

Central Scotland Valuation Joint Board

Final Report to the Members and the Controller of Audit on the 2013/14 Audit



26 September 2014

Appointed Members
Central Scotland Valuation Joint Board
Hillside House
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FK7 9JQ

Controller of Audit
Audit Scotland
110 George Street
Edinburgh
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11 September 2014

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 2014, for discussion at the meeting scheduled for 26 September 2014. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2014.

In summary:

- The key areas of audit focus, which are summarised in the Big Picture, 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 team from Clackmannanshire Council for their assistance and co-operation during the course of our audit work



1. The big picture

We anticipate issuing an unmodified audit opinion

An overview of our audit plan:

- Materiality: £25,850 (2012/13: £24,600).
- Threshold for reporting misstatements: £1,293 (2012/13: £1,229).
- International Standards on Auditing require us to identify and assess the risk of material misstatement and to identify areas of risk that will require focussed consideration. The following are identified significant risks: revenue recognition, management override of controls and pension scheme valuation.
- **Fully substantive audit** - We have not placed any reliance on internal controls and our audit work was fully substantive. We assessed the design and implementation of controls as part of our planning procedures, to assess the sufficiency of the control environment governing the production of financial information.
- We were informed by the work of the internal auditors in relation to key financial controls to shape our audit procedures and approach.

Audit work

- No material audit adjustments or disclosure deficiencies identified. We have not identified any significant deficiencies in internal control.
- We have ensured that recommendations for improvement in the prior year have been satisfactorily addressed by management in the current year. Any additional recommendations for improvement identified in the current year have been documented in Appendix 4.
- We did not identify any instances of actual, alleged or suspected fraud.
- A copy of the representation letter to be signed on behalf of the Board has been circulated separately.

Annual report

- We believe the Explanatory Foreword by the Treasurer and the Remuneration Report are consistent with the financial statements and are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the Code).

Our work is substantially complete and we remain on timetable to issue an unmodified audit opinion.

We have the following principal matters to complete:

- Receipt and review of final financial statements
- Our review of events since 31 March 2014
- Approval of financial statements and receipt of signed representation letter from the Board

We will report to you in writing in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.

2. Introduction

Scope, nature and extent of audit

Our overall responsibility as external auditor of the Board is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements;
- Providing the annual report on the audit to those charged with governance;
- Providing reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in NFI); and
- Submit fraud returns, including nil returns, to Audit Scotland where appropriate.

This annual report forms the basis of our reporting to those charge with governance for CSVJB during 2013/14.

In addition, we have submitted a nil fraud return to Audit Scotland on 31 May 2014.

3. Significant audit risks

Valuation of defined benefit pension scheme

Nature of risk	Assumption	Valuation Board	Deloitte benchmark
<p>The Valuation Board has a defined benefit pension scheme which is accounted for based on a series of actuarial assumptions, and subsequently has a £5.1m pension liability on its balance sheet.. The scheme is administered by the Falkirk Council pension scheme, therefore actuarial assumptions are not made by the Valuation Board.</p> <p>There is a risk that the assumptions used are not appropriate and therefore the valuation of the scheme (and the surplus/ deficit) is inaccurate.</p>	Discount rate	4.1%	4.3%
	Rate of increase in pay	4.9%	Entity specific
	CPI Inflation rate and rate of increase of pensions	2.6%	2.3%

Audit work performed to address the significant risk

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 2014, albeit towards the prudent end of that range. See the table for our comparison of actuarial assumptions.

Deloitte view

We note that the actuarial assumptions lie towards the prudent end of an acceptable range.

3. Significant audit risks (continued)

We have no significant findings in respect of the below risks

Revenue Recognition - Completeness of income

Under ISA (UK and Ireland) 240 'The auditor's responsibility to consider fraud in an audit of financial statements' there is a rebuttable presumption that there is a risk of fraud in relation to revenue recognition. For the Board we have considered this risk to be around the completeness of requisitions from the constituent authorities and the Scottish Government given the significance of these to the organisation.

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 2013/14 budget approved by the Board detailing the requisitions due from the partner Councils and the Scottish Government which has been agreed to the amount recognised by the Board. We have also agreed the amounts received through the bank account.

We have confirmed that the income recognised by the Board is in accordance with the agreed budget and has been correctly recognised in the financial statements.

Management Override of Controls

We are obliged under ISA 240 to consider and report explicitly on management override as an audit risk on all audits.

Management within Clackmannanshire Council, acting on behalf of the Board, is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities. This risk cannot be pinpointed to an account balance or potential error and therefore specific procedures to respond to the risk of management override of controls should be designed and performed.

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.

4. Your annual report – our review and insights

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 any apparent misstatements. Here we summarise our observations on your response to these areas:

Statement on the System of Internal Financial Control

“Delivering Good Governance in Local Government” published by CIPFA and SOLACE recommends that the review of the effectiveness of the system of internal control 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.

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

Remuneration Report

Local authorities are required by the 1985 Regulations (as amended in 2011) 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.

4. Your annual report – our review and insights (continued)

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:

Pension liability – actuarial assumptions

Falkirk Pension Scheme make a series of actuarial assumptions in relation to the defined benefit pension scheme. See page 5 for testing performed. Deloitte pension specialists have agreed the assumptions lie towards the prudent end of an acceptable range.

Future Funding Uncertainty

Management has made certain judgements about transactions involving uncertainty about future events. Disclosure has been made that there is a degree of uncertainty about future levels of funding from local government and hence funding for CSVJB. However, the Treasurer has determined that the level of uncertainty is not yet sufficient to provide an indication that the activities of the Board might be affected by the need to reduce level of service provision.

We have confirmed that a budget has been agreed for 2014/15 with funding levels in line with 2013/14, and indicative budgets are in place for 2015/16 confirming funding beyond April 2015, and therefore concur with the Treasurer's statement.

5. Best value, use of resources and performance

Financial performance and outlook

CSVJB's budgeted income and expenditure for 13/14 was £2.549k, the final out-turn was a net surplus on the Cost of Services of £146k. This is as a combined result of expenditure being £36k over budget and income coming in £182k higher than budget. Financing expenditure of £200k provides a net deficit on service provision of £54k. There are £198k of adjustments between the accounting and funding basis, which leaves a net increase in usable reserves of £144k.

Unusable reserves move by £506k, being £308k actuarial losses and £198k of adjustments between accounting and funding basis.

	2013/14 Budget £'000	2013/14 Actual £'000	2013/14 Variance £'000	2014/15 Budget £'000
Gross Cost of Services Expenditure	2,549	2,585	36	2,539
Gross Cost of Services Income	(2,549)	(2,731)	(182)	2,539
Net Cost of Services Expenditure	-	(146)	(146)	-

Performance Analysis:

The Joint Board spent £2.585m in the year 2013/14 and achieved a deficit on the provision of services for the financial year reported in the Comprehensive Income and Expenditure Account of £54k. The deficit is due to net pension interest of £200k offset by a net surplus of £146k in the Cost of Services.

The Board's General Fund balance at 31 March 2014 was £4.278m (31 March 2013: £3.916m). The movement is driven by pension fund losses in the year of £308k and a deficit on the Comprehensive Income and Expenditure Account of £54k above. Pension costs are paid as they are incurred from the Board's revenue expenditure on an ongoing basis.

Future Budget:

CSVJB have an approved Revenue budget for 2014/15 of £2,539k, £10k (0.4%) lower than the Revenue budget for 2013/14.

6. Insights - risk management and internal control observations

Key controls over significant risks

In Section 3 we discussed the identified significant audit risks. For each of these significant audit risks we have assessed the design and implementation of internal controls in each of those areas, summarised below:

Significant Risk		Control
Valuation of defined benefit pension scheme	➔	The year-end defined benefit pension balances are calculated by Hymans Robertson LLP, an independent pensions consultancy. Management then record then post the appropriate adjustments for the accounts. There are appropriate controls over financial reporting procedures to ensure these are suitably reviewed.
Revenue recognition – completeness of income	➔	All the revenue is recorded through the general ledger, and basic monthly reconciliations are performed.
Management override of controls	➔	Controls are in place over financial reporting and closing procedures, recording and processing of journals and segregation of duties which prevent the management override of controls. In addition a detailed review is performed regularly on the results through the financial monitoring report. We have tested all journal entries of audit interest posted in the year and confirmed the appropriateness of the journals posted including approval.

6. Insights - risk management and internal control observations

Follow up on prior year observations

In prior year we raised two control observations. We set out below the procedures performed in this regard:

Issue raised	Prior year recommendation	Prior year management response	2013/14 Follow-up
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.	No issues noted in the current year accounts and all capital additions had correctly been capitalised. Satisfactory.
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.	Management have carried out a full review of all assets on the fixed asset register and cleared out all obsolete assets, resulting in £171k of fully written down assets being removed from the fixed asset register. Satisfactory.

7. Responsibility Statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 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.

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 board.
- 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.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you previously

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

Deloitte LLP

Deloitte LLP
Chartered Accountants

Edinburgh
11 September 2014

This report has been prepared for the Board, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

7.Responsibility Statement (continued)

Responsibilities

Management responsibility

It is the responsibility of the Board and the Treasurer, as Responsible Officer, to prepare the financial statements in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Board and its expenditure and income for the period ended 31 March 2014; and
- preparing an Explanatory Foreword, a Statement on the System of Internal Financial Control and a Remuneration Report.

Auditor's responsibilities

We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view in accordance with applicable law and the 2013/14 Code or the state of the affairs of the body as at 31 March 2014 and of the income and expenditure of the body for the year then ended;
- Whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- Have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Appendix 1: Audit adjustments and disclosure misstatements

Identified misstatements:

No misstatements have been noted in the course of our audit work.

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

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 or of any apparent breach of that policy.</p> <p>There were no non audit services fees charged in relation to Deloitte LLP in the period from 1 April 2013 to 31 March 2014.</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

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
- We are aware that management has the following processes in place in relation to the prevention and detection of fraud:
 - The Valuation Board have Financial Regulations, which include a section on the Prevention and Detection of Fraud.
 - In order to assist in the prevention of fraud and corruption, appropriate internal controls have been established
 - All members and employees are expected to comply with Clackmannanshire Council's Disclosure of Information (Whistle blowing) and Anti-fraud and Corruption Policies.

Responsibilities

Your 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.

Our responsibilities

- 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.
- As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Appropriate arrangements are in place for maintaining standards of conduct and the prevention and detection of corruption.

Appendix 4 - Action Plan

Our recommendations for improvement

No additional issues have been raised in the course of our audit work.

We have followed up on our prior year recommendations which have all been appropriately addressed by the Board

Appendix 5: Future developments

Additional information on current and future technical developments

Stay tuned online: Internet-based corporate reporting updates

The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues.

Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via www.deloitte.co.uk/audit.

Our range of publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area.

Our range also includes quarterly iGAAP newsletters providing a round up of recent developments. iGAAP and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.

Audit podcasts

Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, www.deloitte.co.uk/audit. Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

IASPlus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board, International Financial Reporting Standards, and international accounting and auditing in general. It includes:

- Summaries of all IASB standards and interpretations;
- Background on all IASB and IFRIC agenda projects plus summaries of all IASB and IFRIC meetings;
- Comparisons of IFRSs and various local GAAPs;
- Updates on national accounting standards development in around 80 countries and regions throughout the world; and
- Free e-learning modules for each IAS and IFRS – made available at no charge in the public interest.

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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