

# Central Scotland Valuation Joint Board

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Central Scotland Valuation Joint Board and the Controller of Audit  
September 2019

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2018/19 annual report and financial statements

- 1** The financial statements of Central Scotland Valuation Joint Board give a true and fair view and were properly prepared.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

## Financial sustainability and annual governance statement

- 3** The board operated within its revenue budget for 2018/19.
- 4** The board faces a challenging financial position and is forecasting a likely funding gap of £0.6 million by 2021/22. Supported by its constituent local authorities the board needs to continue to identify ways to achieve savings and deliver services more efficiently to bridge this gap.
- 5** The information in the annual governance statement is consistent with the financial statements and complies with guidance.

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# Introduction

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1. This report summarises the findings arising from the 2018/19 audit of Central Scotland Valuation Joint Board (the board).
2. The scope of the audit was set out in our 2018/19 annual audit plan presented to the February 2019 meeting of the board. This report comprises the findings from:
  - an audit of the board's annual report and financial statements
  - our consideration of the board's financial sustainability.

## Adding value through the audit

3. We add value to the board through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
  - reporting our findings and conclusions in public
  - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
  - providing clear conclusions on financial sustainability.
4. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

5. The board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing the annual report and financial statements that are in accordance with proper accounting practices.
6. The board is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
7. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance and International Standards on Auditing in the UK.
8. As public-sector auditors we give independent opinions on the annual report and financial statements and conclude on securing financial sustainability and appropriateness of the governance statement disclosures.
9. The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As highlighted in our 2018/19 annual audit plan, due to the board's activities and straightforward nature

of its financial transactions, we applied the small body provisions of the Code to the 2018/19 audit.

**10.** The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist.

Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**11.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

**12.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £7,280 as set out in our annual audit plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** This report is addressed to both the board and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**14.** We would like to thank the management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual report and financial statements



### Main judgements

**The financial statements of Central Scotland Valuation Joint Board give a true and fair view and were properly prepared.**

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

The annual report and financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

### Audit opinions on the annual report and financial statements

**15.** The annual report and financial statements for the year ended 31 March 2019 were approved by the board on 27 September 2019. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

**16.** We have nothing to report in respect of misstatements in the information accompanying the financial statements, the adequacy of accounting records and the information and explanations we received.

### Submission of annual report and financial statements for audit

**17.** We received the unaudited annual report and financial statements on 28 June 2019 in line with our agreed audit timetable.

**18.** The unaudited annual report and financial statements and working papers provided for audit were complete and of a good standard. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Risks of material misstatement

**19.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and financial statements and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**20.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

## Materiality

**21.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material, we consider both the amount and nature of the misstatement.

**22.** Our initial assessment of materiality for the annual report and financial statements was carried out during the planning phase of the audit and is summarised in [Exhibit 1](#). With regards to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.

**23.** On receipt of the unaudited annual report and financial statements we reviewed our materiality calculations and concluded that they remained appropriate.

## Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£29,000
Performance materiality	£22,000
Reporting threshold	£5,000

Source: Audit Scotland

## Significant findings from the audit (ISA 260)

**24.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in [Exhibit 2](#).

## Exhibit 2 Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. Valuation of pension assets</b></p> <p>The board accounts for its share of the assets and liabilities of Falkirk Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS 19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS 19 reports using estimated data for the final part of the year.</p> <p>The Supreme Court ruled in late June 2019 that the UK Government had no grounds to appeal the McCloud</p>	<p>The board obtained an updated IAS19 report from the actuary which makes an approximate allowance for the implications of the McCloud judgement. The report also includes an allowance for the impact of Guaranteed Minimum Pension (GMP) equalisation charges as well as updated figures for asset returns.</p> <p>The board has adjusted the annual accounts to reflect its share of pension fund assets and</p>



Finding	Resolution
<p>judgement, regarding unlawful age-related discrimination in transitional provisions in public sector pension schemes. This means there may be a requirement to compensate pension scheme members for any discrimination arising from transitional protections. The actuarial report used to prepare the board's unaudited annual accounts did not reflect the implications of the McCloud judgement due to the timing of the judgement.</p>	<p>liabilities based on the updated report. This increased the board's pensions liability by £239,000 and reduced its pensions reserve by the same amount. Local government accounting means this adjustment does not affect the board's outturn for the year or its general fund balance.</p> <p>We are content with the process the board has gone through and the changes it made to the accounts.</p>

Source: Audit Scotland

## How we evaluate misstatements

**25.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

**26.** There was one material adjustment to the unaudited financial statements arising from our audit. This relates to the valuation of the pension liability as described in [Exhibit 2](#) above. We did not identify any errors below our materiality level, but which exceeded our reporting threshold.

## Follow up of prior year recommendations

**27.** The board has made some progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

## Objections

**28.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The board's original notice did not comply with the regulations. We alerted officers of this and the notice was amended to be compliant. There were no objections to the 2018/19 accounts.

# Part 2

## Financial sustainability and annual governance statement



### Main judgements

The board operated within its revenue budget for 2018/19.

The board faces a challenging financial position and is forecasting a likely funding gap of £0.6 million by 2021/22. Supported by its constituent local authorities the board needs to continue to identify ways to achieve savings and deliver services more efficiently to bridge this gap.

The information in the annual governance statement is consistent with the financial statements and complies with guidance.

Financial sustainability looks forward to the medium and longer term to consider whether the board is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Financial performance in 2018/19

**29.** The board is mainly funded by the contributions from the local authorities within which it operates: Falkirk Council (£1.215 million), Stirling Council (£0.869 million) and Clackmannanshire Council (£0.381 million). Other funding sources include income from fees and charges.

**30.** The board approved its 2018/19 budget in February 2018. Total budgeted expenditure and income was set at £2.673 million and £0.09 million respectively. This resulted in a budget gap of £0.119 million which the board agreed to meet using reserves.

**31.** Actual outturn for the year was an underspend of £0.049 million. This differs to the deficit of £0.562 million reported in the financial statements due to the impact of statutory accounting adjustments such as pension benefits.

### Medium to long term financial planning

**32.** The board prepares its budget on an annual basis. Officers prepare a three-year service plan and forecasts of the board's funding position. These forecasts are based on assumptions for variables such as Cabinet Office funding, inflation and pay awards.

**33.** The board approved its 2019/20 budget in February 2019 with proposed total expenditure of £2.748 million. Contributions from member authorities are budgeted at £2.547 million. This is higher than previous years as a result of additional funding for the implementation of the Barclay review into tax rates for non-domestic properties. This results in a funding gap of £0.201 million which will be funded from reserves.

**34.** The board faces a challenging financial position. Future pressures include uncertainty over the timing and duration of Cabinet Office funding, pay inflation and a move from five to three yearly valuations under the Barclay review. The board

also recognises that it will come under increasing pressure to reduce the level of contributions required from its constituent authorities. The board forecasts it will have a funding gap of £0.6 million by 2021/22.



### Recommendation 1

**The board should work with its constituent authorities to continue to develop savings plans to address its challenging financial position.**

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## Annual governance statement

**35.** Our review of the annual governance statement assessed the assurances provided to the assessor as accountable officer regarding the adequacy and effectiveness of the board's system of internal control which operated in the financial year. Based on our work performed, we concluded that the annual governance statement is consistent with the financial statements and complies with guidance.

**36.** We reported last year that some of the board's policies require to be updated. The board accepted our recommendation to review and update its policies and procedures. It is in the process of presenting these for approval at board meetings. The standing orders relating to meetings were presented to the board in June 2019. Officers reviewed the employee code of conduct during 2018/19 and confirmed that no changes were required. The remaining policies are expected to be considered by the board throughout the rest of the year.



### Recommendation 2

**The board should present its updated policies and procedures to the board for approval and implementation.**

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## EU Withdrawal

**37.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**38.** The board's management team has considered the potential impact and risks of EU withdrawal and assessed these as low. The assessor has considered that none of the current staff are EU nationals, and the board does not directly import or export from the EU. Officers have identified that the greatest risk is from a potential increase in material change of circumstances appeals for business rates. Officers are monitoring and managing this risk and other risks as they become known.

## Dependency on key suppliers

**39.** The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

**40.** Dependency on key suppliers is not a significant risk for the board. Most of the board's suppliers operate within the UK and there are other suppliers offering an equivalent service.

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Financial sustainability</b></p> <p>The board faces a challenging financial position. Future pressures include uncertainty over the timing and duration of Cabinet Office funding, pay inflation and a move from five to three yearly revaluations. The board also recognises it will come under increasing pressure to reduce the level of contributions required from its constituent authorities. The board forecasts it will have a funding gap of £0.6 million by 2021/22.</p> <p><b>Risk</b></p> <p>The board is unable to provide the services required of it.</p>	<p>The board should work with its constituent authorities to continue to develop savings plans to address its challenging financial position.</p> <p><a href="#">Paragraph 34</a></p>	<p>The Assessor and the Treasurer will continue to work to review the budget and ensure that efficiencies are identified and cost pressures mitigated where possible. Support will also be sought from constituent authorities to achieve this.</p> <p>Responsible officer: Assessor and Treasurer</p> <p>Agreed date: Ongoing</p>
2	<p><b>Governance policies and procedures</b></p> <p>We reported last year that some of the board's policies require to be updated. The board accepted our recommendation to review and update its policies and procedures. It is in the process of presenting these for approval at board meetings. The standing orders relating to meetings were presented to the board in June 2019. The remaining policies are expected to be considered by the board throughout the rest of the year.</p> <p><b>Risk</b></p> <p>Policies are out of date and do not reflect the board's current arrangements.</p>	<p>The board should present its updated policies and procedures to the board for approval and implementation.</p> <p><a href="#">Paragraph 36</a></p>	<p>During 2018/19 the board reviewed its Standing Orders and Employee Code of Conduct. The revised Standing Orders were approved by the board in June 2019 and there were no changes required for the Employee code of conduct.</p> <p>Work is progressing on the Financial Regulations and these will come forward for approval during 2019/20.</p> <p>Responsible officer: Treasurer</p> <p>Agreed date: March 2020</p>

### Follow up of prior year recommendations



No.	Issue/risk	Recommendation	Agreed management action/timing
<b>b/f 1</b>	<p><b>Financial sustainability</b></p> <p>The board faces a challenging financial position. Future pressures include uncertainty over the timing and duration of Cabinet Office funding, pay inflation and a move from five to three yearly revaluations. The board also recognises it will come under increasing pressure to reduce the level of contributions required from its constituent authorities. The board forecasts it will have a funding gap of £0.446 million by 2020/21.</p> <p><b>Risk</b></p> <p>The board is unable to provide the services required of it.</p>	<p>The board should work to develop savings plans to address its substantial funding gap.</p>	<p>The board operated within its revenue budget for 2018/19. It is forecasting a likely funding gap of £0.6 million by 2021/22 and will need to make further efficiencies to bridge this gap.</p> <p>See <a href="#">Action Plan</a>, point 1.</p>
<b>b/f 2</b>	<p><b>Governance policies and procedures</b></p> <p>We reported last year that some of the board's policies require to be updated including:</p> <ul style="list-style-type: none"> <li>• scheme of delegation</li> <li>• contract standing orders</li> <li>• financial regulations and financial codes</li> <li>• employee code of conduct.</li> </ul> <p>The board accepted our recommendation to review and update its policies and procedures but has not yet done this.</p>	<p>The board should review and update its policies and procedures to reflect its current arrangements.</p>	<p>The board has started work on updating its policies and procedures. Officers reviewed the employee code of conduct during 2018/19 and confirmed that no changes were required. The standing orders relating to meetings were presented to the June 2019 meeting and it is anticipated that the remaining updated policies will be considered during 2019/20.</p> <p>See <a href="#">Action Plan</a>, point 2.</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and financial statements and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We tested journal entries, accruals and prepayments. We reviewed accounting estimates and found no material errors or transactions outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>The board receives a significant amount of income from fees and charges. This means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>Our analytical procedures and substantive testing found no instances of fraud over income.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p>	<p>Focused substantive testing on higher risk areas.</p>	<p>Our analytical procedures and substantive testing found no instances of fraud over expenditure.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>4 Financial sustainability and financial management</b></p> <p>The board faces a challenging financial position. Future pressures include uncertainty over the timing and duration of Cabinet Office funding, pay inflation and a move from five to three yearly revaluations. The board also recognises it</p>	<p>Review financial monitoring reports and the financial position.</p> <p>Focused cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.</p>	<p>The board operated within its revenue budget for 2018/19. It is forecasting a likely funding gap of £0.6 million by 2021/22 and will need to make further efficiencies to bridge this gap. See <a href="#">Action Plan</a>, point 1.</p> <p>We did not identify any errors from our cut-off testing.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>will come under increasing pressure to reduce the level of contributions required from its constituent authorities. The board forecasts it will have a funding gap of £0.446 million by 2020/21.</p> <p>There is a risk that funding pressures affect the board's ability to deliver services.</p>	<p>Review budget monitoring and medium-term financial plans.</p>	
<p><b>5 Governance policies and procedures</b></p> <p>We reported in our 2017/18 Annual Audit Report that some of the board's policies require to be updated including:</p> <ul style="list-style-type: none"> <li>• Scheme of delegation</li> <li>• Contract standing orders</li> <li>• Financial regulations and financial codes</li> <li>• Employee code of conduct.</li> </ul> <p>There is a risk that the policies are out of date and do not reflect the board's current arrangements.</p>	<p>Review of policies and procedure considering their appropriateness and relevance to the board.</p> <p>Assess whether policies and procedures are up to date</p>	<p>This has been considered in the follow up of prior year recommendations.</p> <p>See <a href="#">Appendix 1</a>, brought forward point 2.</p>



# Appendix 3

## Summary of national performance reports 2018/19

### 2018/19 Reports

Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

# Central Scotland Valuation Joint Board

## 2018/19 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)