



## **Central Scotland Valuation Joint Board:** Final report to the Board and the Controller of Audit on the 2014/15 audit

18 September 2015

the  
Distinctive  
audit

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## An overview of our audit plan:

- Materiality: £27,820 (2013/14: £25,850).
- Threshold for reporting misstatements: £1,391 (2013/14: £1,293).
- International Standards on Auditing require us to identify and assess the risk of material misstatement and to identify areas of risk that will require focused consideration. The following are identified significant risks: revenue recognition and management override of controls.
- **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.



# Partner introduction

# Partner introduction

## Financial statement audit

I have pleasure in presenting our final report to the Board for the 2014/15 audit. I would like to draw your attention to the key messages of this paper:

### Conclusions from our testing

The key risks and judgements in the audit process related to:

- Revenue recognition
- Management override of controls

We have not identified any misstatements during our audit.

Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.

### Status of the audit

The audit is substantially complete subject to the completion of the following principal matters:

- Finalisation of quality control procedures;
- Receipt of signed management of representation letter; and
- Our review of subsequent events since 31 March 2015.

Audit quality is our number one priority. When planning our audit we set the following audit quality objectives for this audit:

**A robust challenge of the key judgements taken in the preparation of the financial statements.**

**A strong understanding of your internal control environment.**

**A well planned and delivered audit that raises findings early with those charged with governance.**

# Partner introduction (continued)

## Public sector audit dimensions

We have commented below on the Audit Scotland impact dimensions with regard to VJB.

### Financial Sustainability

Financial sustainability continues to be one of the most significant challenges and risks for VJB and the wider public sector.

VJB is in the process of developing a 5 year plan in which future income and expenditure are forecasted.

Uncertainty over future levels of funding from local government will be monitored through this budget forecast process.

### Financial Management

The final outturn was an in year surplus of £17k against a breakeven target.

VJB closely monitors budget and actual expenditure through regular reporting to the Board.

### Best Value (BV)

A plan is set by the Board each year that supports the delivery of the strategic priorities of the Board which identifies key projects and actions. Progress against this is monitored.

### Governance and Transparency

The VJB Board meets on a regular basis to assess performance of the Board against budget and to determine any risks affecting the entity.



# Partner introduction (continued)

## Significant risk dashboard



Presumed Fraud risk per Auditing Standards	Controls approach and findings	Consistency of judgements with Deloitte expectations	Comment
Revenue Recognition - Completeness of income			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	We are satisfied that revenue has been appropriately recognised and have noted no issues regarding completeness of income.
Management override of controls			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	We have noted no issues with journal entries and other adjustments made in the preparation of the financial statements.  Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.

Overly prudent, likely to lead to future credit      Overly optimistic, likely to lead to future debit.

# Scope, nature and extent of audit

# Scope, nature and extent of audit

Our overall responsibility as external auditor of VJB 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 National Fraud Initiative (NFI)); and
- Submit fraud returns, including nil returns, to Audit Scotland.



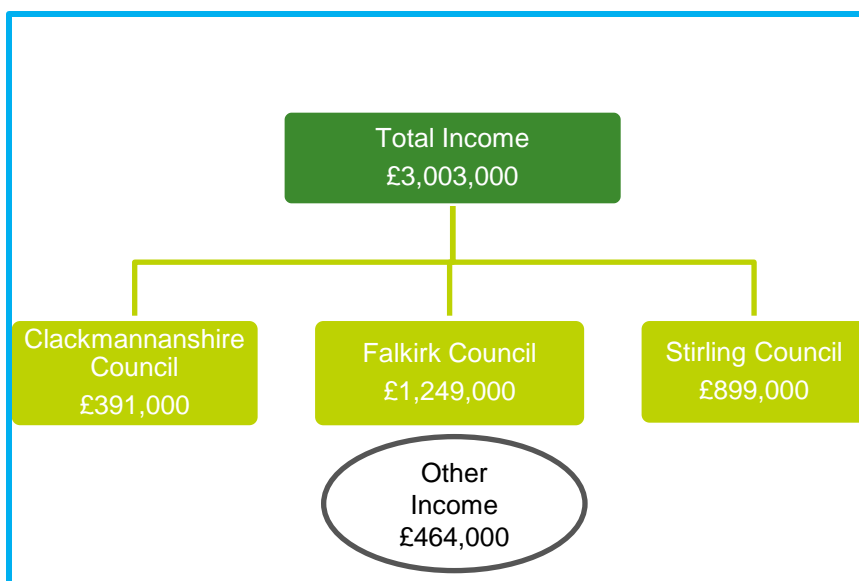
# Significant risks

# Revenue recognition

## Risk Identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

For the Board, we have considered this risk to be around the completeness of requisitions from the constituent authorities given the significance of these to the organisation.



## Key judgements

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 2014/15 budget approved by the Board detailing the requisitions due from the partner Council's which have been agreed to the amount recognised by the Board. We have also agreed the amounts received through the bank account.

## Deloitte response

- No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the Code.
- We have agreed all income received to bank statements and journal entries.

# Management override of controls

## Risk Identified

International Standards on Auditing require auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor.

This recognises that 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.

## Key judgements

Our audit work is designed to test for instances of management override of controls.

## Deloitte response

- No issues noted around journal entries and other adjustments made in the preparation of the financial statements.
- Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.
- Retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.
- We have not noted any transactions that appear to be outwith the course of normal business.

# Other matters

# Critical accounting judgements and key sources of estimation

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

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 2015/16 with funding levels in line with 2014/15, and indicative budgets are in place for 2016/17 confirming funding beyond April 2016, and therefore concur with the Treasurer's statement.

## Defined Benefit Pension Scheme

Falkirk Pension Scheme make a series of actuarial assumptions in relation to the defined benefit pension scheme. Deloitte pension specialists have reviewed the assumptions and on the whole, the set of assumptions is slightly towards the prudent end of the reasonable range at 31 March 2015. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

	Council	Benchmark	Comments
Discount rate	3.2%	3.15%	Reasonable
RPI inflation	3.3%	2.95%	Slightly prudent
CPI Inflation rate	2.4%	2.0%	Slightly prudent
Real Salary increase (over CPI inflation)	3.8%	Council specific	Consistent with previous year-end
Pension increase	2.4%	1.95%	Slightly prudent
Current mortality	Club Vita	Council specific	Consistent with the 2014 funding valuation of the Fund. Reasonable.
Mortality – future improvements (CMI – Continuous Mortality Investigation)	CMI 12 with a 1.25% p.a. long-term rate	CMI 12 with a 1.25% p.a. long-term rate	Reasonable

# Financial performance and outlook

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## Financial Performance

The Valuation Board budgeted a breakeven position for the year to 31 March 2015, with budgeted income and expenditure of £2.539 million. The final out-turn was a net surplus of £17,000.

The table below illustrates how the Board's performance compares to plan and prior year:

	2014/15 Budget £'000	2014/15 Actual £'000	2014/15 Variance £'000	2015/16 Budget £'000
Gross Expenditure	2,539	2,986	447	2,744
Income	2,539	3,003	464	2,744
<b>Net Expenditure</b>	-	<b>17</b>	<b>17</b>	-
Adjustments between accounting basis and funding basis	N/A	243	N/A	N/A
<b>Net increase in usable reserves</b>	<b>N/A</b>	<b>260</b>	<b>N/A</b>	<b>N/A</b>

## Performance Analysis

The Joint Board spent £2,986k in the year 2014/15 and achieved a surplus on the provision of services for the financial year reported in the Comprehensive Income and Expenditure Account of £17k. The surplus is due to net pension interest of £204k offset by a net surplus of £221k in the Cost of Services.

The Board's General Fund balance at 31 March 2015 was £6,582k (31 March 2014: £4,278k). The movement is driven by pension fund losses in the year of £2,321k and a surplus on the Comprehensive Income and Expenditure Account of £17k 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 2015/16 of £2,744k, £205k (8%) higher than the Revenue budget for 2014/15.

There is an anticipated funding gap of over £387,000 by the year 2017/18. For future years the Valuation Joint Board and the Constituent Authorities will work together to review how efficiencies can be achieved and how reserves can be used to fund any changes in working processed to balance the budget in future years.

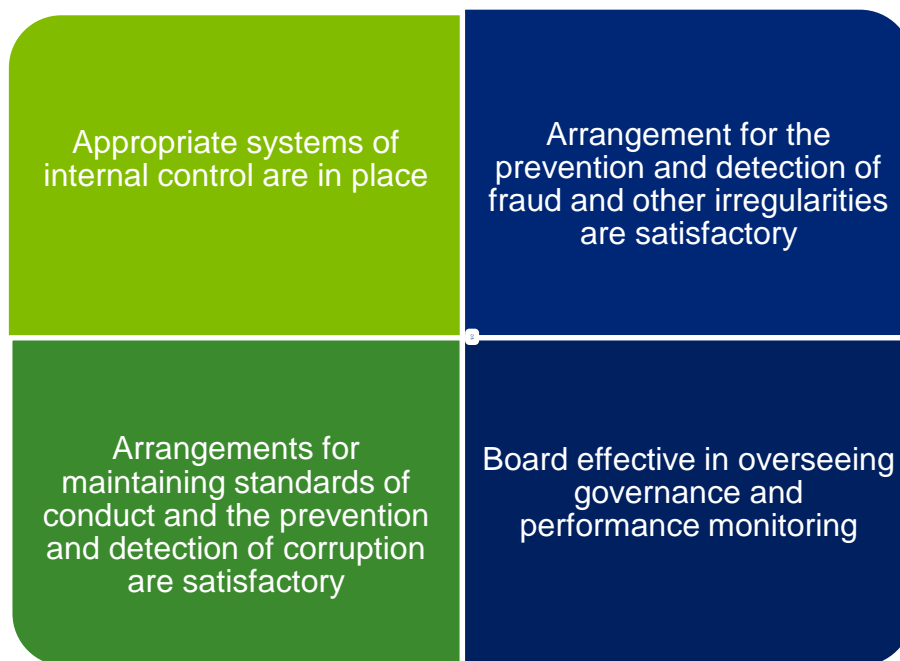
# Governance and accountability



# Governance and Transparency

## Governance arrangements are operating effectively

In accordance with the Code of Audit Practice, we are required to consider and formally report in relation to the following key matters:



We confirm that we have reviewed the arrangements in each of the four areas and have identified no issues in this regard.

The Board met on a regular basis during 2014/5 in order to review performance to date, and to monitor changes from budget.

We are comfortable with the fraud arrangements in place and confirm there have been no frauds of which management have made us aware.

Internal Audit services continues to be provided through Clackmannanshire Council's Chief Internal Auditor.

# Your Annual Report

# Our comments on your annual report

We welcome this opportunity to set out for the Board our observations on the annual report. 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:

Deloitte response	
Management Commentary	<p>The Management Commentary reflects on those matters companies are required to disclose under the Companies Act 2006, as adapted for public sector. This includes description of the principal risks and uncertainties facing the Board, a review of performance in the year, a measurement of progress against performance indicators and commentary on going concern.</p> <p>We have read the Management Commentary in full in order to ensure that it is in line with our understanding of the Board and complies with the required guidance on Management Commentary.</p>
Governance Statement	<p>The Governance Statement reports that the VJB is in compliance with the aspects of the UK Corporate Governance Code which are set out within the guidance as being applicable to public sector.</p> <p>The format and content of the statement is consistent with the requirements of the Code and concludes that reasonable assurance can be placed on the adequacy and effectiveness of the Board's Internal Control System in the year to 31 March 2015. No areas have been highlighted as requiring improvement, which is consistent with the findings of our audit.</p>
Remuneration Report	<p>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 Board's remuneration policy for its senior employees, being the Assessor, Depute Assessor, Convenor and Vice-Convenor.</p> <p>We are satisfied that the remuneration report has been prepared in accordance with the regulations and is consistent with the findings of our audit.</p>

# Purpose of our report and responsibility statement

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Our report is designed to help you meet your governance duties

## What we report

Our report is designed to help the Board discharge its governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) 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.
- 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" previously circulated to you.

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

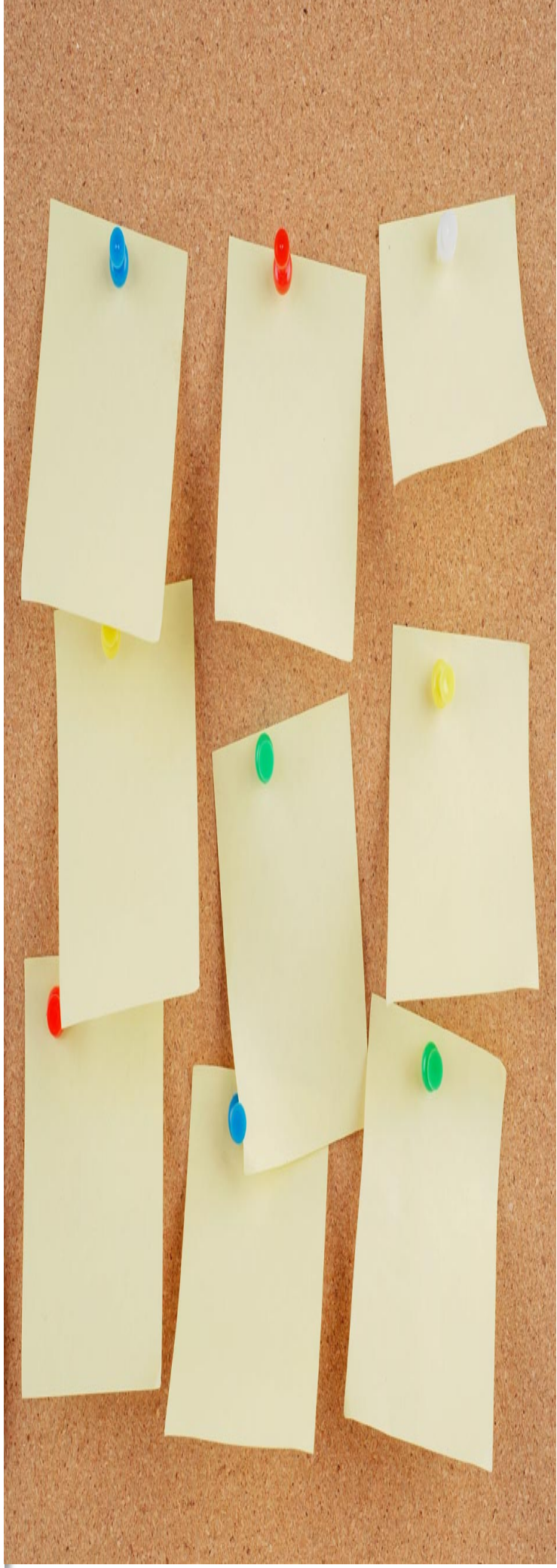
### **Deloitte LLP**

Chartered Accountants

Edinburgh

11 September 2015

# Appendices



# Audit adjustments



## Summary of uncorrected and corrected misstatements

### Uncorrected misstatements

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

### Corrected misstatements

- There have been no corrected misstatements noted during the process 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.

# Fraud responsibilities and representations

## Responsibilities explained



Responsibilities	Audit work performed
<p>The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.</p>	<ul style="list-style-type: none"><li>• In our planning we identified the risk of fraud in revenue recognition and management override of controls as key audit risks for the Board.</li><li>• During course of our audit, we have had discussions with management and those charged with governance.</li></ul>
Required representations	
<p>We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.</p> <p>We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.</p>	
Concerns	
<ul style="list-style-type: none"><li>• As set out above we have identified the inherent risk of fraud in other income recognition and management override of controls as a key audit risk for your organisation.</li></ul>	



# Independence and fees

There are no issues we wish to raise to you



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 Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	Our audit fee for the year has been agreed at £7,350 (inclusive of VAT and Audit Scotland fixed charge) and is within the indicative fee range set by Audit Scotland. There were no non-audit services for the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Partnership’s policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<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>

# Events and publications

## Our publications to support the Partnership.

### IAS Plus

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>

### Finance Business Partnering – A Public Sector View

Deloitte's research into Finance Business Partnering has analysed the responses of 75 senior Finance executives from UK headquartered organisations, including 20 public sector organisations across central government departments, arm's length bodies and agencies.

The results were as follows:

- No Public Sector respondents see Finance as their primary source of insight for decision-making. As the need to demonstrate and contribute to value for money becomes more important than ever, Public Sector Finance teams must look to position themselves as a central part of decision-making.
- Fifty-three per cent of Public Sector respondents recognise a lack of appropriate skills and behaviours in their existing teams as a barrier to more effective Business Partnering. This is an issue also felt by the Private Sector, which creates fierce competition for skills.
- Deloitte analysis finds that role definition drives skill demonstration. CFO's are looking at the wrong problem. It is not a lack of skills but a lack of role definition that they need to address.,

### Transport in the Digital Age – Disruptive Trends for Smart Mobility

Change is coming to transportation, whether we're ready for it or not. You can see it in public sector investment, in intelligent streets, and digital railways, automakers' focus on next-generation vehicles and smart mobility services, and in the widening recognition that the "information everywhere" world will utterly disrupt the transportation status quo.

The proportion of the global population living in urban areas continues to rise faster than capacity on roads, rail and other types of transport. This pressure on transport infrastructure is driving capital investment estimated at over a trillion dollars a year. However, you can't always create capacity by pouring more concrete, and technology will play a crucial role in changing the way we travel.

The Digital Age has begun, and technology has brought us smart phones, real-time planning, open traffic data, and social customer service. For the first time, the passenger now has more information than the operator. This fundamental shift offers consumers real choice based on a picture of alternative routes, comparative pricing and current network status. As transport operators adapt and new entrants arrive, new business models will transform the use of user information, payments, integration and automation.

For our full report, please follow the link:

- <http://www2.deloitte.com/uk/en/pages/business-and-professional-services/articles/transport-in-the-digital-age.html>



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