



Central Scotland Valuation
Joint Board
Final Report to the Audit
Committee on the 2012/13
Audit



20 September 2013



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Appointed Members
Central Scotland Valuation Joint Board
Hillside House
Laurelhill
Stirling
FK7 9JQ
6 September 2013

Dear Sirs

We have pleasure in setting out in this document our final report to the Appointed Members of the Central Scotland Valuation Joint Board ("CSVJB") for the year ended 31 March 2013, for discussion at the meeting scheduled for 20 September 2013. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2013.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

Yours faithfully

Jim Boyle

Senior Statutory Auditor

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We would like to take this opportunity to thank the Valuation Board team for their assistance and co-operation during the course of our audit work

The big picture

The big picture

Anticipated unmodified opinion

- Our work is **substantially complete** and we remain on track to meet the agreed timetable.
- We expect to issue an **unmodified opinion**.
- Our **materiality was £24,600** (2012: £28,600).
- We have identified **no material issues** and have **no material adjustments**.
- Our work has highlighted **no material disclosure deficiencies**.
- We did not identify any instances of fraud that have not been reported to you. See Appendix 3 for details of procedures performed in relation to fraud.
- We have reviewed the Annual Governance Statement and noted that it complies with Internal Financial Control requirements.
- A copy of the representation letter to be signed on behalf of the Board has been included at Appendix 4 of this report.
- We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised. (See Appendix 2 for further detail).
- We have performed design and implementation testing over controls around our identified significant risks.

Significant audit risks and other matters

Valuation of Defined Benefit Pension Scheme

- The Valuation Board has a defined benefit pension scheme which is accounted for based on a series of actuarial assumptions.
- There is a risk that the assumptions used are not appropriate and therefore the valuation of the scheme (and the surplus/ deficit) is inaccurate.
- The scheme is administered by the Falkirk Council pension scheme, therefore actuarial assumptions are not made by the Valuation Board.

Deloitte view

- We have obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to the financial statements noting no issues. We have also assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- Our actuarial experts have reviewed and challenged, by comparison to benchmarks, the key assumptions and concluded that they fall within an acceptable range for the year ended 31 March 2013, albeit towards the prudent end of that range. See overleaf for our comments on the key assumptions.

	2013 £m	2012 £m
Present Value of Liabilities	(16,955)	(15,594)
Fair Value of Assets	12,419	11,029
Surplus / (Deficit)	(4,536)	(4,565)

Valuation of Defined Benefit Pension Scheme

Key assumptions

Assumption	2012/13	2011/12	Comments
Discount rate	4.5%	4.8%	Optimistic within reasonable range.
RPI Inflation rate	3.6%	3.3%	Prudent within reasonable range.
CPI Inflation rate and rate of increase of pensions	2.8%	2.5%	Prudent within reasonable range.
Rate of increase in pay	5.1%	4.8%	Prudent within reasonable range.
Current mortality rates	S1NXA		Reasonable
Mortality – future improvements	Medium cohort with a 1% p.a. underpin		Reasonable
Cash commutation	50% (75%) of maximum option for pre (post) April 2009 service		Reasonable
Expected return	4.5%	5.7%	Optimistic within reasonable range.
Overall			Prudent within reasonable range

Other Significant Risks

We have no significant findings in respect of the below risks

Revenue Recognition - Completeness of income

- We have reviewed the treatment of income in the year to consider whether it is line with IFRS guidance and the Code.
- We have obtained a copy of the 2012/13 budget approved in prior year board minutes detailing the requisitions due from the partner Councils and the Scottish Government which has been agreed to the amount recognised by CSVJB.
- We have also agreed the amounts received through the bank account with no issues noted.
- We are satisfied that revenue recognition is appropriate.

Management override of controls

- We have obtained an understanding of the design and implementation of the key controls in place in relation to the posting of journal entries. We have performed procedures on all journal entries of audit interest posted in the year and confirmed the appropriateness of the journals posted.
- In addition, we have also conducted a review of significant accounting estimates in order to assess the reasonableness of management's judgements in relation to these estimates.
- We have not noted any transactions that appear to be outwith the course of normal business.

Comments on *your Annual Report*

Comments on the front half of your Annual Report

The front half meets current regulatory requirements

We are required to read the “front half” of your annual report to consider consistency with the financial statements and identify any apparent misstatements. Here we summarise our observations on your response to these areas:

Statement of Assurance on the Systems of Internal Financial Control

Regulations require English, Welsh and Northern Irish authorities to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts. “Delivering Good Governance in Local Government” published by CIPFA and SOLACE recommends that the review be reported in an Annual Governance Statement. Scottish local authorities are not subject to such statutory requirements but may adopt them voluntarily. Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts.

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the code) issued by CIPFA and LASAAC based on IFRS.

The format and content of the statement is consistent with the requirements of the Code. No areas have been highlighted as requiring improvement, which is consistent with the findings of our audit.

We have reviewed the Annual Governance Statement and noted that it complies with Internal Financial Control requirements.

Comments on the front half of your Annual Report (Continued)

Remuneration report

The Board is required by an amendment to the 1985 Regulations to publish a remuneration report as part of their statement of accounts.

CSVJB has published a Remuneration Report as part of its statement of accounts, in accordance with the amendment regulations. The Remuneration Report provides details of the Valuation Joint Board's remuneration policy for its senior employees, being the Assessor, Depute Assessor, Convenor and Vice-Convenor.

We are satisfied that the remuneration report has been prepared in accordance with the regulations and is consistent with the findings of our audit.

Significant observations on your Financial Statements

Critical accounting judgements and key sources of estimation uncertainty

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the accounting policies and estimates are discussed below.

We have assessed the disclosures based upon our review of the accounts and understanding of the organisation and the specific risks we identified as part of our planning process. We have not identified any other critical accounting judgements or key sources of estimation uncertainty that require to be disclosed. We have performed work as follows against each of these areas:

Future Funding Uncertainty

Funding is agreed annually in advance. Deloitte have agreed funding as being secured for 2013/14 and that there are indicative budgets in place for future periods.

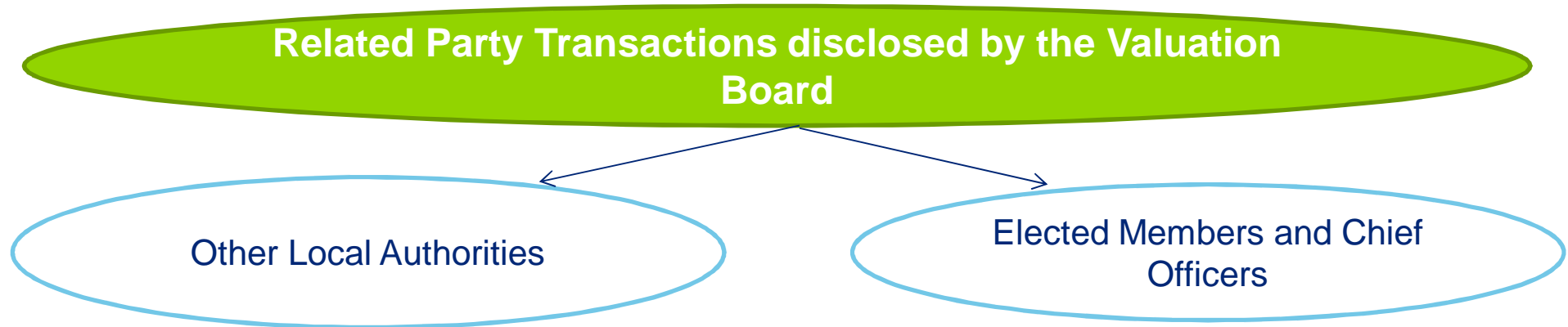
Pension Liability – impact of actuarial assumptions

See page 6 for testing performed. Deloitte pension specialists have agreed assumptions as reasonable.

Significant observations on your Financial Statements (Continued)

Related party disclosure

The Code requires reporting of related party relationships, transactions and balances. The Board is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Board.



Requisitions from other Local Authorities have been agreed to the 2012/13 budget and verified as paid through the bank account.

Payments to Elected Members and Chief Officers are shown in the Remuneration Report. These have been agreed to pay slips.

Financial performance

Financial performance and outlook

	2012/13 £'000	2011/12 £'000
(Surplus) or Cost of Services	(200)	37
Financing and Investment	<u>114</u>	<u>58</u>
(Surplus) or Deficit on Provision	(86)	95
Actuarial (gains)/losses on pension assets	<u>(142)</u>	<u>683</u>
Total Comprehensive Income	(228)	778

- The Joint Board spent £2.446m in the year 2012/13 and achieved a surplus on the provision of services for the financial year reported in the Comprehensive Income and Expenditure Account of £0.086m. The surplus is due to an underspend on employee costs due to ongoing restructuring and proactive vacancy management.
- The Board's General Reserves balance at 31 March 2013 was £3.916m (31 March 2012: £4.144m). The movement is driven by pension fund losses in the year of £0.142m and a deficit on the provision of services of £0.086m. Pension costs are paid as they are incurred from the Board's revenue expenditure on an ongoing basis.
- CSVJB have an approved Revenue budget for 2013/14 of £2,549k.

Risk management and internal control

Risk management and internal control observations

We have no significant findings to report to you

We did not identify any instances of fraud that have not been reported to you. See Appendix 3 for details of our procedures around fraud.

We have raised the following recommendations as a result of our audit procedures:

Issue	Recommendation	Management response
We noted £11k of capital expenditure of computer hardware that was incorrectly expensed in the year.	The Board should routinely review computer hardware expenditure to ensure that all items are appropriately capitalised in line with the Board's accounting policy.	The board have agreed to perform routine reviews of computer hardware expenditure.
We noted that the majority of computer assets are fully depreciated but deemed to still be in use.	The Board should perform a review of the fixed asset register and ensure that all items are still in use and that the useful life attributed to each class of assets is reasonable.	A full review has been agreed to be carried out in 13-14.

Responsibility statement

Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland, within the Code of Audit Practice, explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" previously circulated to you and sets out those audit matters of governance interest which have come to our attention during the course of our audit to date. Our audit is not designed to identify all matters that may be relevant to the board and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the appointed members 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.

Deloitte LLP

Chartered Accountants

Edinburgh

6 September 2013

Appendix 1: Audit adjustments and disclosure misstatements

Audit adjustments : Unadjusted misstatements detail

Uncorrected misstatements

There have been no uncorrected misstatements noted during the process of our audit work.

Corrected misstatements

There was one corrected misstatement for £11k which relates to the capitalisation of computer hardware. See Section 5 for more details.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

Appendix 2: Independence and fees

Independence and fees

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Fees	The audit fee for the year has been agreed at £7,250 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland.
Non-audit services	<p>In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services.</p> <p>There were no non audit services fees charged in relation to Deloitte in the period from 1 April 2012 to 31 March 2013.</p>
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>

Appendix 3: Fraud considerations

Fraud considerations

The following represents a note of the fraud enquiries made during the audit:



Appendix 4: Representation letter

Representation letter

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB
United Kingdom

Our Ref: JAB/LNR/2013
Dear Sirs

Date: 20 September 2013

This representation letter is provided in connection with your audit of the annual financial statements (“the financial statements”) of Central Scotland Valuation Joint Board for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Central Scotland Valuation Joint Board as at 31 March 2013 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom. We are aware that it is an offence to mislead a Partnership auditor.

As Responsible Financial Officer and on behalf of the Partnership, I confirm to the best of my knowledge and belief, the following representations.

Financial statements

1. I understand and have fulfilled my responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Representation letter (continued)

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 *“Related party disclosures”*.
5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.
7. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Board’s ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
8. We confirm that:
 - All retirement benefits and schemes, including UK, foreign, funded and unfunded, approved or unapproved, contractual or implicit have been identified and correctly accounted for;
 - All settlements and curtailments have been identified and correctly accounted for;
 - All events which relate to the determination of pension liabilities have been brought to the actuary’s attention;
 - The actuarial assumptions underlying the valuation of the scheme liabilities (including discount rate) accord with the directors’ best estimates of the future events that will affect the costs of retirement benefits and are consistent with our knowledge of the business;
 - The actuary’s calculations have been based on complete and up-to-date member data as far as appropriate regarding the adopted methodology; and
 - The amounts included in the financial statements derived from the work of the actuary are appropriate.
9. We confirm that we consider that depreciated historic cost is an appropriate proxy for the fair value of non-property assets, and are not aware of any circumstances that would indicate that these assets require revaluation.

Representation letter (continued)

Information provided

10. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

11. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

12. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects Central Scotland Valuation Joint Board and involves:

- (i) management;
- (ii) employees who have significant roles in internal control; or
- (iii) others where the fraud could have a material effect on the financial statements.

15. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

16. We are not aware of any actual or possible instances of non-compliance with laws and regulations.

17. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Representation letter (continued)

18. No claims in connection with litigation have been or are expected to be received.
19. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
20. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
21. I confirm that I have appropriately discharged my responsibility for the regularity of transactions.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed as Responsible Officer, and on behalf of the Board of Directors

Appendix 5: Additional resources available to you

How to keep you up to date: Financial Reporting

IAS Plus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the internet about international financial reporting for accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to <http://www.iasplus.com/subscribe.htm>

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