

Central Scotland Valuation Joint Board

2016/17 Annual Audit Report



 AUDIT SCOTLAND

To Members of Central Scotland Valuation Joint Board and the Controller of Audit

September 2017

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.

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Key messages

Audit of the 2016/17 annual accounts

- 1 Our audit opinions are unqualified and cover the financial statements, the management commentary, the annual governance statement and aspects of the remuneration report.

Financial management

- 2 The Board's 2016/17 outturn position resulted in a reduction in useable reserves, mainly due to a refund to constituent authorities in line with the agreed budget and reserves policy.

Financial sustainability

- 3 The Board's financial position has been managed through the use of reserves. However, rising demands, increasing costs and reductions to income will continue to place a strain on the Board's capacity to deliver the current level of service.

Governance and transparency

- 4 The Board's governance arrangements provide an appropriate framework for organisational decision-making. However, a number of policies and procedures require to be reviewed and updated.
- 5 The Board is open and transparent in the way it conducts its business, with public access to Board meetings.

Value for money

- 6 Performance management information is reported regularly at Board meetings.
- 7 Business performance has deteriorated in the last year. The Board has highlighted the 2017 revaluation exercise as the main contributing factor.

Introduction

1. This report is a summary of the findings arising from the 2016/17 audit of Central Scotland Valuation Joint Board (the Board).
2. The scope of the audit was set out in our Annual Audit Plan. This report comprises:
 - an audit of the annual report and accounts
 - consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main element of our audit work in 2016/17 has been an audit of the Board's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.
4. The Board is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.
5. Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
6. As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements

within the Board to manage its performance and use of resources such as money, staff and assets. Additionally, we consider the Board's Best Value arrangements. In doing this, we aim to support improvement and accountability.

7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
8. This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
9. Our Annual Audit Report contains an action plan at [Appendix 1 \(page 18\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. This report is addressed to both the Joint Board and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
12. We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

Our audit opinions are unqualified and cover the financial statements, the management commentary, the annual governance statement and aspects of the remuneration report.

Unqualified audit opinions

- 13.** The annual report and financial statements for the year ended 31 March 2017 were approved by the Board on 29 September 2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements
 - unqualified opinions on the management commentary, the annual governance statement and the remuneration report.
- 14.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

The Board's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

Submission of the Board's annual report and financial statements for audit

- 15.** We received the unaudited annual report and financial statements on 30 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan.
- 16.** The working papers provided with the unaudited annual report and financial statements were of a good standard and finance staff provided good support to the audit team during the audit.

Risk of material misstatement

- 17.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and our conclusions.

Materiality

- 18.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

19. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
20. On receipt of the annual report and accounts and following completion of audit testing we reviewed our original materiality calculations and concluded that they remained appropriate. The materiality levels we applied during the audit are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£28,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 75% of overall materiality.	£21,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£5,000

Source: Audit Scotland

How we evaluate misstatements

21. There were no material adjustments to the unaudited financial statements arising from our audit.
22. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. All errors identified were adjusted by management.

Significant findings

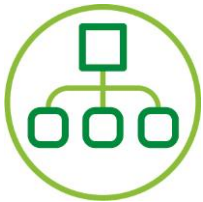
23. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. There are no significant findings.

Other findings

24. Our audit identified some minor presentational issues which were discussed with management. These were adjusted and reflected in the audited annual report and financial statements.

Part 2

Financial management



Main judgements

The Board's 2016/17 outturn position resulted in a reduction in useable reserves, mainly due to a refund to constituent authorities in line with the agreed budget and reserves policy.

Financial performance in 2016/17

25. In February 2016 the Board approved its budget for 2016/17. Total budgeted expenditure was £2.619 million and total budgeted income was £2.515 million. This resulted in a forecast deficit of £0.104 million which the Board agreed to meet through the use of reserves. The budget was aligned to the Board's statutory objectives to ensure services were delivered.
26. The Board reported a deficit on the provision of services for the year of £0.644 million. This resulted in a reduction in usable reserves of £0.375 million. This was mainly due to a refund of £0.440 million to constituent authorities agreed by the Board in its 2016/17 budget.
27. The Board's management accounts report a surplus for the year of £0.169 million. This differs from the position reported in the financial statements due to impact of statutory accounting adjustments such as pension benefits. The main reasons for the surplus are summarised in [Exhibit 3](#).

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

Exhibit 3

Summary of significant underspends

Area	Underspend (£)	Main reason(s) for variance
Underspends/over recovery		
Employee related expenditure	£88,331	As a result of the delay in finalising the final elements of the organisational restructure.
Supplies and services	£25,428	Due mainly to delays in the disaster recovery procurement process, and a stationery underspend.
Income	£30,891	Due to additional income received to support Individual Electoral Registration.

Budgetary monitoring and control

- 28.** We noted that the Board's budget is aligned to its statutory objectives. Budget monitoring updates are provided regularly to meetings of the Board. The budget monitoring updates provide details on variances against the budget and forecast year-end positions. This allows members and officers to take actions to address forecast over and under spends.

Internal controls

- 29.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Board has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
- 30.** The systems in place at the Board are hosted by Clackmannanshire Council and we assessed them in our role as external auditors of the Council. We identified some areas where controls were not operating as expected or improvements could be made. No significant control weaknesses were identified which could affect the Board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Prevention and detection of fraud

- 31.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Board's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, and fraud prevention.
- 32.** Based on the evidence reviewed by us, we concluded that the Board has reasonable arrangements in place for the prevention and detection of fraud. However areas for improvement including developing a whistleblowing policy and fraud policy have been identified in the Board's annual governance statement.

Part 3

Financial sustainability



Main judgements

The Board's financial position has been managed through the use of reserves. However, rising demands, increasing costs and reductions to income will continue to place a strain on the Board's capacity to deliver the current level of service.

Financial planning

- 33.** It is important that long-term financial strategies (typically covering five years or more) are in place which link spending to the Board's corporate strategy. Although members only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the Board.
- 34.** The Board prepares its budget on an annual basis. Officers prepare a three year service plan and forecasts of the Board's funding position for the next three years. The Board has yet to develop longer-term financial strategies covering at least five years.

Funding position

- 35.** The Board approved its 2017/18 budget in February 2017 with proposed total expenditure of £2.584 million. The Board has budgeted for requisitions from member of authorities of £2.464 million. This results in a funding gap for 2017/18 of £0.12 million, which will be funded from uncommitted reserves.
- 36.** The Board is facing challenges in maintaining a sustainable financial position. These include rising demands for services, increasing costs and reductions in income. By 2019/20 the funding gap is forecast to be £0.445 million.

Recommendation 1

The Board should work to develop savings plans to address funding gaps.

Reserves

- 37.** In common with other joint boards, the Board has no specific powers to retain reserves to meet future requirements and the amounts held in reserves belong to the member local authorities. These balances are used to support medium-term financial planning and address any unforeseen costs.

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.

- 38.** In 2016/17 the overall level of useable reserves held by the Board decreased from £0.880 million to £0.505 million. This represented 7.5% of budgeted net expenditure. When the 2017/18 budget was approved the board gave approval for the minimum reserve balance level to increase from 4% to 6% of the budget in anticipation of future years' funding pressures. The current reserves level is 7.5%. The Board has agreed to keep the level of reserves under review and consider further disbursements to constituent authorities.

Part 4

Governance and transparency



Main Judgements

The Board's governance arrangements provide an appropriate framework for organisational decision-making. However, a number of policies and procedures require to be reviewed and updated.

The Board is open and transparent in the way it conducts its business, with public access to Board meetings.

Governance arrangements

39. Members and management of the Board are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the Board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision-making.
40. As part of our audit work we reviewed the Board's governance policies and procedures and found that some, including the scheme of delegation and contract standing orders, had not been updated for a number of years. The Board is aware that policies and procedures need to be updated and has plans to do this.

Recommendation 2

The Board should review and update its policies and procedures to reflect its current arrangements.

Management commentary and the annual governance statement

41. The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires Joint Boards to prepare and publish, along with their financial statements, a management commentary (or equivalent) and an annual governance statement that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
42. Based on our knowledge and work performed, we concluded that the management commentary and the annual governance statement are consistent with the financial statements.

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.

Internal audit

43. Internal audit provides senior management and elected members with independent assurance on the Board's overall risk management, internal control and corporate governance processes. The internal audit function is carried out by Clackmannanshire Council's internal audit team.
44. The Council began a one year pilot joint working agreement with Falkirk Council on 1 April 2017 for the provision of a jointly resourced internal audit service to Clackmannanshire Council and Central Scotland Valuation Joint Board. Falkirk Council provides management and resources under the terms of the agreement. Falkirk Council's internal audit manager is responsible for leading the jointly resourced service. We will review how effectively this arrangement is working as part of our 2017/18 review of the adequacy of internal audit.
45. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. However, we did review audit reports that were relevant to our work to help with our understanding of the systems and processes in place.

Transparency

46. Transparency means that the public, in particular local residents have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources such as money, people and assets.
47. There is evidence from a number of sources which demonstrate the Board's commitment to transparency. Members of the public can attend Board meetings and Board papers are available on the Falkirk Council website. This includes a wide range of information on corporate policies, targets and performance and the financial statements; however the location of the papers on the website could be better signposted.
48. Overall, we concluded that the Board conducts its business in an open and transparent manner however the information held online could be made more easily accessible.

Equalities

49. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
50. We reviewed the current Equalities and Mainstreaming report published in April 2017 and concluded the Board has met its statutory duty to:
 - publish information on progress made in mainstreaming equality within the Board
 - report on progress made towards achieving equality outcomes published in 2013
 - publish annual employee information and details of the progress made in gathering and using information to better meet the duty
 - publish updated gender pay gap information.

- 51.** We concluded, on the basis of evidence reviewed, that the Board is proactive in ensuring that equality is mainstreamed.

Part 5

Value for money



Main judgements

Performance management information is reported regularly at Board meetings.

Business performance has deteriorated in the last year. The Board has highlighted the 2017 revaluation exercise as the main contributing factor.

Best Value

52. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The Board should have systems and processes to ensure that it can demonstrate that it is delivering Best Value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Following the public pound

53. Local government bodies have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.
54. The Board's financial regulations state that it will continuously strive to secure value for money and economy, efficiency and effectiveness in its use of resources.

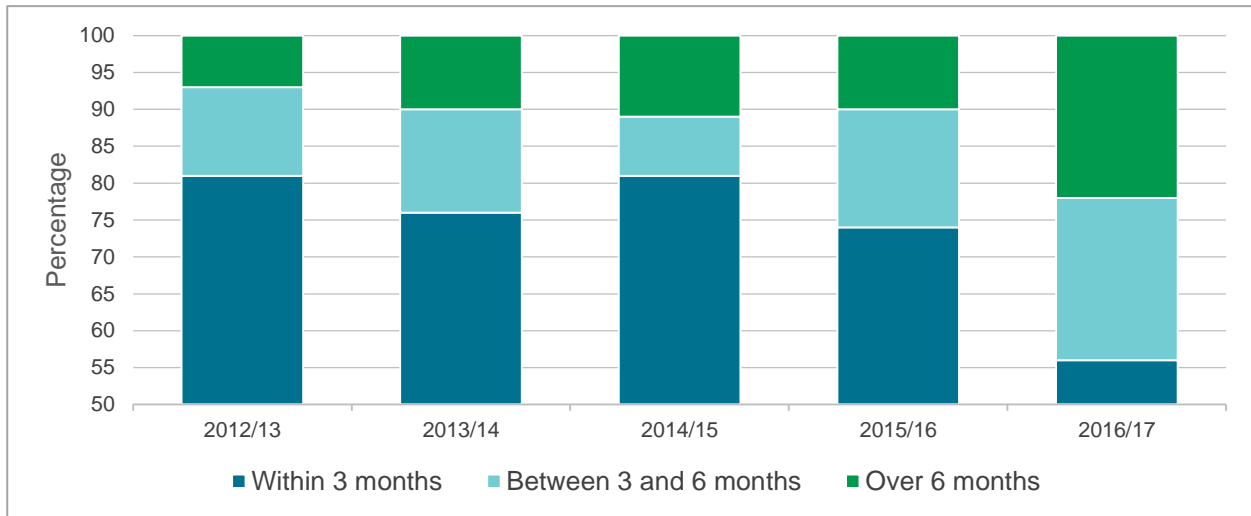
Performance management

55. Performance against key performance indicators is reported regularly to the Board. A Public Performance Report has been produced and this information is also reported in the management commentary in the annual report and financial statements.
56. [Exhibit 4](#) shows the Board's performance against key targets over the last five years. Performance for valuation roll and valuation list work has deteriorated over the last twelve months. This was mainly due to the extra work required to deliver the 2017 revaluation.

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

Exhibit 4

Analysis of Amendments to Valuation Roll performance over the last five years



Source: CSVJB Best Value Reports 2012/13 - 2016/17

- 57.** Performance standards for electoral registration are set by the Electoral Commission. We have not noted any issues with the Board's performance against these.

National performance audit reports

- 58.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Joint Board. These are outlined in [Appendix 3](#).

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/responsible officer/timing
11	<p>1. Financial sustainability</p> <p>The Board is facing challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in funding. The Board forecasts its funding gap will rise to £0.445 million by 2019/20.</p> <p>Risk</p> <p>The Board is unable to deliver its required services.</p>	<p>The Board should work to develop savings plans to address funding gaps.</p>	<p>The Assessor works with his Management Team and the Treasurer to prepare savings options each year. Discussions are already scheduled in respect of 2018/19 Budget setting process including consultation with constituent authorities to ensure the proposals presented to the Board in the Budget are affordable.</p> <p>Responsible officer: Treasurer and Assessor</p>
13	<p>2. Governance policies and procedures</p> <p>A number of the Board's policies require to be updated. These include the:</p> <ul style="list-style-type: none"> • scheme of delegation • contract standing orders • financial regulations and financial codes • employee code of conduct. <p>Risk</p> <p>Without up to date policies and procedures there is a risk that services are not delivered effectively and failures in governance could occur.</p>	<p>The Board should review and update its policies and procedures to reflect its current arrangements.</p>	<p>This work has been highlighted during the year. Revised policies and procedures will be presented to the Board for approval during 2017/18.</p> <p>Responsible officer: Assessor</p>

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 opinion on the financial statements.





















Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant management estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.</p>	<p>We tested journal entries, accruals and prepayments and found no material errors.</p>
<p>2 Risk of fraud over expenditure</p> <p>Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom and the Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits). The board incurs significant expenditure on what is described as other operating costs which require audit coverage.</p>	<p>There are a range of measures in place to prevent and detect fraud, including Financial Regulations, Standing Orders and a Code of Conduct for Staff. The board relies on Clackmannanshire Council's fraud policy arrangements.</p> <p>Participation in National Fraud Initiative as part of Clackmannanshire Council.</p>	<p>We tested controls on expenditure recognition and recording and found no significant issues.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>3 Financial sustainability and financial management</p> <p>The board set its Revenue Budget 2016/17 in February 2016. The budget identified a funding gap of £105k to be</p>	<p>Effective budget monitoring by management.</p> <p>The achievement of underspend monitored through reports to the board.</p>	<p>We carried out focussed cut-off testing at year-end and confirmed expenditure and income has been accounted for in the correct financial year.</p> <p>We reviewed the budget outturn</p>

Audit risk	Assurance procedure	Results and conclusions
<p>addressed by a transfer from uncommitted reserves. The September 2016 outturn report highlighted a projected underspend against budget of £75k, with the underspend relating mainly to employee costs. The likelihood is future funding levels will put added pressure on the budget setting process, and make financial sustainability increasingly challenging to maintain.</p>		<p>at year end and confirmed there was an underspend reported in the management accounts.</p> <p>We reviewed medium term financial plans, following the approval of the 2017/18 budget and concluded that funding gaps have been identified which will have to be addressed if the recommended level of reserves is to be maintained.</p>
<p>4 Transparency of Joint Board committee papers</p> <p>The board does not have its own website. Committee papers are on Falkirk Council's website but are not obviously available. Other content is held on the Scottish Assessors Association (SAA) website. There is a risk that CSVJB does not demonstrate high standards of corporate governance including openness and transparency in decision-making.</p>	<p>The SAA website is moving its content to Wordpress from 1.3.17. This will give more control over content and updates.</p>	<p>We reviewed the availability to the public of committee papers and concluded that improvements are required to allow members of the public to more easily locate Board papers on Falkirk Council's website.</p>

Appendix 3

Summary of national performance reports 2016/17



Apr			
May	 Common Agricultural Policy Futures programme: an update		
Jun	 South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland	
Jul	 Audit of higher education in Scottish universities	 Supporting Scotland's economic growth	
Aug	 Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update	 Scotland's colleges 2016
Sept	 Social work in Scotland	 Scotland's new financial powers	
Oct	 Angus Council: Best Value audit report	 NHS in Scotland 2016	
Nov	 How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16	
Dec	 Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	 Scotland's NHS workforce		
Mar	 Local government in Scotland: Performance and challenges 2017	 i6: a review	 Managing new financial powers: an update

Local government relevant reports

[*The National Fraud Initiative in Scotland - June 2016*](#)

[*How councils work - Roles and working relationships in councils - November 2016*](#)

[*Local government in Scotland: Financial overview 2015/16 - November 2016*](#)

[*Local government in Scotland: Performance and challenges 2017 - March 2017*](#)

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