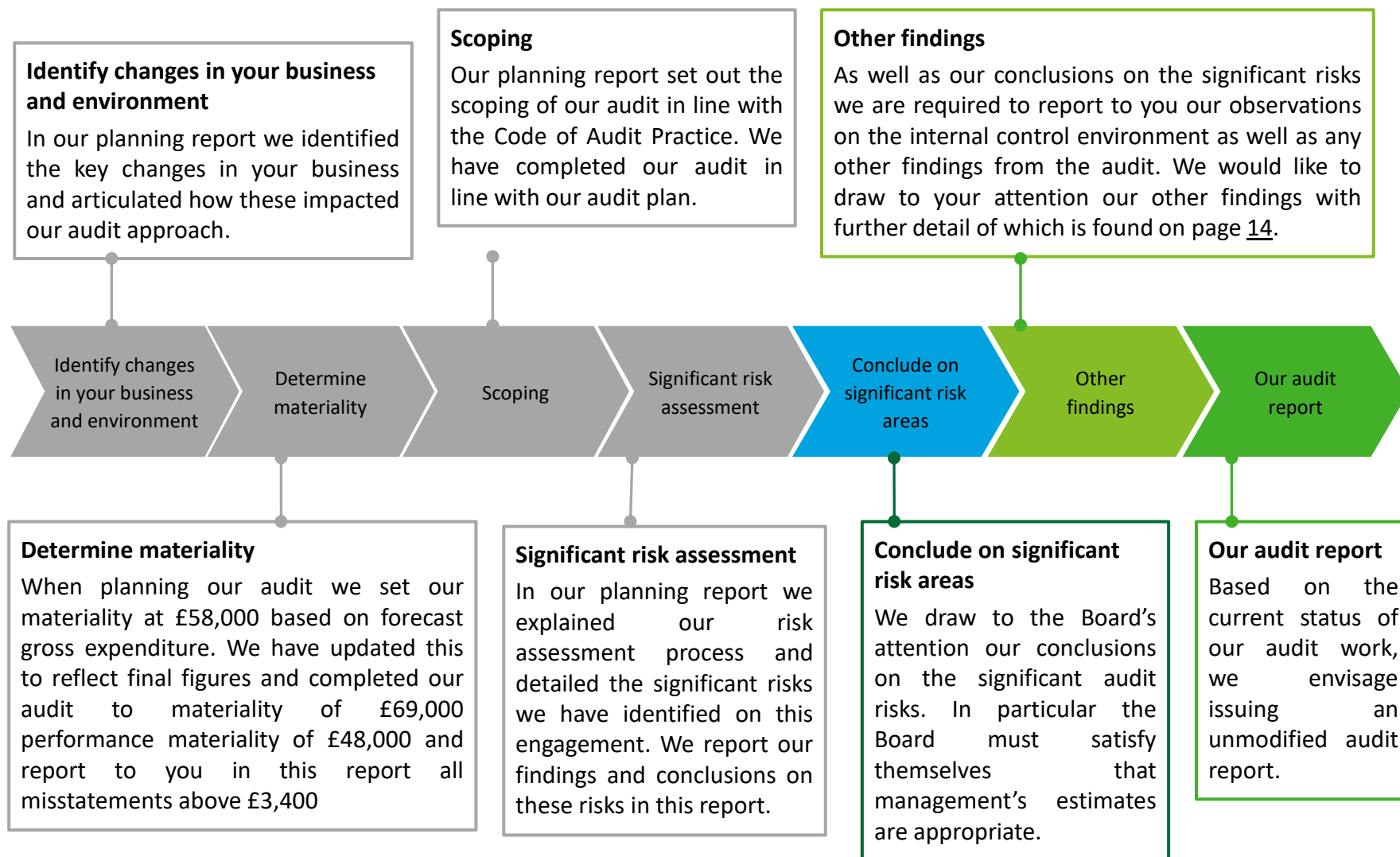
Impact on the execution of our audit

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		We are satisfied with the timing of key accounting estimate	N/A
Adherence to deliverables timetable		We are satisfied with the deliverables to the timeline agreed	N/A
Access to finance team		We are satisfied with the access to the finance team that we had throughout the audit	N/A
Quality and accuracy of management accounting papers	N/A	There have been no management papers that have been required to be produced for the audit	N/A
Quality of draft Annual Accounts		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		We noted a finding in relation to review of provisions for leases. We are satisfied with responses from Management.	13
Volume and magnitude of identified errors		We identified material misstatement in the provisions as well as income and expense items for the prior year and current year.	31 to 32


2.2 Our audit explained

We tailor our audit to your business and your strategy



2.3.1 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			Satisfactory	
Cut off and Completeness of Non-payroll expenditure			Satisfactory	

Level of management judgement



High degree of management judgement



Some degree of management judgement



Limited management judgement

Controls approach adopted



Assess design & implementation

2.3.2 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

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Deloitte view

We have not identified any instances of management override of controls from our testing. However we have identified a material error in management's estimates of provisions.

2.3.3 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 challenge management’s key judgement below:

Judgement	Details of management’s position	Deloitte Challenge and conclusions
Provisions	As at 31 March 2023, VJB has a provision of £224,000 for dilapidations, and no balance was disclosed in the prior years Annual Accounts. The value of the provision is based on information provided by Hardies and comprises costs required to restore one of VJB’s leased buildings to their original state.	<p>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 both confirmatory and contradictory evidence and concluded that the value provided is reasonable and that the provision has been appropriately disclosed in line with reporting requirements.</p> <p>See page 29 where we have raised a finding. In addition to this, management had not identified the provision balance in either the current or prior years annual accounts, leading to a material misstatement which have been noted at page 32.</p>

2.3.4 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 and we have concluded that a restatement is not required as the misstatement has deemed to not be material. Please see page [31](#) for further details.

2.4 Other Areas of Audit Focus

Defined benefits pension scheme

Background

The VJB participates in the Falkirk pension fund which is a defined benefit scheme.

The net pension liability has changed from a £5.376m in 2021/22 to a net asset of £2.327m in 2022/23 due to a change in assumptions and asset valuations. Part of this was down to changes in the financial assumptions and asset valuations, as well as employers contributions and direct payments to pensioners payable in the year.



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.

Assumptions

	VJB	Comments
Discount rate (% p.a.)	4.75	Within reasonable Range
Inflation (% p.a.)	3.2	
Pension increase in payment (% p.a.)	3.2	
Salary increase (% p.a.)	0.1	In line with funding valuation
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 65)	20.4/ 23	Within reasonable range
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 45)	21.6/ 25	

Deloitte view

Subsequent to issuance of our ISA 260 on 21 September 2023, We have finalized the work relating to pensions scheme. A misstatement relating to the goodwin case have now been noted. Please see page [31](#) for further details.

2.5 Your control environment and findings

Control deficiencies and areas for management focus

Observation	Deloitte recommendation	Management response and remediation plan
<p><u>Review of provisions for leases not performed appropriately.</u></p> <p>The VJB had incorrectly not recognised a provision for dilapidations on one of its leases. The client initially wanted to class the dilapidation as a contingent liability. However Deloitte challenged the VJB on this, as it should have been classed as a provision. This is due to there being an obligation in the lease for the VJB to bear the dilapidation costs. Due to the VJB not previously recognising the provision, it has resulted in a restatement in both the current and prior year Accounts.</p>	<p>Management should carry out an annual review and consider whether provisions need to be created or updated in accordance with the Code.</p>	<p>See further discussions in the action plan at 29.</p>
<p><u>Recognition of income and expense items relating to transactions with other public bodies.</u></p> <p>The VJB had incorrectly recognised income and expenses relating to maintenance of portal associated with the Scottish Assessors Association where no services was directly performed for the portal as the VJB mainly acts as a treasurer/agent in making payments on behalf on behalf of the other bodies for transactions incurred for the portal's maintenance.</p>	<p>Management should carry out review of transactions more appropriately to ensure only appropriate items of income and expenses are recognized based on arrangement it has with other public bodies. Management should ensure arrangements are documented by means of an agreement.</p>	<p>See further discussions in the action plan at 29.</p>

2.6 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. Local authorities may adopt it in preceding financial periods if deemed appropriate.

The 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 2022/23 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. In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves.

We will obtain written representations from the 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.

2.7 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 an other matter paragraph.



Other reporting responsibilities

The Annual Report 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](#).

2.8 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 VJB's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the VJB.	<p>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance.</p> <p>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.</p> <p>Following updates made as agreed during the audit, including ensuring appropriate disclosure of the performance of the VJB, we are satisfied that the Management Commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.</p>
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 VJB.	We have audited the disclosures of remuneration and pension benefits, pay bands and we can confirm that they have been properly prepared in accordance with the regulations.

2.9 Your Annual Accounts (continued)

	Requirement	Deloitte response
The Annual Governance Statement	The Annual Governance Statement reports that the 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.

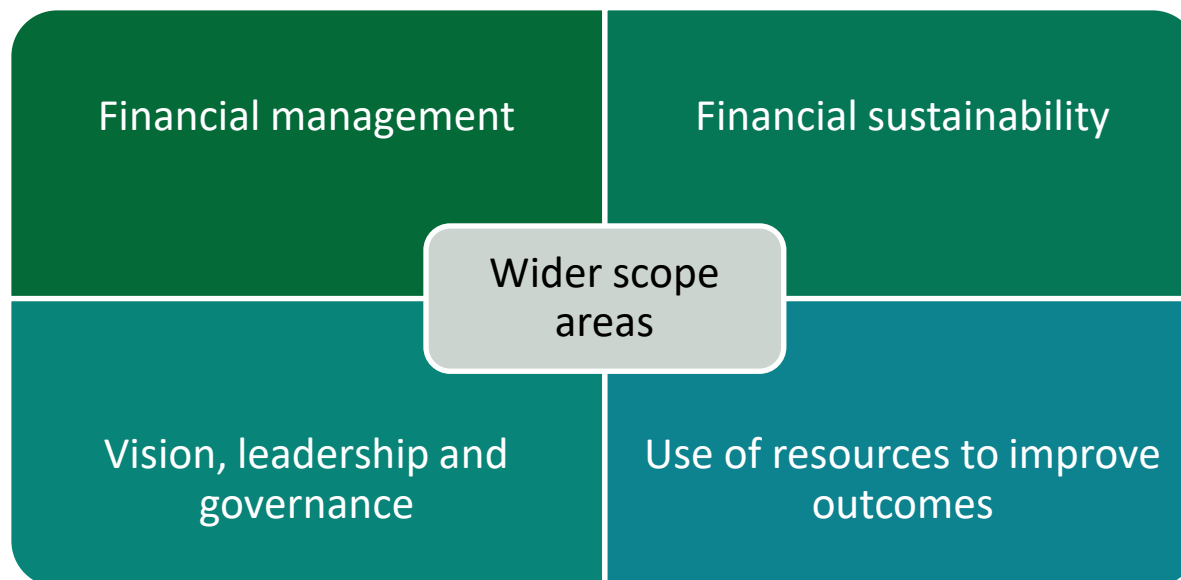
Wider scope audit



3.1 Wider scope requirements – Reduced Scope

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.

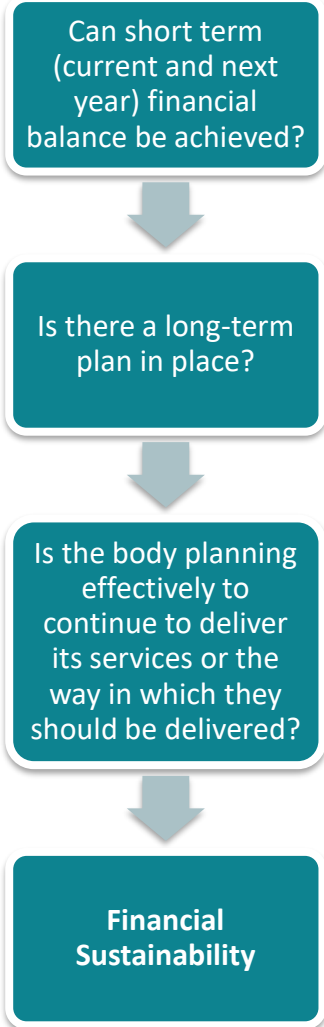


In its planning guidance, Audit Scotland has also highlighted the following national or sectoral risks that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits:

- Cyber security.

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 VJB.

3.2 Financial sustainability



Significant risks identified in Audit Plan

While the VJB has historically achieved short term financial balance, there remains a 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. We have therefore assessed the development of the 2023/24 budget and the medium-long term financial outlook, specifically following up on the recommendations made in our previous audit reports in relation to the formal budget setting policy and process.

2023/24 budget setting

The VJB approved a balanced budget of £3.015m for 2023/24. In this budget, it was aimed that a minimum reserve policy of between 3% and 6% of net revenue expenditure would be maintained. While a balanced budget was achieved, there was a need to increase the contribution from constituent authorities by 2%. The budget also proposes savings of 2.7% of expenditure, which results in savings of £83,000, which is primarily due to salary savings, and relocating of premises.

In setting its budget, the VJB recognises that there are several risks involved in planning the delivery of services for the future. The budgeted assumptions can be affected by many internal and external factors, and some of these included an:

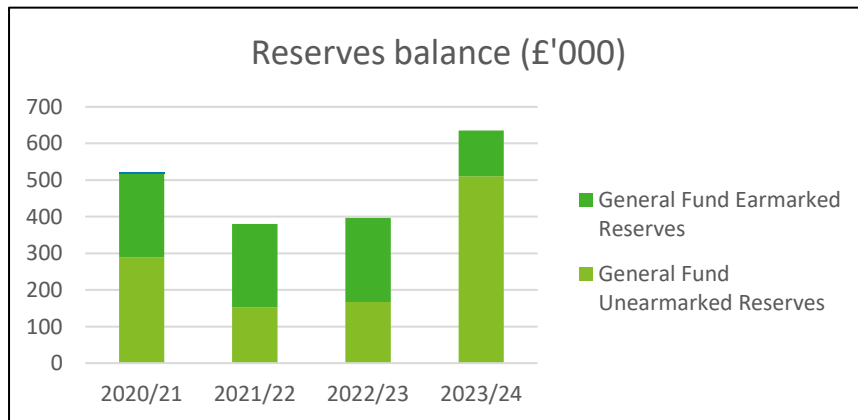
- Uncertainty over the level of future funding streams from the constituent authorities;
- Uncertainty over the exact impact of the significant changes to the Non-Domestic Rating system outlined above;
- Uncertainty around the demand for Voter Authority Certificates ahead of a UK General Election;
- Uncertainty of the resources required to implement the remaining measures of the Elections Act and in particular the increase in work as a result of differing approaches to absent vote applications between UK and Scottish Elections;

3.3 Financial sustainability (continued)

Reserves

In the 2022/23 Annual Accounts, the useable reserves have decreased from £623,000 to £397,000 with £256,000 earmarked for specific purposes, as illustrated in the graph below.

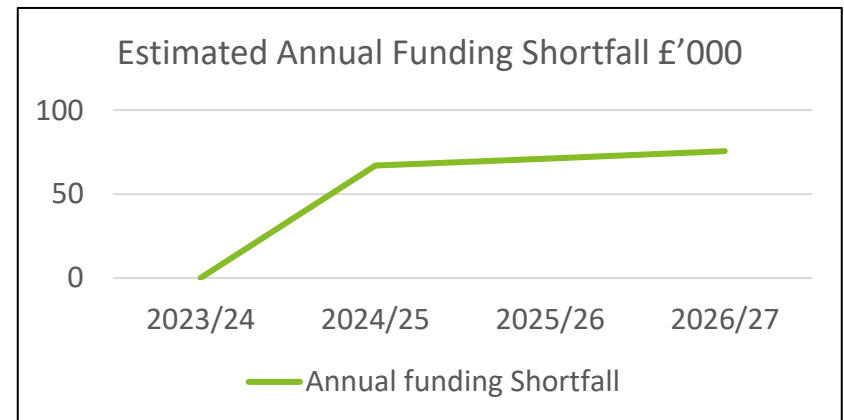
When the Board approved the 2023/24 Budget on 3 March 2023, approval was given to maintain the minimum uncommitted reserve balance at a range of 3% to 6% of budgeted net expenditure to allow for year-on-year flexibility. The current level of £141,000 (4.7%) falls within this range and will continue to 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. While the VJB continues to experience external pressures, it is managing to maintain a stable level of reserves to meet any challenges or funding gaps.



Medium-to-long term financial planning

The VJB refreshes its Medium-Term Financial Plan (MTFP) on an annual basis, with the latest plan covering the period 2024–27 approved in March 2023. This included scenario planning to model the impact of the key assumptions into three different scenarios. The estimated funding gap over the next five years is between £66,974 and £75,658, as illustrated below.

The VJB does not include a Long-term plan within its budget, with its planning only covering the next 4 years. Management have advised that this has not been progressed due to the uncertainties around future funding out with the Board's control such as pay, and as such the limited value that an extra year would add when the VJB is effectively funded through constituent authorities and is a statutory function. It is, however, considered best practice to prepare a long term plan.



3.4 Financial sustainability (continued)

Savings and Shared Services

The VJB has continued to make savings in both the prior years and in their 2023/24 budget, to help them deal with the financial pressures. The savings discussed on page [20](#) from the 2023/24 budget reflects a decrease in expenditure of 2.7%, £83,000 which is primarily due to salary savings, and relocating of premises. This is consistent with the Board's stated ambition to maintain its expenditure at sustainable levels.

The VJB monitors its savings monthly as part of its budget outturn process.

The VJB utilises both the Clackmannanshire Council's ledger and some of the finance staff.

Deloitte view – Financial sustainability

The VJB has set a balanced budget for 2023/24 and holds usable reserves of £397,000 at 31 March 2023 and is therefore is financially sustainable in the short term. However, it continues to be faced with significant financial challenges over the medium and longer-term, projecting a funding gap of between £66,974 and £213,887 over the next four years. As a result, the VJB is not financially sustainably in the medium to long term. It is critical that savings plans are developed and agreed to demonstrate how the VJB plan to reduce the funding gap in future years.

3.5 Wider scope requirements (continued)

Best value

Requirements

It is the duty of the VJB to secure Best Value as prescribed in Part 1 of the Local Government in Scotland Act 2003. We have a statutory duty to be satisfied that the VJB have made proper arrangements for securing BV.

Duty to secure Best Value

1. It is the duty of the VJB to make arrangements which secure Best Value.
2. Best Value is continuous improvement in the performance of the VJB's functions.
3. In securing Best Value, the VJB shall maintain an appropriate balance among:
 - a) The quality of its performance of its functions;
 - b) The cost to the VJB of that performance; and
 - c) The cost to persons of any service provided by the VJB for them on a wholly or partly rechargeable basis.
4. In maintaining that balance, the VJB shall have regard to:
 - a) Efficiency;
 - b) Effectiveness;
 - c) Economy; and
 - d) The need to make the equal opportunity requirements.
5. The VJB shall discharge its duties in a way that contributes to the achievement of sustainable development.
6. In measuring the improvement of the performance of an VJB's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

Conclusions

The VJB has a number of arrangements in place to secure best value and it has developed a medium term financial plan to ensure this is achievable. However, significant work is still required to make the level of lasting long-term financial planning and savings plan in the future to ensure financial sustainability of the entity. Management are also showing a decline in their KPI requirements for making changes in the valuation roll on a timely basis. The valuation roll contains every non-domestic property (unless exempted by statute) in the valuation area.

Deloitte view – Best Value

The VJB has sufficient arrangements in place to secure best value, although financial sustainability remains a key risk with continued focus on achieving the level of savings required.

3.6 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 Report.
- 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 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 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.

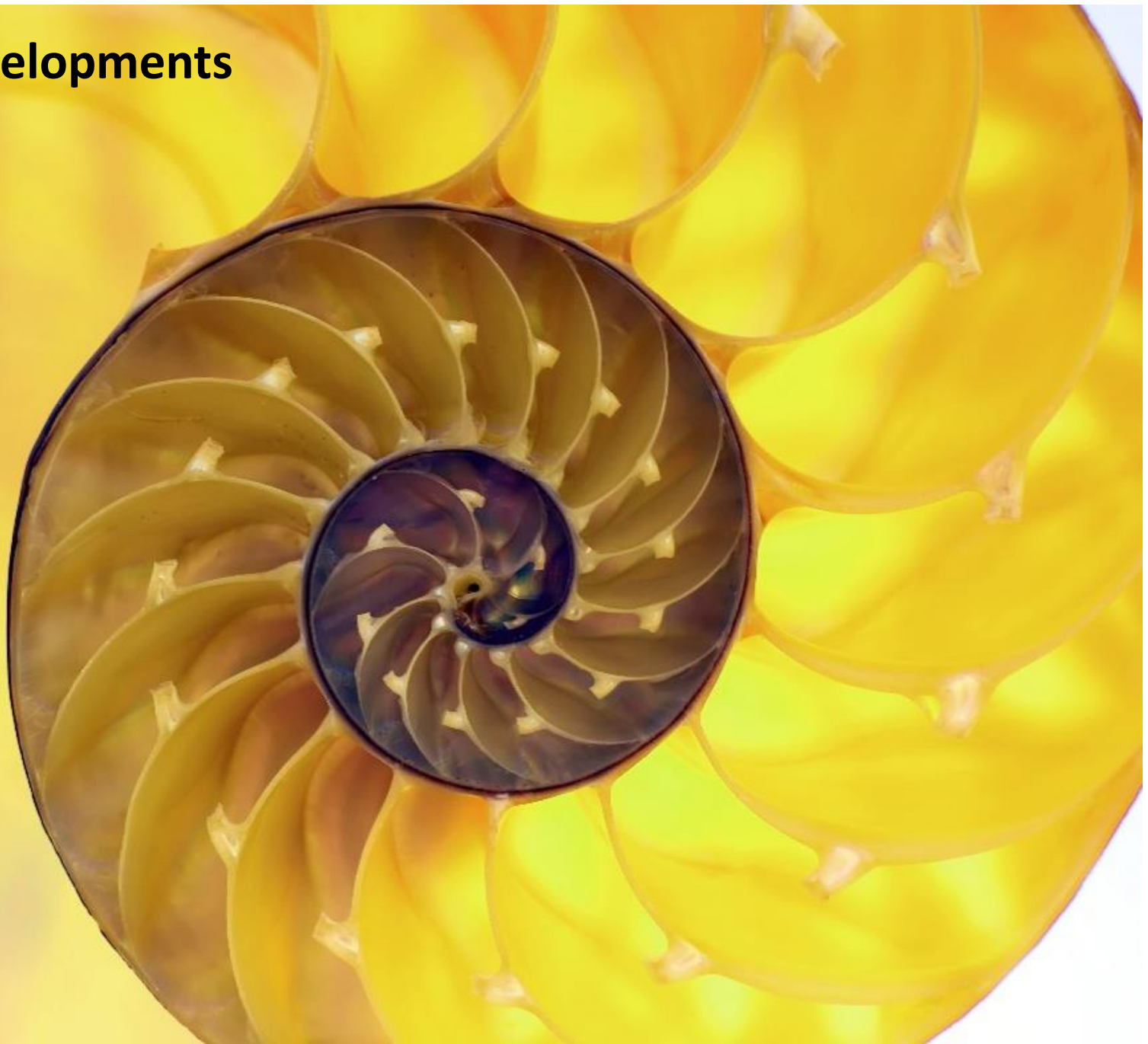
Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our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

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



Deloitte LLP
Glasgow | 21 September 2023

Sector developments



4.1 Sector developments

Local Government Overview 2023

Background and overview

In August 2020, the Accounts Commission agreed a strategic medium-term approach to reporting on the impact of the Covid-19 pandemic. This approach committed to producing a series of annual overview reports over a three-year period. This report:

- Is the third and final overview report in the series
- Builds on the previous reports in the series and examines:
 - How has the pandemic affected councils and their performance?
 - What are the current and future challenges facing local government?
 - How well placed are councils to deal with the current and future challenges?
- Draws on findings from the financial bulletin, considering these in the context of the wider overview.

The findings of this report are drawn from 2021/22 annual audits, performance and best value audit work carried out during 2022 and from specific research and analysis of available data and intelligence.

Next steps

Despite this report being for Councils, the VJB should consider each of the recommendations on the next page and incorporate into plans where not already considered. The full report is available through the following link: [Local Government in Scotland 2023](#)

Local government in Scotland

Overview 2023



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
May 2023

4.2 Sector developments (continued)

Local Government Overview 2023 (continued)

Key messages

- Finances and resources - Budget constraints and increasing cost pressures are putting councils' finances under severe strain.
- Community needs and inequalities - The pandemic has affected performance across all service areas. There are signs of growing backlogs and declining performance in some service areas.
- Collaboration - The scale of the challenges ahead means that radical change is needed. It is only by working more collaboratively that councils and their local partners, communities and the third sector will be able to provide sustainable local services and deliver a significant programme of national reform to tackle issues such as climate change, child poverty and inequalities.
- Leadership - Leaders must think radically and make fundamental changes to how councils operate in future, building on the collaborative and innovative ways of working many demonstrated during the pandemic.
- Workforce - Increasing workforce challenges, including a competitive labour market and high sickness absence levels, are putting councils under continued pressure.

Recommendations (relevant to Councils and VJBs)

- Councils need to set out medium- to long-term financial plans that detail: (1) how they will make recurring savings and reduce reliance on reserves to fill budget gaps (2) how council resources are targeted to achieve their long-term policy and performance priorities.
- Councils should be more transparent with the public about scale of service demand, the extent of backlogs and changes to eligibility criteria necessary to ration access to services and any impact this has on unmet need. Councils should have a clear plan for strengthening their use of data to understand needs, make decisions and direct resources. This includes equalities data, and learning from those with lived experience.
- Councils need to maximise the potential of collaboration by demonstrating they are: (1) working with other councils, the wider public sector and the third sector to redesign and provide services (2) involving service users and local communities in the redesign of services.
- Councils' leaders need to invest time and capacity in thinking radically about their future operating model, and: (1) be open and clear with communities and staff about the need for change, what that means for future service delivery and involve communities in making difficult decisions (2) set out a clear vision for their long-term policy and performance priorities, and how it will be delivered and monitored (3) work with the Scottish Government to rebuild an effective Relationship
- Councils need to improve workforce planning to effectively develop and deploy their existing workforce. This includes: (1) building the capacity, skills, strategic thinking and comprehensive workforce data needed for effective workforce planning (2) updating workforce plans to reflect new models of service delivery and ways of working.

Appendices



5.1 Action Plan

The following recommendations have arisen from our 2022/23 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>1. Review of leases and corresponding accounting treatment</p> <p>Management should carry out an annual review and consider whether provisions need to be created or updated in accordance with the Code.</p>	<p>We will add this as a specific task within the workplan for preparing the year end accounts.</p>	Medium	Treasurer/Assessor	March 2024
<p>2. Review of transactions with other public bodies and corresponding accounting treatment.</p> <p>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.</p>	<p>We will add this as a specific task within the workplan for preparing the year end accounts.</p>	Medium	Treasurer/Assessor	March 2024
<p>3. Savings plan to address funding shortfall</p> <p>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.</p>	<p>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.</p>	Medium	Treasurer /Assessor	March 2024

5.2 Action Plan (continued)

We have followed up the recommendations made in by the previous auditors. We are pleased to note that four recommendations have been fully implemented and one is in progress.

Recommendation	Management Response		Priority	Management update 2022/23
1. Long term financial planning It was recommended by the prior year auditors that the VJB develop an overarching long term financial strategy for the next five to ten years. However the clients budget only extends to 4 years, so we would recommend that the client develops this into a longer term plan.	Responsible Assessor	Person:	Grade 2 – Limited risk exposure	Management have advised that this has not been progressed due to the uncertainties around future funding out with the Board's control such as pay, and as such the limited value that an extra year would add when the VJB is effectively funded through constituent authorities and is a statutory function Not implemented

5.3 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 £7,233, decrease in net assets by £7,233 and decrease reserves by £7,233

		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						
Accruals	[1]		7,233			N/A
Expenditure	[1]	(7,233)				
Provisions	[2]		(30,000)			N/A
Expenditure	[2]	30,000				
Total		22,767	(22,767)			

[1] The VJB had over accrued for an expense. The entity has accrued on a best estimate basis and the actual expense was much lower base on subsequent invoicing from the supplier.

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

5.4 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) SOCNE £	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]	224,177				See page 29
Expenditure			(224,177)			
Income	[2]	189,327				See page 29
Expenditure			(189,327)			
Total						
Misstatements identified in Prior year						
Provisions	[3]	224,177				See page 29
Expenditure			(224,177)			
Total		637,681	(637,681)			

[1] The entity has not accounted for a provision in dilapidations on one of their leases.

[2] The entity held income for the portal work which was removed due to the VJB only acting as a treasurer for the income.

[3] The entity had not accounted for a provision in dilapidations on of their leases in the prior year.

5.5 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 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 are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the 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 completeness of non-payroll expenditure and management override of controls as a key audit risk.

During the 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 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 concerns have been raised as a result of our audit work.

5.6 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 VJB and our objectivity is not compromised.

Fees The expected fee for 2022/23, as communicated by Audit Scotland in August 2023, which we note is different to the original audit plan due to Audit Scotland clarifying the treatment for less complex bodies. The agreed fee is analysed below:

	£
Auditor remuneration	22,120
Audit Scotland fixed charges:	
• Audit support costs	840
• Sectoral cap adjustment	(14,160)
Total expected fee	8,800

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard and the 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 VJB, its senior managers and affiliates, and have not supplied any services to other known connected parties.



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