

Central Scotland Valuation Joint Board: Final report to the Board and the Controller of Audit on the 2015/16 audit

2 September 2016

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An overview of our audit plan:

- **Materiality:** £72,000 (2014/15: £27,820). The significant increase in comparison with prior year is due to our audit approach being updated to bring it in line with our other public sector audits.
- **Performance Materiality:** £64,800 (2014/15: £25,038)
- **Threshold for reporting misstatements:** £1,440 (2014/15: £1,391).
- **Significant risks over revenue recognition and management override of controls.**
- **Significant judgements over future funding uncertainty and the defined benefit pension scheme.**
- **Fully substantive audit** - We have not placed any reliance on internal controls and our audit work was fully substantive. We assessed the design and implementation of controls as part of our planning procedures, to assess the sufficiency of the control environment governing the production of financial information



Partner introduction

Partner introduction

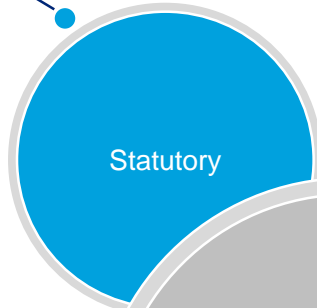
Overview of responsibilities

I have pleasure in presenting our final report to the Board for the 2015/16 audit.

We have early adopted the requirements of the new Code of Audit Practice which comes into force for the 2016/17 audits. A reminder of the requirements is set out below.

Financial Statements

Provide an opinion on the financial statements and the regularity of transactions.



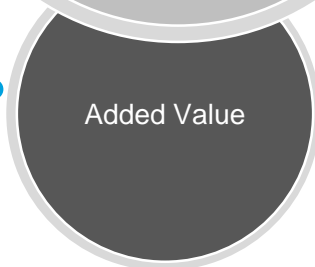
Annual Reports

Review and report on the other information such as annual governance statement, management commentaries, remuneration reports.



Public reporting

Audit plans, the principal audit outputs arising from audit plans and any other outputs on matters of public interest will be published on Audit Scotland's website.



Public Sector audit dimensions

Wider scope reporting covering financial sustainability, financial management, governance & transparency and value for money.

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

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

A strong understanding of your internal control environment.

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

Partner introduction (continued)

Financial statements audit

Conclusions from our testing

- The key judgements and areas of audit focus in the audit process related to:
 - Revenue recognition
 - Management override of controls
- A summary of our work on the significant financial statements risks is provided in the dashboard on page 6.
- We have also considered the following other matters during our audit:
 - Future Funding Uncertainty
 - Defined Benefit Pension Scheme
- No material misstatements or disclosure deficiencies have been identified during our audit.
- We have identified two factual misstatements which are above our reporting threshold, being a £4,537 misstatement in accruals and a £47,699 debtors understatement due to a missed journal between Clackmannanshire Council and the CSVJB. Both of these have been corrected in the updated financial statements. Further details are provided in Appendix 1.
- Based on the current status of our audit work, we anticipate issuing an unmodified audit opinion.

Status of the audit

- The audit is substantially complete subject to the completion of the following matters:
 - Finalisation of quality control procedures;
 - Receipt of signed management representation letter; and
 - Our review of events since 31 March 2016 including review of post year end board minutes.

Annual report

Overall conclusion

- We have read the Management Commentary in full in order to assess whether it is in line with our understanding of the Board and complies with the 2014 Regulations. No exceptions noted.
- The format and content of the Governance Statement is consistent with the requirements of the Code and concludes that there are no governance issues identified that are considered significant in relation to the overall governance framework, which is consistent with the findings of our audit. Some areas of its governance framework have been identified for improvement by the Board and are appropriately disclosed.
- We are satisfied that the remuneration report has been prepared in accordance with Local Authority Accounts (Scotland) Regulations 2014 and is consistent with the findings of our audit.

Partner introduction (continued)

Significant financial statements risk dashboard

Fraud risk	Controls approach and findings	Consistency of judgements with Deloitte expectations	Comment
Revenue recognition – Grants and Requisitions			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	We have confirmed that the contributions agreed as part of the budget have been reconciled to the actual amounts received and accounted for in the financial statements.
Management override of controls			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	<p>We have noted no issues with journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our review of accounting estimates for bias that could result in material misstatement due to fraud identified no issues.</p>

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

Partner introduction (continued)

Public sector audit dimensions

We have commented below on the public sector audit dimensions with regard to CSVJB:

Financial management

The final outturn was a net overspend of £235k against net cost of services compared to a budgeted overspend of £196k where the Board budgeted to use reserves to balance the gap due to funding uncertainties.

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

Financial sustainability

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

CSVJB is in the process of developing a 5 year plan in which future income and expenditure are forecasted. Uncertainty over future levels of funding from local government will be monitored through this budget forecast process.

Governance and transparency

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

Value for money

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

Jim Boyle
Audit Partner

Scope, nature and extent of audit

Scope, nature and extent of audit

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

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

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements;
- Providing the annual report on the audit to the Board and the Controller of Audit;
- Communicating audit plans to those charged with governance; and
- Identifying significant matters arising from the audit, alert Audit Scotland accordingly and supporting Audit Scotland in producing statutory reports as required.

In accordance with paragraph 5 of the Code, due to the small size and nature of the Board, no formal audit plan was reported to those charged with governance. Our planning work was completed and fully discussed with key officers from the Board.

The Board is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Significant risks and other matters

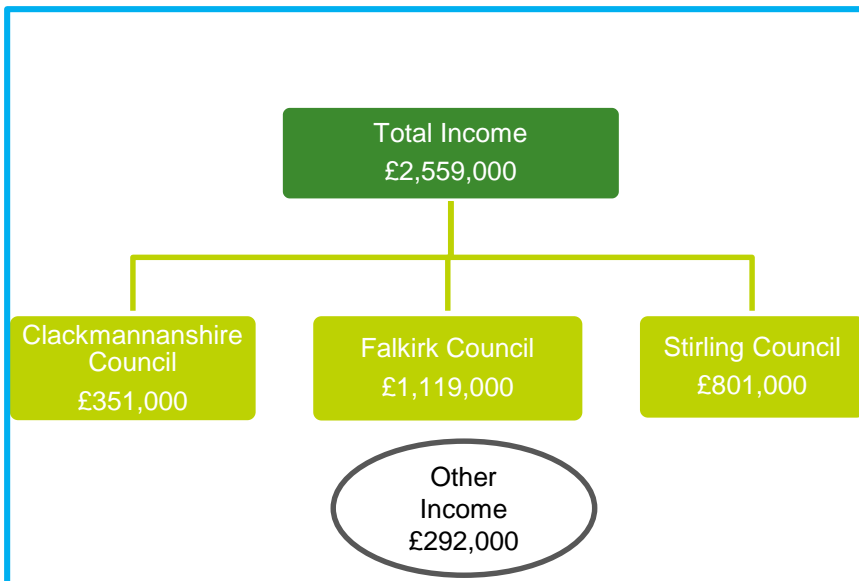
Significant risk

Revenue Recognition

Risk Identified

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

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



Key judgements

As the requisitions from the constituent authorities are agreed as part of the budget process at the start of the year and monitored against expenditure requirements during the year, there is very little judgement by management in recognising the income in the accounts.

Deloitte response

We have reviewed the treatment of income in the year to consider whether it is in line with IFRS guidance and the Code. We have obtained a copy of the 2015/16 budget approved by the Board detailing the requisitions due from the partner Councils which have been agreed to the amount recognised by the Board. We have also agreed the amounts received through the bank account.

Deloitte view

No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the Code.

We have agreed all income received to bank statements and to the Board approved budget.

Significant risk

Management override of controls

Risk Identified

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

This recognises that management within Clackmannanshire Council acting on behalf of the Board is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities.

This risk cannot be pinpointed to an account balance or potential error and therefore specific procedures to respond to the risk of management override of controls should be designed and performed.

Audit approach

Our audit work is designed to test for instances of management override of controls. We have summarised above our work on key estimates around revenue recognition and note that there have been no significant one-off or unusual transactions in the period.

Deloitte response

We have considered the risk factors over the manipulation of accounting entries made in preparation of the financial statements, and note that:

- the Board's results were monitored closely throughout the period; and
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We have used data analytics to test a sample of journals, based upon identification of items of potential audit interest. No issues noted from our testing.

Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements was completed with no issues noted.

Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

Other matters

Defined benefit pension scheme

Background

The Board participates in a defined benefit pension scheme. This scheme is administered by Falkirk Council, therefore actuarial assumptions are not made by CSVJB. There is a risk that the actuarial assumptions are not appropriate and therefore the valuation of the scheme is inaccurate. For the purposes of the CSVJBs financial statements, it is important to ensure that the assumptions applied are fully understood and challenged.

Audit work performed

We have performed the following:

- obtained a copy of the actuarial report produced by Hymans Robertson LLP, the scheme actuary, and agreed in the disclosures to notes 17 within the accounts;
- confirmed the total assets of the scheme with the Pension Fund financial statement;
- assessed the reasonableness of the split of assets and liabilities;
- reviewed the disclosures within the accounts against the Code;
- assessed the independence and expertise of the actuary supporting the basis of reliance upon their work; and
- liaised with our in-house actuary regarding their assessment of the key assumptions.

No issues noted from our audit work to date.

Deloitte response

The net pension liability has reduced from **£7.658 million** in 2014/15 to **£6.208 million** in 2015/16 as a result of an increase in the discount rates applied, offset to some extent by a slight increase in some inflation adjustments. We have reviewed the assumptions and on the whole, the set of assumptions is slightly towards the prudent end of the reasonable range at 31 March 2016. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

	Board	Benchmark	Comments
Discount rate	3.5%	3.45%	Reasonable
RPI inflation	3.2%	2.95%	Prudent
CPI Inflation rate	2.2%	1.95%	Prudent
Real Salary increase (over CPI inflation)	3.7%	Council specific	Consistent with PY
Pension increase	2.2%	1.95%	Prudent
Current mortality	Club visa	Council specific	Consistent with the 2014 funding valuation of the Fund. Reasonable.
Mortality – future improvements (CMI – Continuous Mortality Investigation)	CMI 12 with a 1.25% p.a. long-term trend	CMI 15 with a 1.25% p.a. long-term trend	Reasonable

Public sector audit dimensions

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Revenue expenditure

CSVJB budgeted a net overspend of £196k for the year to 31 March 2016, with budgeted income of £2,552k and expenditure of £2,748k. CSVJB planned to use reserves to fund this overspend of £196k which was allocated specifically to fund the additional costs associated with the Individual Electoral Registration.

	2015/16 Budget £'000	2015/16 Actual £'000	2015/16 Variance £'000
Gross Expenditure	2,744	3,037	293
Income	(2,744)	(2,559)	185
Net Expenditure	-	478	478
Adjustments between accounting basis and funding basis	N/A	(335)	N/A
Net decrease in usable reserves	N/A	143	N/A

The CSVJB spent £3,037k in the year 2015/16 and had a deficit on the provision of services for the financial year reported in the Comprehensive Income and Expenditure Account of £478k. The deficit is due to net pension interest of £243k and a net deficit of £235k in the Cost of Services.

The CSVJB's General Fund balance at 31 March 2016 was £880k (31 March 2015: £1,203k). The movement is driven by the deficit of £478k as noted above.

Deloitte conclusion

2015/16 results are broadly in line with budget. We have reviewed Board meeting minutes and have noted the budget being discussed by the Board. From our audit work and review of internal audit, we have noted no issues with regard to the control environment and internal controls.

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 or the way in which they should be delivered.

Financial Outlook

The 2016/17 budget was approved by the Board in February 2016. Adjustments have been made to the base figures for 2015/16 to produce estimates for 2016/17.

Individual Electoral Registration (IER) costs are an area of budgeted growth with increased canvasser costs and postage anticipated.

When setting the budget for 2016/17, notification of Cabinet Office funding had not been received, as had been the case in prior years. A bid has been prepared but the outcome is not yet available. If the bid is successful an equivalent amount will not be required from reserves

We have reviewed the 2016/17 budget which proposes £2,620k gross expenditure a £124k decrease on the prior year due to the receipt of government grant income and a decline in the purchase of computer hardware.

Proposed requisitions from the Councils is £2,515k. This therefore gives a funding gap of £105k which will be met from uncommitted reserves. During 2015/16, the Treasurer conducted a review of reserves and proposed a refund to constituent authorities, which has been facilitated through the budgeted use of reserves in 2016/17. The closing position represents an uncommitted reserves level of £110k which is in line with the Board's revised minimum reserves policy of 4% of net expenditure.

CSVJB is in the process of developing a 5 year plan in which future income and expenditure are forecasted. This will assist in longer term planning when implemented. A number of potential risks have been identified as part of this process which are being considered by the Board, including:

- uncertainty of future funding streams from both the Constituent authorities and the Cabinet Office;
- The ability of the CSVJB to make year on year reductions in the net expenditure at the same time as it is implementing new electoral systems and when 74.9% of its net expenditure is its cost of employment; and
- Potential additional unplanned work including the potential Council Tax replacement scheme, Non Domestic Rates Revaluation and a potential review of the Non Domestic Rates system.

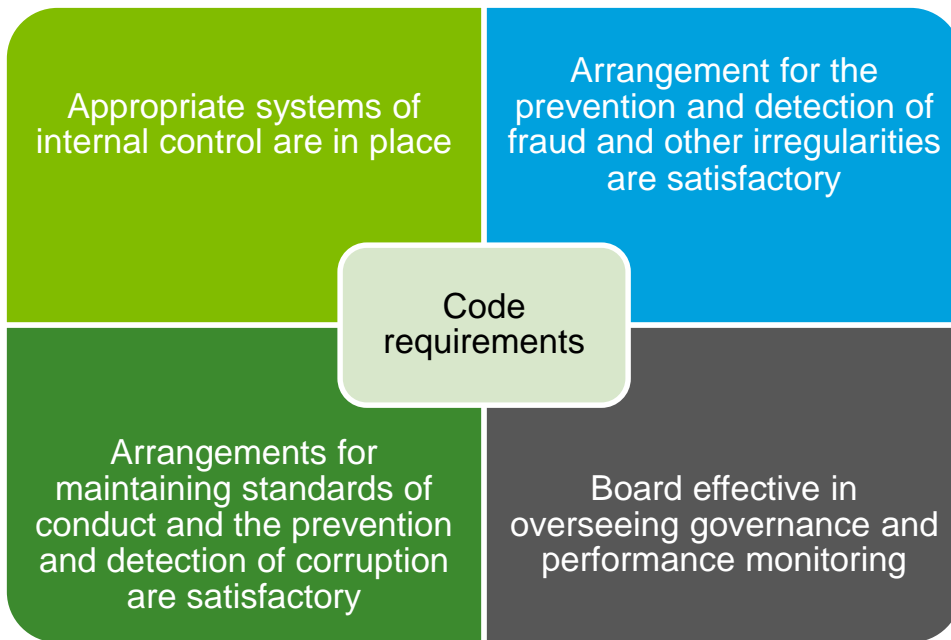
Deloitte conclusion

We have confirmed that a budget has been approved for 2016/17 and work is progressing to developing future year budgets with partner bodies. The Board recognises that there a number of key challenges in the medium to longer term which are being considered as part of this work.

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

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



Deloitte conclusion

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

The Board met on a regular basis during 2015/16 in order to review performance to date, and to monitor changes from budget.

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

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

Value for money

Value for money is concerned with using resources effectively and continually improving services.

Performance management

The Board receives and monitors performance on a regular basis. The current arrangements have been in place since the core indicators were agreed with the Scottish Government and the Accounts Commission in 2000. Reports also include trend information covering the previous three years' performance.

Performance against targets 2015/16

The performance against target for the current year are noted below:

Valuation Roll Indicator	2015/16 Target %	2015/16 Actual %
Changes made in less than 3 months	82	74
Changes made in less than 6 months	93	90
Changes made in more than 6 months	7	10

Valuation List Indicator	2015/16 Target	2015/16 Actual
Changes made in less than 3 months	97	97
Changes made in less than 6 months	99	99
Changes made in more than 6 months	1	1

Targets for 2016/17 have also been proposed based on consolidating the historical trend of high performance. As part of the future years budgets, the Board is considering the cost of maintaining these levels of performance and whether there is a potential to reduce costs by taking an explicit decision to reduce service standards. Appropriate consultation would be required should this option be considered.

Deloitte conclusion

Performance is regularly reviewed by the Board with results taken into account as part of longer term planning.

Your Annual Report

Our comments on your annual report

We welcome this opportunity to set out for the Board our observations on the annual report. We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Deloitte response

Management Commentary

The Management Commentary reflects on those matters companies are required to disclose under the Companies Act 2006, as adapted for local authorities. This includes description of the principal risks and uncertainties facing CSVJB, a review of performance in the year, a measurement of progress against performance indicators and commentary on going concern.

We have read the Management Commentary in full in order to ensure that it is in line with our understanding of the Board and complies with the required guidance on Management Commentary.

Governance Statement

The Governance Statement reports that CSVJB is in compliance with the aspects of the UK Corporate Governance Code which are set out within the guidance as being applicable to Authorities.

The format and content of the statement is consistent with the requirements of the Code and concludes that there are no governance issues identified that are considered significant in relation to the overall governance framework, which is consistent with the findings of our audit. Specific opportunities for improvement in governance and internal control have been identified by the Board and have been appropriately disclosed.

Remuneration Report

The remuneration report has been prepared in accordance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014, disclosing the remuneration of senior employees working for the Board.

We are satisfied that the remuneration report has been prepared in accordance with the amendment regulations and is consistent with the findings of our audit.

Purpose of our report and responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Board and Controller of Audit discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

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

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

Deloitte LLP

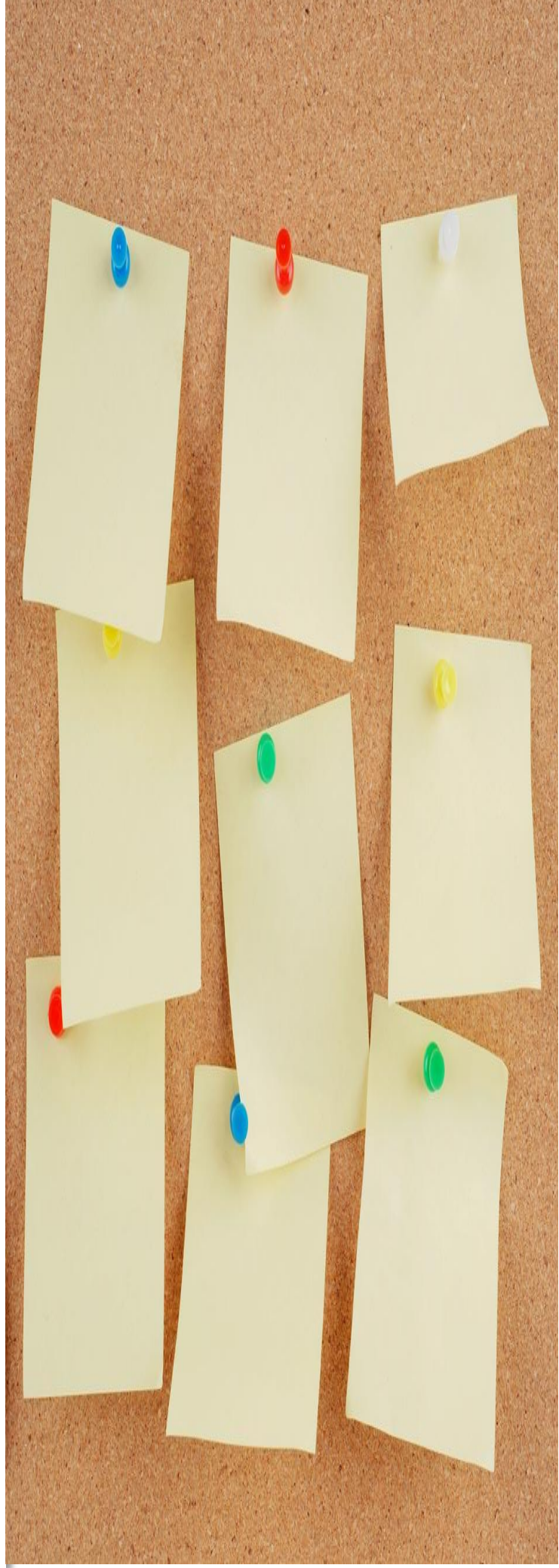
Deloitte LLP

Chartered Accountants

Edinburgh

2 September 2016

Appendices



Audit adjustments

Summary of uncorrected and corrected misstatements

Corrected misstatements

The following corrected misstatements have been noted from our audit work to date:

- A factual misstatement was noted within creditor testing for £4,537. This error has been adjusted for. This error occurred as the April 2016 HMRC NIC balance was accrued for incorrectly instead of March 2016.
- A factual misstatement was noted within debtors for £47,699. This error has been adjusted for. This error occurred as the sales invoice was paid after the year-end and the receivable balance was accounted for within the Clackmannanshire Council ledger, but had not been transferred to the CSVJB.

Uncorrected misstatements

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

Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work to date.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed

- In our planning we identified the risk of fraud in revenue recognition and management override of controls as key audit risks for the Board.
- During course of our audit, we have had discussions with management and those charged with governance.

Concerns

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

Independence and fees

There are no issues we wish to raise to you

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
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Fees	The audit fee for the year has been agreed at £7,500 and is within the indicative fee range set by Audit Scotland. There were no non-audit services for the period.
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Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Board's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
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Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.
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We are not aware of any relationships which are required to be disclosed.

Events and publications

Our events and publications to support the Board

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the Board are shared below:

Perspectives: The public sector's talent retention challenge – How can a talent drain be avoided?

Although global governments are increasingly conscious of the value of skills, the UK's public sector workforce has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html>

Publications

Decoding Digital Leadership

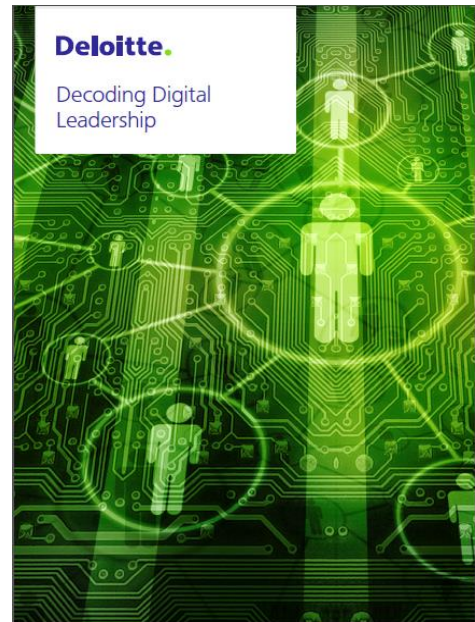
Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' only four times in its reform plans, while the Review mentioned it 58 times. With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html>



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