

Agenda Item 4

**ANNUAL REPORT TO THOSE
CHARGED WITH
GOVERNANCE AND THE
CONTROLLER OF AUDIT FOR
FINANCIAL YEAR ENDED
2019/20**



AGENDA ITEM 4

CENTRAL SCOTLAND VALUATION JOINT BOARD

Subject: ANNUAL REPORT TO THOSE CHARGED WITH GOVERNANCE AND THE CONTROLLER OF AUDIT FOR FINANCIAL YEAR ENDED 2019/20

Meeting: CENTRAL SCOTLAND VALUATION JOINT BOARD

Date: 25 SEPTEMBER 2020

Report By: TREASURER

1. INTRODUCTION

- 1.1 This report and appendices set out the findings arising from the work carried out by the External Auditors on the Audit of the 2019/20 Financial Statements.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 note the content of the Independent Auditor's Report;
- 2.2 approve the content of the Letter of Representation (ISA 580);
- 2.3 note the significant audit finding within Exhibit 2 of the Internal Audit Report, and
- 2.4 note the recommendations for improvement and the follow up on prior year recommendations within Appendix 1 of the Annual Audit Report.

3. CONSIDERATIONS

- 3.1 International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 3.2 Appendix 1 of this report contains a covering letter from the Auditor and the Independent Auditors Report. This sets out the basis of the audit work and the Audit opinion.
- 3.3 Also contained within Appendix 1 is the draft Letter of Representation (ISA 580) to the Auditor which the Board is required to prepare confirming the representations that have been made in connection with the audit of the Boards annual accounts

for the year ended 31 March 2020. On approval, this letter will be signed by the Boards Treasurer.

- 3.4 The 2019/20 Annual Audit Report is included at Appendix B and sets out the significant finding from the 2019/20 audit of the Boards Annual Accounts (Exhibit 2). The report covers the scope of the audit as set out in the Annual Audit Plan presented to the Board in March 2020 which includes consideration of the Financial Sustainability of the Board.
- 3.5 Appendix 1 of the Annual Audit Report also sets out recommendations and provides an action plan which has been agreed with Treasurer and the Assessor. Contained within the action plan is also an update on progress on recommendations brought forward from 2018/19.

4. CONCLUSIONS

- 4.1 The Committee is asked to approve the Letter of Representation and note the content of the Independent Auditor's Report and the 2019/20 Annual Audit Report.

5. LIST OF APPENDICES & BACKGROUND PAPERS

- 5.1 Appendix 1 - Independent Auditor's Report and ISA 580 Letter of Representation

Appendix 2 – Central Scotland Valuation Joint Board 2019/20 Annual Audit Report

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25 September 2020

Central Scotland Valuation Joint Board Audit of 2019/20 annual accounts

Independent auditor's report

1. Our audit work on the 2019/20 annual accounts is now substantially complete. Subject to receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 25 September 2020 (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Boards' consideration our draft annual report on the 2019/20 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.
6. We have no unadjusted misstatements to be corrected.

Fraud, subsequent events and compliance with laws and regulations

7. In presenting this report to the Board we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have

occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

8. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.
9. A draft letter of representation is attached at [Appendix B](#). This should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

Outstanding information

10. We require sight of a sample of assets from the asset register to confirm the existence of these assets.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Central Scotland Valuation Joint Board and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Central Scotland Valuation Joint Board (the board) for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and Cash Flow Statement and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the board as at 31 March 2020 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is 3 years. I am independent of the board in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the board. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the board's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Treasurer and the board for the financial statements

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The board is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual accounts

The Treasurer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Tom Reid
Senior Audit Manager
Audit Scotland

4th Floor
Nelson Mandela Place
Glasgow
G2 1BT

25th September 2020

APPENDIX B: Letter of Representation (ISA 580)

Tom Reid, Senior Audit Manager
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear Tom

Central Scotland Valuation Joint Board Annual Accounts 2019/20

1. This representation letter is provided about your audit of the annual accounts of Central Scotland Valuation Joint Board for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Central Scotland Valuation Joint Board's annual accounts for the year ended 31 March 2020.

General

3. Central Scotland Valuation Joint Board and I have fulfilled our statutory responsibilities for the preparation of the 2019/20 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Central Scotland Valuation Joint Board have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (2019/20 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Central Scotland Valuation Joint Board at 31 March 2020 and the transactions for 2019/20.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2019/20 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Central Scotland Valuation Joint Board circumstances and have been consistently applied.
8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Central Scotland Valuation Joint Board's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Central Scotland Valuation Joint Board's ability to continue as a going concern.

Assets

10. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2020 does not differ materially from that which would be determined if a revaluation had been carried out at that date.
11. I carried out an assessment at 31 March 2020 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.
12. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2020.
13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.
14. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

15. All liabilities at 31 March 2020 of which I am aware have been recognised in the annual accounts.
16. I am not aware of any liabilities of uncertain timing or amount at 31 March 2020 which require a provision to be recognised in the financial statements.
17. The accrual recognised in the financial statements for holiday untaken by 31 March 2020 has been estimated on a reasonable basis.
18. The pension assumptions made by the actuary in the IAS 19 report for Central Scotland Valuation Joint Board have been considered and I confirm that they are consistent with management's own view.

19. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Fraud

20. I have provided you with all information in relation to:
- my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

21. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

22. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2019/20 accounting code. I have made available to you the identity of all the Central Scotland Valuation Joint Board's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

23. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management commentary

24. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

25. I confirm that the Central Scotland Valuation Joint Board has undertaken a review of the system of internal control during 2019/20 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
26. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2020, which require to be reflected.

Events Subsequent to the Date of the Balance Sheet

27. All events subsequent to 31 March 2020 for which the 2019/20 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Treasurer

Central Scotland Valuation Joint Board

2019/20 Annual Audit Report – DRAFT



 **AUDIT SCOTLAND**

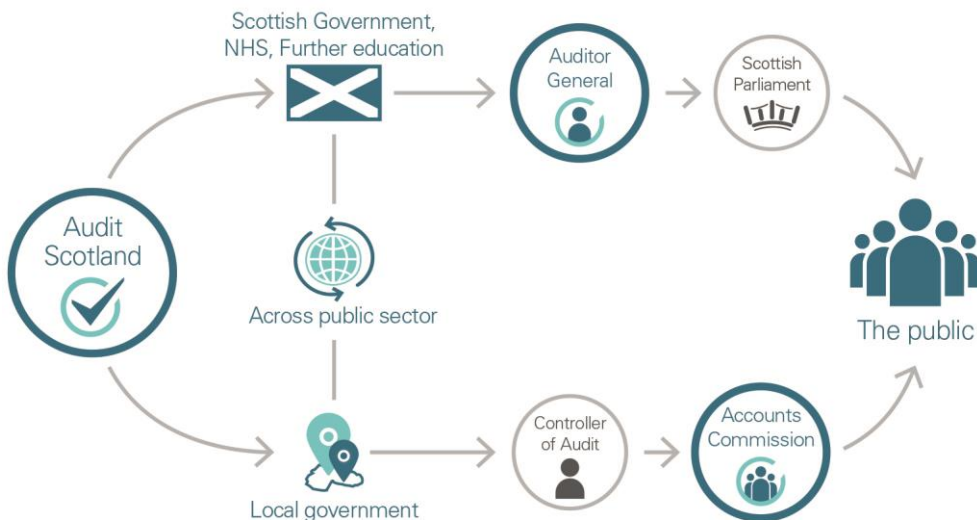
Prepared for the Central Scotland Valuation Joint Board and the Controller of Audit

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.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2019/20 annual report and financial statements	7
Part 2 Financial sustainability and annual governance statement	10
Appendix 1 Action plan 2019/20	13
Appendix 2 Significant audit risks identified during planning	15
Appendix 3 Summary of national performance reports 2019/20	16

Key messages

2019/20 annual report and financial statements

- 1** The financial statements of Central Scotland Valuation Joint Board (the board) give a true and fair view and were properly prepared.
- 2** 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 applicable requirements.
- 3** The unaudited annual report and financial statements were provided to us in line with the agreed timetable, but there was a delay in board members considering these as the June board meeting was postponed until August.

Financial sustainability and annual governance statement

- 4** The board operated within its revenue budget for 2019/20.
- 5** The board faces a challenging financial position and is forecasting a likely funding gap of £0.442 million by 2022/23. The board, supported by its constituent local authorities, needs to continue to identify ways to achieve savings and deliver services more efficiently to bridge this gap.
- 6** The information in the annual governance statement is consistent with the financial statements and complies with guidance.

Introduction

1. This report summarises the findings from our 2019/20 audit of Central Scotland Valuation Joint Board (the board).

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2020 meeting of the board. This report comprises the findings from:

- an audit of the board's annual report and financial statements
- our consideration of financial sustainability.

3. After publication of the Annual Audit Plan, in common with all public bodies, the board had to respond to the Covid-19 pandemic. This impacted on the final month of the year and will continue to have significant impact into financial year 2020/21. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements.

Adding value through the audit

4. We add value to the board through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear conclusions on financial sustainability.

5. 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

6. The board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and financial statements that are in accordance with proper accounting practices. The board is also responsible for compliance with legislation 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. In addition to our responsibilities for the annual accounts, we have wider scope responsibilities in respect of Best Value. We meet these responsibilities by auditing financial sustainability and the annual governance statement.

9. As public sector auditors we give independent opinions on the annual report and financial statements. Additionally, we conclude on the appropriateness of governance statement disclosures and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and

the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

10. 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 2019/20 Annual Audit Plan, due to the nature of the board's activities and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2019/20 audit.

11. This report raises matters from our audit. 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. 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.

Auditor Independence

13. 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 2019/20 audit fee of £7,450 as set out in our Annual Audit Plan, remains unchanged.

14. We are not aware of any relationships that could compromise our objectivity and independence.

15. 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 in due course.

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

Part 1

Audit of 2019/20 annual report and financial statements



Main judgements

The financial statements of Central Scotland Valuation Joint Board (the board) 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 applicable requirements.

The unaudited annual report and financial statements were provided to us in line with the agreed timetable, but there was a delay in board members considering these as the June board meeting was postponed until August.

Our audit opinions on the annual report and financial statements are unmodified

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

18. The annual report and financial statements for the year ended 31 March 2020 were approved by the board on 14 August 2020.

19. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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 applicable requirements.

The accounting framework was changed due to the Covid-19 pandemic

20. Statutory guidance permits, but does not require, a local government body to disapply some content requirements for the Management Commentary in response to Covid-19. The board decided not to reduce the content of the Management Commentary. It covers the effects of Covid-19 on services, operations, performance, strategic direction, resources and financial sustainability.

Unaudited annual report and financial statements

21. The unaudited annual report and financial statements were received in line with our agreed audit timetable on 30 June 2020. The board meeting was delayed but the financial statements were still considered before the end of August in line with the Local Authority Accounts (Scotland) Regulations 2014. The Coronavirus

(Scotland) Act 2020 amends certain statutory duties in light of the impact of Covid-19. The board had the option to postpone publishing its unaudited accounts by two months, but it did not require this extension.

22. The board has successfully supported homeworking during the Covid-19 pandemic with all work continuing except physical surveys.

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

Overall materiality is £32,000

24. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

25. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that no changes were required to our planned levels.

Exhibit 1

Materiality values

Overall materiality	£32,000
Performance materiality	£24,000
Reporting threshold	£2,000

Source: Audit Scotland

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

26. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and financial statements. It also summarises the work we have done to gain assurance over the outcome of these risks. We have no issues to report from our work on the risks of material misstatement.

Significant findings to report on the financial statements

27. 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 board's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. We have one significant finding to report.

Exhibit 2

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Valuation of pension assets</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 IAS 19 reports using estimated data for part of the year.</p> <p>In July 2020, the UK Government announced its proposed remedy to the McCloud legal judgement on transitional age protection. The actuarial report used to prepare the board's unaudited financial statements did not reflect this.</p>	<p>The board obtained an updated IAS 19 report from the actuary which made an allowance for the implications of the McCloud remedy.</p> <p>The board has adjusted the annual accounts to reflect its share of pension fund assets and liabilities based on the updated IAS 19 report. This reduced the board's pensions liability by £40,000. 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 has made to the financial statements.</p>

Source: Audit Scotland

The board has made progress on prior year recommendations

28. 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](#).

Part 2

Financial sustainability and annual governance statement



Main judgements

The board operated within its revenue budget for 2019/20.

The board faces a challenging financial position and is forecasting a likely funding gap of £0.442 million by 2022/23. The board, supported by its constituent local authorities, 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 body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial performance in 2019/20

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 2019/20 budget in February 2019. Total budgeted expenditure and income was set at £2.845 million and £0.098 million respectively, and the board received funding of £2.547 million from constituent authorities. This resulted in a budget gap of £0.201 million which the board agreed to meet using reserves.

31. Actual outturn for the year was an under/overspend of £0.129 million. This differs to the deficit of £0.457 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 2020/21 budget in March 2020 with proposed total net expenditure of £2.938 million. Contributions from member authorities are budgeted at £2.812 million. This is higher than previous years as a result of additional funding for the implementation of the Barclay review. This results in a funding gap of £0.127 million which will be funded from reserves.

34. The board faces a challenging financial position. Future pressures include:

- uncertainty over the level of future funding streams from constituent authorities
- the ability of the board to make reductions in net expenditure while dealing with a 17% increase in revaluation appeals
- the challenge of recruiting and retaining qualified staff; and
- a move from five to three yearly valuations under the Barclay review.

35. 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 £0.442 million by 2022/23.



Recommendation 1

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

Annual Governance Statement

36. Our review of the annual governance statement assessed the assurances provided to the assessor as accountable officer on 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.

37. The schedule of internal audit work has been disrupted as a result of the Covid-19 pandemic. The internal audit reports for 2019/20 are still to be finalised and the board intends to formally consider these and the internal audit assurance report in 2020/21.

38. We first reported in 2016/17 that some of the board's policies needed 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. Officers reviewed the code of conduct during 2018/19 and confirmed that no changes were required. 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. These are:

- Scheme of Delegation
- Contract Standing Orders
- Financial Regulations.



Recommendation 2

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

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. Appendix 3 highlights reports published in 2019/20.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Financial sustainability</p> <p>The board faces a challenging financial position. Future pressures include uncertainty over the level of future funding streams from constituent authorities, the ability of the board to make reductions in net expenditure while dealing with an increase in revaluation appeals, the challenge of recruiting and retaining qualified staff and a move from five to three yearly revaluations under the Barclay review. 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 £0.442 million by 2022/23.</p> <p>Risk</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>Paragraph 35</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>Governance policies and procedures</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. An update to the Scheme of Delegation, Contract Standing Orders and Financial</p>	<p>The board should present updated policies and procedures to the board for approval and implementation.</p> <p>Paragraph 38</p>	<p>Policies and procedures continue to be reviewed and will be presented in due course when time permits within our current priority constraints.</p> <p>Responsible officer: Treasurer</p> <p>Agreed date: March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
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Regulations has not yet been considered by the board.

Risk

Policies are out of date and do not reflect the board’s current arrangements.

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.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>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>2 Risk of material misstatement caused by fraud in expenditure</p> <p>Guidance on auditing standards requires public sector auditors to consider the risk of fraud over expenditure, extending the requirements of ISA 240. The extent of the board's expenditure means that there is an inherent risk of fraud.</p>	<p>Testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Substantive cut-off testing of expenditure to ensure it is recognised in the correct financial year.</p>	<p>Our substantive testing found no instances of fraud over expenditure.</p>

Appendix 3

Summary of national performance reports 2019/20



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

Central Scotland Valuation Joint Board

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