

# **Agenda Item 4**

**Annual Report to Those Charged with  
Governance and the Controller of Audit  
for Financial Year Ended 2020/21**

**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 2020/21**

**Meeting: CENTRAL SCOTLAND VALUATION JOINT BOARD**

**Date: 24 SEPTEMBER 2021**

**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 2020/21 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) (Appendix A), and
- 2.3 note the recommendations for improvement and the follow up on prior year recommendations within Appendix 1 of the Annual Audit Report (Appendix B).

**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 A 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 A 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 2021. On approval, this letter will be signed by the Boards Treasurer.

- 3.4 The 2020/21 Annual Audit Report is included at Appendix B and sets out the significant finding from the 2020/21 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 June 2021 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 2019/20.

#### **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 2020/21 Annual Audit Report.

#### **5. LIST OF APPENDICES & BACKGROUND PAPERS**

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

Appendix B – Central Scotland Valuation Joint Board 2020/21 Annual Audit Report

##### **Author(s)**

<b>NAME</b>	<b>DESIGNATION</b>	<b>TEL NO / EXTENSION</b>
Elizabeth Hutcheon	Assistant Treasurer	01259 226214

##### **Approved by**

<b>NAME</b>	<b>DESIGNATION</b>	<b>SIGNATURE</b>
Lindsay Sim	Treasurer	

102 West Port  
Edinburgh  
EH3 9DN

T: 0131 625 1500

E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)



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**Central Scotland Valuation Joint Board**  
**Hillside House**  
**Laurelhill Business Park**  
**Stirling**  
**FK7 9JQ**

**24 September 2021**

### **Central Scotland VJB**

#### **Audit of 2020/21 annual report and accounts**

##### **Independent auditor's report**

1. Our audit work on the 2020/21 annual report and accounts is now substantially complete. Subject to receipt of a revised set of annual report and accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 24 September 2021 (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 board's consideration our draft annual report on the 2020/21 audit which includes any significant findings from the audit of the annual report and accounts in accordance with ISA 260.

3. The report also sets out conclusions from our consideration of the financial sustainability audit dimension as part of the wider scope of public audit set out in the Code of Audit Practice.

4. This report will be issued in final form after the annual report and accounts have been certified.

##### **Unadjusted misstatements**

5. We also report to those charged with governance all unadjusted misstatements identified during our audit, other than those of a trivial nature, and request that these misstatements be corrected. 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 Treasurer**

8. As part of the completion of our audit, we are seeking written representations from the Treasurer on aspects of the annual report and 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 Treasurer with the signed annual report and accounts prior to the independent auditor's report being certified.

## **APPENDIX A: Proposed Independent Auditor's Report**

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

### **Reporting 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 2021 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, 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 2020/21 (the 2020/21 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the board as at 31 March 2021 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 2020/21 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 June 2021. The period of total uninterrupted appointment is 1 year. 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 concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the

board's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from 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 judgements 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the board is complying with that framework;
- identifying which laws and regulations are significant in the context of the board;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the board's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result 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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

### **Reporting on other requirements**

#### **Opinion prescribed by the Accounts Commission on the audited part of the Remuneration Report**

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

#### **Statutory other information**

The Treasurer is responsible for the statutory other information in the annual accounts. The statutory other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited part of the Remuneration Report.

My responsibility is to read all the statutory other information and, in doing so, consider whether the statutory 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this statutory other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the statutory other information and I do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

#### **Opinions prescribed by the Accounts Commission on Management Commentary and Annual Governance Statement**

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 the 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.

**Ursula Lodge**  
**Senior Audit Manager**

Audit Scotland  
4th Floor  
102 West Port  
Edinburgh  
EH3 9DN

24 September 2021

## **APPENDIX B Letter of Representation (ISA 580)**

Ursula Lodge  
Senior Audit Manager  
Audit Scotland  
4th Floor  
102 West Port  
Edinburgh  
EH3 9DN

Dear Ursula

### **Central Scotland Valuation Joint Board Annual report and accounts 2020/21**

1. This representation letter is provided in connection with your audit of the annual report and accounts of Central Scotland Valuation Joint Board for the year ended 31 March 2021 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 such enquiries as I considered necessary, the following representations given to you in connection with your audit of Central Scotland Valuation Joint Board's annual report and accounts for the year ended 31 March 2021.

#### **General**

3. Central Scotland Valuation Joint Board and I have fulfilled our statutory responsibilities for the preparation of the 2020/21 annual report and accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual report and 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 am not aware of any uncorrected misstatements.

#### **Financial Reporting Framework**

5. The annual report and accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (2020/21 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 2021 and the transactions for 2020/21.

#### **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 2020/21 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's 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 because 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 2021 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 2021 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 2021.

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 2021 of which I am aware have been recognised in the financial statements.

16. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2021 of which I am aware where the conditions specified in 2020/21 accounting code have been met.

17. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2021 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

18. The accrual recognised in the financial statements for holiday untaken by 31 March 2021 has been estimated on a reasonable basis.

19. 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.

20. 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**

21. I have provided you with all information in relation to

- my assessment of the risk that the financial statements may be materially misstated as a result 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**

22. 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**

23. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2020/21 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**

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

### **Management Commentary**

25. 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**

26. I confirm that the Central Scotland Valuation Joint Board has undertaken a review of the system of internal control during 2020/21 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.

27. 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 2021 which require to be reflected.

## **Events Subsequent to the Date of the Statement of Financial Position**

28. All events subsequent to 31 March 2021 for which the 2020/21 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Treasurer

# Central Scotland Valuation Joint Board

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Central Scotland Valuation Joint Board and the Controller of Audit  
September 2021

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# Contents

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Key messages	3
Introduction	4
Part 1. Audit of 2020/21 annual accounts	6
Part 2. Financial sustainability	10
Appendix 1. Action plan 2020/21	12
Appendix 2. Significant audit risks	14
Appendix 3. Summary of 2020/21 national performance reports	16

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# Key messages

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## **2020/21 annual report and accounts**

The financial statements of Central Scotland Valuation Joint Board give a true and fair view and were properly prepared in accordance with the financial reporting framework and applicable legislation.

The audited part of the remuneration report was properly prepared in accordance with regulations.

Management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## **Financial sustainability**

The board operated within its budget for 2020/21, with an underspend of £0.246 million resulting in a high level of reserves at 31 March 2021.

The board continues to face a challenging financial position and is forecasting a likely funding gap of £0.457 million by 2023/24. Developing a longer-term financial strategy for the next five to ten years would further inform planning and decision-making.



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# Introduction

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1. This report summarises the findings from our 2020/21 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 board on 25 June 2021. This report comprises the findings from:
  - an audit of the board's annual report and financial statements
  - our consideration of financial sustainability.

## Adding value through the audit

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

## Responsibilities and reporting

5. The board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts 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.
6. 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. Local government bodies have a responsibility to have arrangements in place to demonstrate Best Value in how they conduct their activities. Our audit work on the board's Best Value arrangements is focussed on its use of resources to secure financial sustainability.
7. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of governance and performance management arrangements, the financial position, 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 (the Code) and supplementary guidance.

**8.** 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, 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 2020/21 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2020/21 audit.

**9.** 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.

**10.** 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 any outstanding actions from last year and progress against these.

## Auditor Independence

**11.** 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 2020/21 audit fee of £7,610, as set out in our 2020/21 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**12.** This report is addressed to the board and the Controller of Audit and will be published on Audit Scotland's [website](#) in due course.

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

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# Part 1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

The financial statements of Central Scotland Valuation Joint Board give a true and fair view and were properly prepared in accordance with the financial reporting framework and applicable legislation.

The audited part of the remuneration report was properly prepared in accordance with regulations.

Management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

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

**14.** The annual report and financial statements for the year ended 31 March 2021 were approved by the board on 24 September 2021. 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 and applicable legislation
- the audited part of the remuneration report was properly prepared in accordance with regulations
- management commentary and the annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

**15.** We received the unaudited annual report and financial statements on 25 June 2021, in line with our agreed audit timetable. We are pleased that our overall approach, and cooperation between the board's finance team and the audit team, enabled completion of the audit in accordance with the agreed timetable. The finance team provided excellent support to the audit team which helped ensure the audit process ran smoothly.

## Overall materiality is £32,000

**16.** We carried out our initial assessment of materiality during the planning phase of the audit. On receipt of the unaudited annual report and financial statements, we reviewed our materiality calculations and concluded that they remained appropriate as summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£32,000
Performance materiality	£24,000
Reporting threshold	£2,000

Source: Audit Scotland

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

**17.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and financial statements and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

**18.** In line with auditing standards, we have reviewed our assessment of audit risks and the planned audit approach originally included in the 2020/21 Annual Audit Plan. As a result of this review, we have updated audit risks and adapted our planned audit work as follows:

- In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the presumed financial statements risk of fraud over expenditure on the basis of our assessment of the likely incidence of fraud in individual expenditure streams such as employee costs (63% of the board's prior year expenditure), property costs, operating costs, and support services costs. We have assessed that the volume of expenditure transactions that would need to be fraudulent to result in a material risk is implausible. Additionally, there is no history of material misstatement or error in recording expenditure, and therefore no requirement for additional audit procedures.
- We have added the financial statements risk of estimation and judgements as there is a significant degree of subjectivity in the measurement and valuation of the material area of pensions.

## **We have no significant findings to report on the annual report and financial statements**

**19.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant issues to report from the audit.

## **Some key controls in the financial systems of internal control did not operate as expected**

**20.** Clackmannanshire Council (the council) provides key financial systems to the board under a service level agreement. These include the general ledger, payroll and cash and banking. We requested assurances from the council's external auditors over the key controls within the core financial systems.

**21.** During 2020/21 the council operated in challenging circumstances while supporting the response to the Covid-19 pandemic. The introduction of remote working and significant capacity issues have impacted on the control environment at the council with a number of key controls not operating as expected. These findings informed our approach to the financial statements audit, with the extent of control weaknesses requiring us to increase our substantive testing which identified no issues.

## **Annual governance statement**

**22.** As part of our review of the annual governance statement, we assessed the assurances provided to the assessor on the adequacy and effectiveness of the board's system of internal control which operated in the financial year. We suggested some updates to the narrative, and on review of these updates, we concluded that the annual governance statement is consistent with the financial statements and complies with guidance.

**23.** During the Covid-19 pandemic, the board's staff have been working from home. The board delegated powers to determine urgent issues during the Covid-19 pandemic to the assessor in March 2020. This arrangement was in place until August 2020 when the board met virtually for the first time.

**24.** We first recommended in 2016/17 that some of the board's policies needed to be updated. The board accepted our recommendation and planned to update the three remaining policies in 2020/21 – the scheme of delegation, contract standing orders and the financial regulations. Due to the impact of Covid-19, only financial regulations have been updated so far.

**25.** The board's management team has been restructured with the Assistant Assessor post removed and replaced by the upgrade of two Divisional Valuers to Divisional Assessors. This new structure emphasises the need for the scheme of delegation to be updated.

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## Recommendation 1

The board should update its scheme of delegation and contract standing orders as soon as possible.

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### The board has made progress on prior year recommendations

**26.** 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

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

## Main judgements

The board operated within its budget for 2020/21, with an underspend of £0.246 million resulting in a high level of reserves at 31 March 2021.

The board continues to face a challenging financial position and is forecasting a likely funding gap of £0.457 million by 2023/24. Developing a longer-term financial strategy for the next five to ten years would further inform planning and decision-making.

### The board operated within its budget for 2020/21 and had a high level of reserves at 31 March 2021

**27.** The board is mainly funded by the contributions from the local authorities within which it operates: Falkirk Council, Stirling Council and Clackmannanshire Council. Other funding sources include income from fees and charges.

**28.** The board approved its 2020/21 budget in March 2020. Total budgeted expenditure and income was set at £2.950 million and £0.012 million respectively, and the board received funding of £2.811 million from constituent authorities (1.392 million from Falkirk Council, £0.979 million from Stirling Council and £0.440 million from Clackmannanshire Council). This resulted in a budget gap of £0.127 million which the board agreed to meet by using reserves.

**29.** The board reported an outturn of £2.692 million, remaining within its 2020/21 budget with an underspend of £0.246 million. This differs from the deficit of £0.145 million reported in the annual report and financial statements due to the impact of statutory accounting adjustments such as pension benefits.

**30.** The underspend is mainly related to delays in recruitment with Covid-19 impacting the board's ability to fill vacant posts. The board has also made savings as a result of the management team restructuring.

**31.** The underspend has resulted in a high level of reserves at 31 March 2021, with the total earmarked reserves of £0.289 million and uncommitted reserves of £0.229 million. The board's reserves strategy states that it should retain uncommitted reserves at a minimum level between 3 and 6 per cent of net expenditure but the actual position at the end of March 2021 was 7.7 per cent. The board plans to review the level of reserves along with savings and pressures as part of the budget process for 2022/23. It may use reserves to fund any 'spend to save' proposals to allow further reduction in future spending.

## The board continues to face a challenging financial position

**32.** The board approved its 2021/22 budget in February 2021 with proposed net expenditure of £2.966 million. Contributions from constituent authorities are budgeted at £2.838 million, resulting in a funding gap of £0.128 million which the board is planning to meet using reserves. This is based on the constituent authorities providing 100 per cent of the funding for implementation of the Barclay review, which includes an additional £0.027 million for 2021/22.

**33.** Preparing to implement the Barclay Review continues to have an impact for the board. Barclay funding is expected to be available until 2025. While the board had to repay its Barclay underspend of £0.140 million in 2020/21, the Scottish Government confirmed that the 2019/20 underspend does not need to be returned. The board decided to earmark this underspend of £0.007 million to offset future Barclay spending.

**34.** The board continues to face a challenging financial position and is forecasting a likely cumulative funding gap of £0.457 million by 2023/24. Employee costs are the main pressure for the board with over 70 per cent of the budget relating to this area. The inflationary cost pressures were funded by the constituent authorities in 2020/21, but the board expects to fund them internally through achieving savings in 2021/22. The board also recognises the increasing pressure to reduce the level of contributions required from its constituent authorities.

**35.** The board has a three-year service plan and financial forecasts in place. These forecasts are based on assumptions for variables such as Cabinet Office funding, inflation and pay awards. The three-year financial forecast provides the board with a good basis for monitoring financial performance but there is scope for developing this into an overarching longer-term financial strategy for the next five to ten years. This would help to set the context for the annual budget for the board. It would also enhance financial planning and further inform decision-making.

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## Recommendation 2

The board should continue to work with its constituent authorities to develop savings plans to address its challenging financial position. To enhance financial planning and further inform decision-making, the board should consider developing an overarching longer-term financial strategy for the next five to ten years.

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## National performance audit reports

**36.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.

[Appendix 3](#) highlights a number of the reports published in 2020/21.



# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Governance policies and procedures</b></p> <p>We reported last year that some of the board's policies require to be updated. The board accepted our recommendation to review and update its policies and procedures but, due to the impact of Covid-19, only financial regulations have been updated so far. The scheme of delegation and contract standing orders have not yet been updated.</p> <p><b>Risk</b> – policies are out of date and do not reflect the board's current arrangements.</p>	<p>The board should update the scheme of delegation and contract standing orders as soon as possible.</p> <p><a href="#">Paragraphs 24-25</a></p>	<p>Financial Regulations have been updated and presented to the Board at its meeting in February 2021. The Scheme of Delegation has been updated and is being presented to the Board at its meeting in September 2021. Contract Standing Orders is scheduled to be reviewed by end of March 2022.</p> <p>Responsible officer: Assessor</p> <p>Agreed date: March 2022</p>
<p><b>2. Financial sustainability and longer-term financial planning</b></p> <p>The board continues to face a challenging financial position and is forecasting a likely funding gap of £0.457 million by 2023/24. The three-year financial forecast provides the board with a good basis for monitoring financial performance but there is scope for developing this into an overarching longer-term financial strategy. This would enhance the information</p>	<p>As we recommended last year, the board should continue to work with its constituent authorities to develop savings plans to address its challenging financial position. It should also consider developing an overarching longer-term financial strategy for the next five to ten years to help identify problems with affordability at an early stage. The strategy should include scenario planning, whereby assumptions about different levels of future income,</p>	<p>The current 3 year financial planning gives the Board an indicative view of the pressures over the medium term recognising a level of uncertainty around future funding and pressures outwith the Boards control. We will look to take a longer term view for the 2022/23 budget setting including scenario planning as suggested whilst recognising the greater uncertainty over this period.</p> <p>Responsible officer:</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>available to the board and allow it to understand fully its financial position in the longer term, including any difficult decisions that may be required in future years.</p> <p><b>Risk</b> – the board is unable to achieve the required savings to provide the services required of it. Without a longer-term financial strategy, the board may not have the information required to make informed financial decisions that will be required in future years.</p>	<p>expenditure and activity are made.</p> <p><a href="#">Paragraphs 34-35</a></p>	<p>Treasurer and Assessor</p> <p>Agreed date: March 2022</p>

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# Appendix 2. Significant audit risks

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.

## Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement caused by management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements due to fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to management override of controls.</p>	<ul style="list-style-type: none"> <li>• Testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside of the normal course of business.</li> </ul>	<p>We tested journal entries, accruals, and prepayments. We reviewed accounting estimates.</p> <p><b>Conclusion:</b> Satisfactory – we found no material errors or transactions outside the normal course of business.</p>
<p><b>2. Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Completion of 'review of the work of an expert' in respect of the actuary including a review of actuarial assumptions.</li> <li>• Testing of pension disclosures, including data that the board provides to actuaries.</li> </ul>	<p>We reviewed the work of the actuary for the board and actuarial assumptions used. We tested the pension disclosures in the accounts and reviewed data that the board provided to the actuary.</p> <p><b>Conclusion:</b> Satisfactory – we found no material errors and were satisfied with the work of the expert.</p>

## Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>3. Financial sustainability</b></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 and the ability to retain and recruit qualified staff. The move from five to three yearly revaluations under the Barclay review will require additional staff resources during a time of increased pressures across the public sector due to Covid19.</p>	<ul style="list-style-type: none"> <li>Assess the effectiveness of financial planning in identifying the risks to financial sustainability in the short, medium, and long terms.</li> <li>Examine the arrangements in place to address identified funding gaps.</li> </ul>	<p>We assessed the effectiveness of the board's three-year financial plan in identifying the risks to financial sustainability in the short, medium, and long terms.</p> <p>We examined the existing arrangements in place to address funding gaps.</p> <p><b>Conclusion:</b> The board continues to face a challenging financial position. We recommend the board implements longer term financial planning. Refer to <a href="#">Appendix 1, action point 2</a>.</p>

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# Appendix 3. Summary of 2020/21 national performance reports

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## April

[Affordable housing](#)

## June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

## July

[The National Fraud Initiative in Scotland 2018/19](#)

## January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

## February

[NHS in Scotland 2020](#)

## March

[Improving outcomes for young people through school education](#)

# Central Scotland Valuation Joint Board

## 2020/21 Annual Audit Report

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