

# Dunbartonshire and Argyll & Bute Valuation Joint Board

2019/20 Annual Audit Report



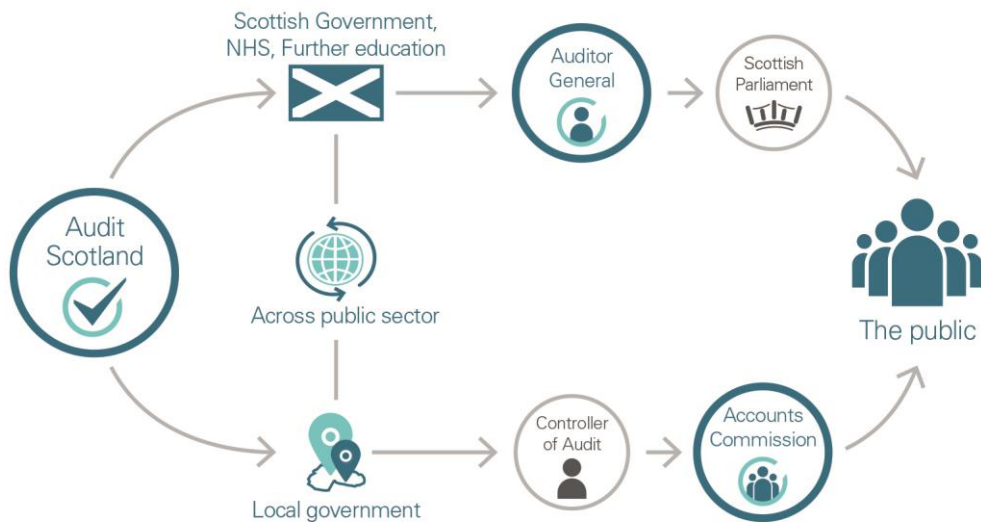
Prepared for the Dunbartonshire and Argyll & Bute Valuation Joint Board and the Controller of Audit

16 September 2020

## 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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## 2019/20 annual report and accounts

- 1** The financial statements of Dunbartonshire and Argyll & Bute Valuation Joint Board give a true and fair view of its financial position for the year ended 31 March 2020.
- 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.
- 3** Despite the impact of Covid-19, the annual accounts were produced and audited in line with the original timetable.

## Financial management and sustainability, and Governance

- 4** Appropriate budget monitoring and reporting arrangements are in place and an operating surplus of £0.194 million was reported for the year ended 31 March 2020.
- 5** The Joint Board approved the 2020/21 budget prior to the full impact of Covid-19 outbreak being known and this will require to be revisited throughout the year as more information on the full cost implications, and any additional funding, becomes available.
- 6** Covid-19 is likely to have a significant impact on the future financial plans of the Joint Board and the Long Term Financial Strategy will require to be revisited once there is sufficient certainty around the extent of the longer-term financial impact.
- 7** Joint Board meetings have been poorly attended during the year. The constituent councils should remind representatives of their responsibilities as a member of the Joint Board to ensure that an adequate number of members are in attendance at future meetings.

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# Introduction

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1. This report summarises the findings from our 2019/20 audit of the Dunbartonshire and Argyll & Bute Valuation Joint Board (DABVJB).

2. We aim to add value to the DABVJB 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, and
- providing clear and focussed conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Scope of our audit

3. The scope of our audit was set out in our [Annual Audit Plan](#) presented to the meeting of the Joint Board on 6 March 2020. This report comprises the findings from:

- the audit of the DABVJB annual accounts, including the issue of an independent auditor's report setting out our opinions, and
- our consideration of the financial management and financial sustainability of the DABVJB.

## Ethical considerations

4. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £7,450 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

## Impact of Covid-19

5. Subsequent to the publication of our 2019/20 Annual Audit Plan, in common with all public bodies, DABVJB has had to respond to the Covid-19 pandemic. This impacted on the final month of 2019/20 and continues to have a significant impact into 2020/21. This has had major implications for the operation of the organisation. Our planned audit work has been adapted for the new emerging risks that relate to the audit of the financial statements and the wider dimensions of audit.

## Responsibilities and reporting

6. The DABVJB has responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

7. The DABVJB 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.

**8.** 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.

**9.** As public-sector auditors we give independent opinions on the annual accounts. The [Code of Audit Practice 2016](#) 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 management and sustainability of the body and its services. As highlighted in our 2019/20 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2019/20 audit of DABVJB.

**10.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

**11.** 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.

**12.** An agreed action plan is included at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation.

**13.** This report is addressed to both the Joint 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)

## **Acknowledgement**

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

# Part 1

## Audit of 2019/20 annual accounts



### Main judgements

The financial statements of Dunbartonshire and Argyll & Bute Valuation Joint Board give a true and fair view of its financial position for the year ended 31 March 2020.

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.

Despite the impact of Covid-19, the annual accounts were produced and audited in line with the original timetable.

### Our audit opinions on the annual accounts are unmodified

15. The annual accounts for the year ended 31 March 2020 were approved by the Joint Board on 16 September 2020. We reported, within our independent auditor's report our opinion that:

- the financial statements give a true and fair view and were properly prepared, and
- 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.

### Despite the impact of Covid-19, the annual accounts were produced and audited in line with the original timetable

16. We received the unaudited annual accounts on 19 June 2020 in line with the original timetable. The annual accounts submitted for audit were complete and finance staff provided good support to the audit team which helped ensure the final accounts process ran smoothly, despite the impact of Covid-19.

### Our audit testing reflected the calculated materiality levels

17. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law). In forming our opinion on the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

18. Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit and was based on the gross expenditure reported in the 2018/19 audited annual accounts. These levels were reported in our [Annual Audit Plan](#) presented to the Joint Board 6 March 2020.

**Dunbartonshire and Argyll & Bute Valuation Joint Board's annual accounts are the principal means by which it accounts for the stewardship of resources to external stakeholders.**

19. On receipt of the unaudited annual accounts we recalculated our materiality levels based on the actual gross expenditure for the year ended 31 March 2020. Our final materiality levels are summarised in [Exhibit 1](#).

## Exhibit 1

### Materiality values

Materiality level	Amount
<b>Overall materiality:</b> This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2020.	£47,800
<b>Performance materiality:</b> This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of overall materiality.	£35,800
<b>Reporting threshold:</b> We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 4% of overall materiality (rounded down to the nearest hundred).	£1,900

Source: Audit Scotland

### Our audit identified and addressed the risks of material misstatement

20. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts. These risks influenced our overall audit strategy and the allocation of staff resources to the audit, and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

### We reported the significant findings from the audit to those charged with governance

21. 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, including accounting policies, accounting estimates and financial statements disclosures.

22. The significant findings are summarised in [Exhibit 2](#). Our audit also identified some minor presentational and disclosure issues which were discussed with management. These were all adjusted and reflected in the audited accounts and none were significant enough to require to be separately reported under ISA 260.



## Exhibit 2

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

Finding	Resolution
<p><b>1. Revised pension liability</b></p> <p>In August 2020, member bodies of Strathclyde Pension Fund were advised that following a government announcement on a key pension case, the McCloud case, there was a potential material impact on the liability previously provided by the actuary for the 2019/20 annual accounts.</p> <p>We requested that the Joint Board obtain a revised actuarial report to ensure that the pension liability included in the audited annual accounts reflected the most accurate estimate based on the current information available.</p>	<p>The actuary provided revised figures, and these have been reflected in the audited annual accounts. This adjustment resulted in the net pension liability figure in the balance sheet, and the deficit on provision of services figure in the comprehensive income and expenditure account, both decreasing by £0.171 million.</p>

Source: Audit Scotland

### We have no unadjusted errors to report

**23.** The revised pension liability, [Exhibit 2](#), was the only misstatement which exceeded our reporting threshold of £1,900. It is our responsibility to request that all misstatements above the reporting threshold are corrected and management has amended this in the audited financial statements.

### Our prior year recommendations have been satisfactorily progressed during 2019/20

**24.** Dunbartonshire and Argyll & Bute Valuation Joint Board have made good progress in implementing our prior year audit recommendations during 2019/20.

### Good Practice – Inclusion of comparative performance data in management commentary

In response to a recommendation in our 2018/19 Annual Audit Report, DABVJB has included comparison of its performance for key performance indicators against Scotland-wide performance in the management commentary for the first time. This will assist readers of the accounts in assessing DABVJB's performance during the year and demonstrates that it continues to perform well against the majority of KPIs. Management has advised that they will look to include further comparative data for KPIs in future years.

# Part 2

## Financial management and sustainability, and Governance



### Main judgements

Appropriate budget monitoring and reporting arrangements are in place and an operating surplus of £0.194 million was reported for the year ended 31 March 2020.

The Joint Board approved the 2020/21 budget prior to the full impact of Covid-19 outbreak being known and this will require to be revisited throughout the year as more information on the full cost implications, and any additional funding, becomes available.

Covid-19 is likely to have a significant impact on the future financial plans of the Joint Board and the Long Term Financial Strategy will require to be revisited once there is sufficient certainty around the extent of the longer-term financial impact.

Joint Board meetings have been poorly attended during the year. The constituent councils should remind representatives of their responsibilities as a member of the Joint Board to ensure that an adequate number of members are in attendance at future meetings.

### Appropriate budget monitoring and reporting arrangements are in place

25. Budgets are approved by the Joint Board and budget monitoring updates are provided to each meeting. The budget monitoring updates provide sufficient detail on variances against budget and forecast year-end positions. This allows members and officers to scrutinise the financial performance of the DABVJB and to consider actions to mitigate projected over-spends.

### An operating surplus of £0.194 million was reported for the year ended 31 March 2020

26. In March 2019 the Joint Board approved its budget for 2019/20. This included expenditure of £2.898 million and income of £2.736 million, comprising funding contributions of £2.611 million from the constituent councils and anticipated Scottish Government funding of £0.125 million to implement the recommendations of the Barclay Review, paragraph 33. This resulted in a forecast funding gap of £0.162 million to be met from a transfer from usable reserves.

27. During the course of the year a number of minor budget revision were made resulting in a final budget for the year of £2.943 million. Actual outturn for the year was expenditure of £2.791 million (£0.152 million less than budget) and income of £2.823 million (£0.042 million more than budgeted). This resulted in an operating surplus of £0.194 million for the year and no transfer from reserves was required during the year. The main elements contributing to this underspend were lower than anticipated employee costs (£0.086 million) and supplies and services expenditure (£0.039 million) and additional grant income received during the year (£0.037 million).

**Financial management is about financial capacity and sound budgetary processes.**

**28.** It should be noted that the operating surplus of £0.194 million reported in the management commentary differs from the deficit on provision of services figure of £0.295 million reported in the Comprehensive Income and Expenditure Statement (CIES) due to the statutory accounting adjustments required for items such as pension benefits and depreciation. A reconciliation has been included in the 'Financial Performance' section of the management commentary in the annual accounts showing the impact of these adjustments.

**The Joint Board approved the 2020/21 budget prior to the full impact of Covid-19 being known and this will require to be revisited throughout the year as more information on the full cost implications, and any additional funding, becomes available**

**29.** In March 2020 the Joint Board approved the budget for 2020/21. This included anticipated expenditure of £2.965 million and income of £2.804 million, comprising funding contributions of £2.611 million from the constituent councils and anticipated Scottish Government funding of £0.193 million to assist in implementing the recommendations of the Barclay Review, see paragraph [33](#). This resulted in a forecast funding gap of £0.153 million to be met from a transfer from usable reserves.

**30.** The budget was developed prior to the Covid-19 outbreak in the UK and will therefore require to be revisited throughout the year as more information on the full cost implications, and any additional funding, becomes available.

**Covid-19 is likely to have a significant impact on the future financial plans of the Joint Board and the Long Term Financial Strategy will require to be revisited once there is sufficient certainty around the extent of the longer-term financial impact**

**31.** In March 2020, the Joint Board approved its Long Term Financial Strategy. This set out anticipated income and expenditure for each of the next three years (i.e. 20/21-2022/23) based on assumptions around factors such as pay inflation and future funding contributions. The strategy also used scenario planning to project potential future budget gaps based on the likely, worst case and best case scenarios, [Exhibit 3](#). The plan also included indicative budget gaps for each year to 2029/30.

**32.** As with the 2020/21 budget, paragraphs [29](#) and [30](#), the Long Term Financial Strategy was developed prior to the Covid-19 outbreak in the UK. This will therefore require to be revisited once there is sufficient certainty around the extent of the longer-term financial impact on the organisation.



[Recommendation 1 \(Appendix 1 - Action Plan\)](#)

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

**Exhibit 3  
Scenario planning to project potential future budget gaps**

Indicative budget gap	2021/22	2022/23	2023/24
	£m	£m	£m
Best case scenario	0.153	0.207	0.267
Likely scenario	0.153	0.255	0.326
Worst case scenario	0.156	0.313	0.392

Source: Dunbartonshire and Argyll & Bute Long Term Financial Strategy

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### Good Practice – Workforce Plan

During 2019/20 DABVJB developed its first strategic Workforce Plan. This was developed to assist in the delivery of the strategic objectives of the organisation by ensuring the provision of:

- the right number of employees;
- with the right skill sets;
- in the right location;
- at the right time; and,
- at the right cost.

The development of the workforce plan strengthens DABVJB's financial and succession planning arrangements.

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### The Scottish Government are providing additional funding for costs associated with the implementation of the Non-Domestic Rates (Scotland) Bill but this is unlikely to cover all of the additional costs incurred by DABVJB

33. As reported in 2018/19, the Non-Domestic Rates (Scotland) Act 2020, resulting from the Barclay review, will have far reaching implications on DABVJB. The Act received Royal Assent in March 2020 and it is expected that it will be fully implemented from April 2021. This will significantly increase the statutory workload of DABVJB. The Scottish Government has indicated that funding will be made available to fund the increased costs associated with the implementation of the Act but this is unlikely to cover all of the additional costs incurred by DABVJB.

### Joint Board meetings have been poorly attended during the year

34. The Joint Board is made up of sixteen members representing the three constituent councils: five from Argyll and Bute Council (including the Convenor), six from East Dunbartonshire Council (including the Vice Convenor) and five from West Dunbartonshire Council.

35. The Joint Board meeting in March 2020 was poorly attended and was in danger of not being quorate as none of the five members, or four substitutes, from West Dunbartonshire Council were in attendance for the first portion of the meeting. The standing orders require at least one member from each member authority to be in attendance at each meeting.

36. Similarly, the June Joint Board meeting, held remotely via Microsoft Teams, was also poorly attended. The constituent councils should remind representatives of their responsibilities as a member of the Joint Board to ensure that an adequate number of members are in attendance at future meetings.

[Recommendation 2 \(Appendix 1 - Action Plan\)](#)

### The Covid-19 pandemic has impacted on the governance arrangements and working practices of DABVJB since March 2020. We have concluded that the revised arrangements put in place were appropriate in the circumstances.

37. The Covid-19 pandemic has impacted on the governance and working practices of DABVJB since March 2020. These included new working processes for statutory functions and Joint Board meetings being held virtually via Microsoft Teams. DABVJB has also created of a Covid-19 risk register to manage the risks associated with the outbreak.

38. We have concluded that the arrangements put in place were appropriate in the circumstances.

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**Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making.**

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## **National performance audit reports**

**39.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20 we published reports which may be of interest to the Joint Board. These are listed in Appendix 3.

# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Impact of Covid-19 on future financial plans</b></p> <p>The Long Term Financial Strategy was developed prior to the Covid-19 outbreak in the UK.</p> <p><i><b>Risk: There is a risk that the future financial plans are significantly impacted by Covid-19.</b></i></p>	<p>This Long Term Financial Strategy should be revisited once there is sufficient certainty around the extent of the longer-term financial impact on the organisation.</p> <p><a href="#">Paragraphs 31 and 32</a></p>	<p>The Treasurer, in liaison with the Assessor &amp; ERO, will bring forward a revised Financial Strategy for Joint Board approval in February/March 2021</p> <p><b>Responsible officer:</b> Treasurer</p> <p><b>Agreed date:</b> Feb/March 2021</p>
2	<p><b>Member attendance at Joint Board meetings</b></p> <p>Joint Board meetings have been poorly attended during the year.</p> <p><i><b>Risk: There is a risk that this impacts on the effectiveness of scrutiny and governance arrangements, and that business critical decisions are not be approved due to meetings not being quorate.</b></i></p>	<p>The constituent councils should remind representatives of their responsibilities as a member of the Joint Board to ensure that an adequate number of members are in attendance at future meetings.</p> <p><a href="#">Paragraphs 34-36</a></p>	<p>A letter to this effect will be issued by the Clerk to the Joint Board to the constituent Councils.</p> <p><b>Responsible officer:</b> Clerk to the Joint Board.</p> <p><b>Agreed date:</b> September 2020</p> <p>Consultation on the possibility of conducting some meetings remotely to take place with members with a view to a paper coming to a future Board meeting</p> <p><b>Responsible officer:</b> Assessor &amp; ERO</p> <p><b>Agreed date:</b> February/March 2021</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.

<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 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>	<ul style="list-style-type: none"> <li>- Detailed testing of journal entries</li> <li>- Review of accounting estimates</li> <li>- Focused testing of accruals and prepayments</li> </ul> <p>Evaluation of significant transactions that are outside the normal course of business</p>	<p>Our audit procedures did not uncover evidence of management override of controls.</p>
<p><b>2 Fraud over expenditure</b></p> <p>The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure.</p> <p>There is an inherent risk that expenditure may be misstated resulting in a material misstatement within the financial statements.</p>	<ul style="list-style-type: none"> <li>- Analytical procedures on expenditure streams.</li> <li>- Detailed testing of expenditure transactions, focusing on the highest risk areas.</li> </ul>	<p>Our audit procedures did not uncover evidence of fraud over expenditure.</p>
<p><b>3 Estimations and Judgements</b></p> <p>There is a significant degree of estimation and judgement in the measurement and valuation of the Joint Board's pension liability which is an estimate based on information provided by management and actuarial assumptions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>- Review of the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used.</li> <li>- Review of Joint Board's procedures for ensuring actuarial valuations provided are appropriate and include assumptions relating to relevant legal rulings.</li> <li>- Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts.</li> </ul>	<p>We reviewed the work of the actuary and assessed the appropriateness of the actuarial assumptions.</p> <p>We confirmed that the pension valuations provided by the actuary were correctly reflected in the 2019/20 financial statements. However, a late revision to the pension valuations was required in respect of a government announcement on a key pension case that impacted upon the pension liability of DABVJB. This is reported in <a href="#">Exhibit 2</a>.</p>

# Appendix 3

## Summary of national performance reports 2019/20



**2019/20  
Reports**

		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up



# Dunbartonshire and Argyll & Bute Valuation Joint Board

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