

Grampian Valuation Joint Board

DRAFT 2018/19 Annual Audit Report



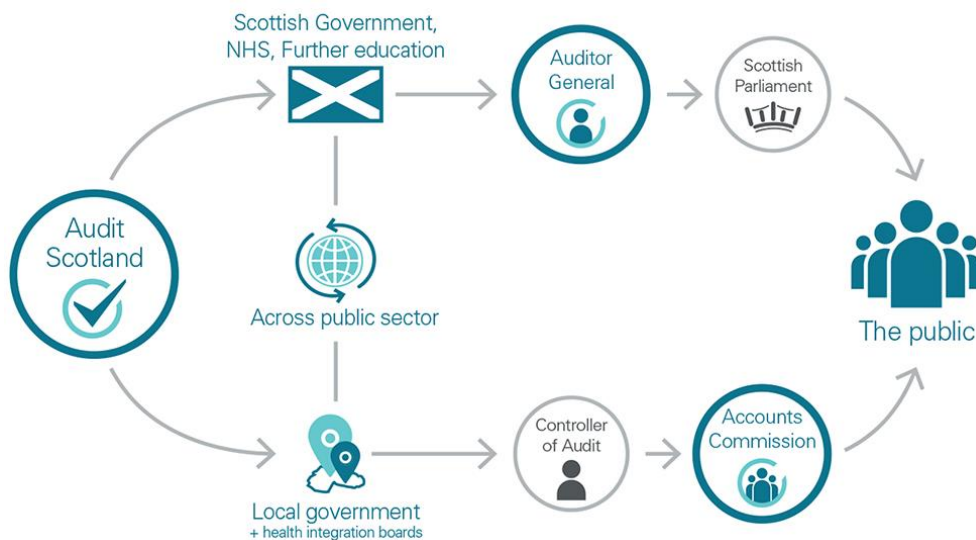
 AUDIT SCOTLAND

Prepared for the Grampian Valuation Joint Board and the Controller of Audit
August 2019

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

2018/19 annual report and accounts

- 1** The Joint Board's financial statements give a true and fair view and were properly prepared in accordance with the Code of Practice on local authority accounting in the UK 2018/19.
- 2** The management commentary, annual governance statement and the audited part of the remuneration report were all consistent with the financial statements and were properly prepared in accordance with the applicable requirements.

Financial sustainability

- 3** The Joint Board has effective arrangements in place for financial management. An underspend of £204,000 was achieved against the 2018/19 budget, the majority of which was returned to constituent authorities.
- 4** Budgets are prepared and approved on an annual basis. The Joint Board has recognised the need to improve its medium to longer-term financial planning, but limited progress has been made since we first raised this in August 2017.
- 5** The Joint Board faces a number of challenges in maintaining a sustainable financial position in the medium to longer-term. These include increasing costs resulting from the reform of the NDR system resulting from the Barclay review.

Introduction

1. This report summarises the findings from our 2018/19 audit of Grampian Valuation Joint Board (the 'Joint Board').
2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2019 meeting of the Joint Board. This report comprises the findings from:
 - an audit of the Joint Board's annual accounts
 - consideration of the Joint Board's financial sustainability and the appropriateness of the disclosures in the annual governance statement.
3. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are:
 - financial sustainability,
 - financial management,
 - governance and transparency, and
 - value for money.
4. Supplementary Guidance to the Code of Audit Practice 2016 allows appointed auditors to use judgement to conclude that the full application of the wider scope is not appropriate based on the risks, nature and size of an audited body (a small audited body clause). In our judgement the small audited body clause applies to the Grampian Valuation Joint Board. This means that our wider dimensions work has focussed on financial sustainability and the appropriateness of the disclosures in the annual governance statement.

Adding value through the audit

5. We add value to the Joint Board through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
 - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
 - providing clear conclusions on the appropriateness of the disclosures in the annual governance statements and financial sustainability.
6. In so doing, we aim to help the Joint Board promote improved standards of governance, better management and decision-making and more effective use of resources.

Responsibilities and reporting

- 7.** The Joint 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 Joint Board is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.
- 8.** 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.
- 9.** As public-sector auditors we give independent opinions on the annual accounts and conclude on the Joint Board's arrangements for securing financial sustainability and the appropriateness of its governance statement disclosures. In doing this, we aim to support improvement and accountability.
- 10.** The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the organisation and its services. As highlighted in our 2018/19 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions of the Joint Board, we applied the small body provisions of the Code to the 2018/19 audit.
- 11.** The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
- 12.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.
- 13.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and the 2018/19 audit fee of £7,280 set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 14.** This report is addressed to both the Grampian Valuation Joint Board and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.
- 15.** We would like to thank the management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

The Joint Board's financial statements give a true and fair view and were properly prepared in accordance with the Code of Practice on local authority accounting in the UK 2018/19.

The management commentary, annual governance statement and the audited part of the remuneration report, were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

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

Audit opinions on the annual report and accounts

16. The annual report and accounts for the year ended 31 March 2019 were approved by the board on 23 August 2019 (TBC). We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the Code of Practice on local authority accounting in the UK 2018/19 (TBC)
- the management commentary, annual governance statement and the audited part of the remuneration report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

Submission of annual report and accounts for audit

17. We received the unaudited annual accounts on 29 May 2019 in line with our agreed audit timetable.

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

Risks of material misstatement

19. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

20. We report a number of issues resulting from our work on these audit risks throughout this report and include appropriate recommendations in the action plan at [Appendix 1](#).

Materiality

21. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material, we consider both the amount and nature of the misstatement.

22. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 1](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

23. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

Exhibit 1 Materiality values

| Materiality level | Amount |
|-------------------------|---------|
| Overall materiality | £89,000 |
| Performance materiality | £62,000 |
| Reporting threshold | £4,000 |

Source: Annual Audit Plan 2018/19

Significant findings from the audit (ISA 260)

24. 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 covering accounting policies, accounting estimates and financial statements disclosures.

25. The significant findings from our audit are set out in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Exhibit 2 Significant findings from the audit of the financial statements

| Finding | Resolution |
|---|---|
| 1. Pension liability – McCloud judgement The courts have ruled that the transitional protections provided as part of the 2015 public service pension scheme changes discriminate on the grounds of age. The Joint Board's local government pension schemes will be impacted by this ruling. | Awaiting revised pension liability figures from the North East of Scotland Pension Fund's (NESPF) actuary. |

| Finding | Resolution |
|---|--|
| <p>2. Guaranteed minimum pensions (GMP)</p> <p>The courts have ruled that UK defined benefit pension schemes must compensate members for differences attributable to guaranteed minimum pensions (GMPs). The NESPF's actuary's general advice is that a 'trigger event' has yet to occur.</p> | <p>The Joint Board has added a contingent liability note to its accounts to explain and disclose this matter. We are content with this disclosure.</p> |
| <p>3. Going concern</p> <p>Auditors are required to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets. In accordance with International Accounting Standard 19 (Employee Benefits), the Joint Board has recognised its share of the net liabilities of the North East Scotland Pension Fund resulting in a net liabilities position (£4.476 million) on its balance sheet at the year end.</p> | <p>This accounting requirement has no impact on the underlying basis for meeting current and on-going pension liabilities which will be met, as they fall due, by contributions from the constituent authorities. We agree with management's view that it is appropriate to prepare the 2018/19 financial statements on the going concern basis.</p> |
| Source: Audit Scotland | |

How we evaluate misstatements

26. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. There were no uncorrected misstatements in the financial statements of the Joint Board.

Follow up of prior year recommendations

27. We reviewed progress made in implementing the agreed actions included in our 2017/18 annual audit report. We concluded that the Joint Board has made some progress during 2018/19 and, where appropriate, have included revised responses and timescales in [Appendix 1](#).

Part 2

Financial sustainability



Main judgements

Effective financial management arrangements are in place. An underspend of £204,000 was achieved against the 2018/19 budget, the majority of which was returned to constituent authorities.

Budgets are prepared and approved on an annual basis. The Joint Board has recognised the need to improve its medium to longer-term financial planning, but limited progress has been made since we first raised this in August 2017.

The Joint Board faces a number of challenges in maintaining a sustainable financial position in the medium to longer-term. These include increasing costs resulting from the reform of the NDR system resulting from the Barclay review.

Financial sustainability looks forward to the medium and longer-term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial performance in 2018/19

28. The Joint Board's net operating expenditure in 2018/19 was £4.088 million compared to budgeted net expenditure of £4.292 million, an underspend of £204,000. The majority of this underspend relates to vacant posts (£87,000) and other service expenses (£73,000) (see [Exhibit 3](#)).

Exhibit 3

Performance against budget in 2018/19

| | Budget £'000 | Actual £'000 | Over/(under) spend against budget £'000 |
|--|-----------------|-----------------|---|
| Employee benefit expenses | 3,298 | 3,206 | (92) |
| Other service expenses | 1,071 | 998 | (73) |
| Support service recharges | 57 | 58 | 1 |
| Requisitions | (4,292) | (4,292) | - |
| Government grants and other service income | (131) | (171) | (40) |
| Interest and Investment income | (3) | (3) | - |
| Net over/(under) spend against budget | - | (204) | (204) |

Source: Audited Annual Accounts 2018/19

29. The Joint Board used £7,000 of this surplus to fund capital expenditure in year and after transferring the maximum permitted (£62,000) to reserves, the remainder (£135,000) was returned to constituent authorities.

30. The net operating expenditure (£4.088 million) differs from the net cost of services disclosed in the comprehensive income and expenditure statement of £4.399 million by £311,000. This is because reports prepared for the Joint Board's monitoring purposes are prepared on a different basis from the accounting policies used to prepare the financial statements.

31. Note 7 to the accounts reconciles the figures in the budget outturn report including capital expenditure funded from revenue to the figures in the comprehensive income and expenditure statement (note: the budget monitoring reports £3,000 of interest income is included in the Other Income and Expenditure line in Note 7 but offset against net expenditure in the budget monitoring reports). Note 7 shows that the majority of the difference is due to the cost of retirement benefits which are based on cash flows in the budget monitoring reports, but on the current service costs of benefits accrued in the year within the accounts.

32. As highlighted in [Exhibit 2](#), the Joint Board's balance sheet as at 31 March 2019 was in a net liability position due to the requirements of IAS19 (Retirement Benefits). This liability will be made good by increased contributions over the remaining working lives of the employees, as assessed by the scheme's actuary

Reserves

33. The Joint Board maintains a General Fund balance to support medium-term financial planning and to address any unforeseen costs. In the absence of a more specific regulation for Valuation Joint Boards in respect of the carry forward limits on the general fund, members agreed that a maximum of 3% of the total budget should be added to the general fund in any one year as long as the cumulative balance does not exceed 5% of the total budget in that year.

34. As at 31 March 2019, the Joint Board had a General Fund balance of £215,000 (£153,000). It used the remainder of its Capital Fund balance (£55,000) to fund the purchase of IT equipment during 2018/19. Although the Joint Board currently has an adequate level of reserves, it faces a number of resourcing challenges in the medium to longer-term, including the increasing cost of services, reductions in requisition funding and uncertainties over the level of government funding available to cover the additional costs associated with Individual Electoral Registration (IER). These challenges are likely to put additional pressure on the General Fund balance.

2019/20 budget

35. The Joint Board approved its 2019/20 budget in February 2019. The budget was set at £4.463 million, an increase of £0.171 million (4%) on the 2018/19 budget, of which £99,000 relates to additional costs associated with NDR reform. The latest budget monitoring report, as at 31 May 2019, shows an underspend against the budget to date of £42,000. A detailed estimated outturn statement will be reported to the Joint Board meeting in November 2019.

36. Indicative figures were also included for 2020/21 and these show that Joint Board gross expenditure is forecast to rise by a further £353,000 (7.7%) in 2020/21. The majority of this increase (£260,000) relates to additional costs associated with NDR reform.

Medium to long-term financial planning

37. The Joint Board's budgets are prepared and approved on an annual basis and the 2019/20 budget included an indicative budget for the following year. In 2016/17 we recommended that the Joint Board develop a long-term financial strategy of 5 years or more supported by clear and detailed medium-term financial plans covering 3 years or more. These should set out scenario plans showing the best, worst and most likely scenarios with a clear assessment of the impact of budget assumptions on activity and any residual risks

38. The Treasurer has recognised the need to improve the Joint Board's financial planning and, initially advised that a financial strategy and framework would be prepared for a five-year period, and a three-year budget reported to the Board when the 2018/19 budget was set in January 2018. This initial target was missed as was the revised target to prepare a draft five-year strategy for consideration at the Joint Board meeting in February 2019. We have been advised that a three-year financial strategy will now be prepared, with work on this due to commence in September 2019.

39. The need to forecast and plan for the medium to longer term is becoming increasingly critical for the service due to the reducing IER funding. The additional responsibilities resulting from the Barclay review of non-domestic rates will also have medium to longer term resource implications. Audit Scotland's 2016 local government overview report set out some questions which provide a framework that officers, and members could use to assess the Joint Board's financial planning arrangements against. A self-assessment tool for councillors is also available as a supplement to the report.



Recommendation 1

The Joint Board should develop a long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +). Plans should set out scenario plans (best, worst, most likely) with a clear assessment of the impact of the budget assumptions on activity and any residual risks.

Annual governance statement

40. Our review of the Annual Governance Statement within the annual accounts assessed the assurances which are provided to the Treasurer regarding the adequacy and effectiveness of the Board's system of internal control which operated in the financial year. As in previous years, the Treasurer has placed reliance on the Internal Audit Manager's opinion that 'reasonable assurance can be placed on the adequacy and effectiveness of the system of internal financial control established within the Assessor's Service.'

41. The Annual Governance Statement sets out the key challenges facing the Joint Board in 2019/20. These include upgrading operational capacity in terms of workforce, processes and IT systems, improving and streamlining governance arrangements, and making optimal use of the new electoral registration system.

42. We concluded that the information in the Annual Governance Statement is consistent with the financial statements and complies with the guidance issued by Scottish Ministers.

European Union (EU) withdrawal

43. There remains significant uncertainty over the arrangements under which the UK will leave the EU. Withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies, and so it is critical that public sector bodies understand, assess and prepare for the likely impact on their business. As part of our 2018/19 audit we undertook a high-level review of the Joint Board's preparedness for EU withdrawal focusing on three key areas: people, funding and regulations.

44. People: the Joint Board do not employ any non-UK EU staff and there is expected to be limited impact on the workforce from EU withdrawal. Historically, the Joint Board have struggled to recruit suitably qualified staff and there may be a further limitation on the pool of available candidates depending on the outcomes of the withdrawal process regarding freedom of movement of labour.

45. Funding: the Joint Board are financed via requisitions from the constituent authorities and via grants from the UK government. A small amount of income is received from sales of the electoral register and interest from investment of reserves in Moray Council's loans fund. No funding is received directly from the EU and so this is considered to be a low risk area for the Joint Board.

46. Regulation: this is considered to be a low risk area for the Joint Board as the Withdrawal Act will transpose current EU regulations into UK law until any future amendments are actioned by the UK Government.

47. The Joint Board has assessed the impact of the EU withdrawal process on its business and identified the following as its key risks:

- unscheduled electoral events (including the EU elections in May 2019) – this is being mitigated through a closely managed and restricted annual leave policy for all staff. The 2019/20 budget was, however, set on a business-as-usual basis and there is a risk of overspend should there be several electoral events within a short time period. The Joint Board has sufficient reserves to cover such an overspend should it occur
- increased risk of appeals against valuation roll entries should EU withdrawal be deemed to be a material change in circumstances which impacts on value – the likely impact of this is more difficult to predict and would have to be managed once the volume of any additional appeals is known.

48. Overall, we concluded that the Joint Board had taken reasonable steps to prepare for the impact of EU withdrawal.

Appendix 1

Action plan 2018/19



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|---|--|
| 1 | <p>Medium to long-term financial planning</p> <p>The Joint Board's budgets are prepared and approved on an annual basis and include an indicative budget for the following year. Since 2016/17 we have recommended that the Joint Board prepare a long-term financial strategy supported by clear and detailed financial plans. Limited progress has been made with this to date.</p> <p>Risk</p> <p>The Joint Board is unable to deliver all of its commitments or meet performance targets within its existing resources.</p> | <p>A long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be developed. Plans should set out scenario plans (best, worst, most likely) with a clear assessment of the impact of budget assumptions on activity and any residual risks.</p> | <p>This action was delayed while we awaited information on the impact of the Barclay review and the associated funding.</p> <p>A more achievable three-year financial strategy will be complied. The first stage of this will be reported to the Board in the autumn.</p> <p>Responsible officer</p> <p>Assessor & ERO and Treasurer</p> <p>Revised date</p> <p>To commence September 2019</p> |

Follow up of prior year recommendations

| | | | |
|---|---|---|--|
| 2 | <p>External assessment of Internal Audit</p> <p>An external assessment of the Joint Board's internal audit function was not completed within five years of the introduction of the Public Sector Internal Audit Standards as required by these standards.</p> <p>Risk</p> <p>Without external assessment, Internal Audit cannot demonstrate that it complies with the Public Sector Internal Audit Standards.</p> | <p>An external assessment of the internal audit function should be undertaken as a matter of urgency and the results reported to the Joint Board.</p> | <p>The external assessment was completed in February 2019. It concluded that the internal audit service 'generally conforms' with the PSIAS.</p> <p>Of the thirteen assessment areas, internal audit fully conforms with four, generally conforms with seven and partially conforms with two.</p> <p>Closed</p> |
|---|---|---|--|



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|--|--|
| 3 | <p>Related party returns and registers of interest</p> <p>Of the 15 related party returns issued to members, only 8 responses (53%) were received. Senior officers are not asked to complete a related party return.</p> <p>Review of Joint Board member's registers of interest noted that only 3 showed evidence of update within the previous 6 months. The Joint Board's senior officers have not completed a register of interests' disclosure.</p> <p>Risk</p> <p>Related party transactions are not all detected and disclosed within the annual accounts as required by the Code.</p> | <p>The Joint Board should review its procedures for identifying related parties within the annual accounts. These should cover both members and senior officers. In addition, members should be reminded of the importance of keeping their registers of interest up to date and senior officers should be asked to complete a register of interests return.</p> | <p>In June 2019, the Joint Board agreed that all staff should complete registers of interest.</p> <p>Members have been reminded of the importance of completing related party returns. Return rates from members improved to 73% in current year.</p> <p>Revised action</p> <p>All staff will be asked to complete registers of interest by 31 August 2019</p> <p>Members will again be reminded of their responsibilities regarding related party returns as part of a training session to be given by the Treasurer in August 2019.</p> <p>Responsible officer</p> <p>Assessor & ERO and Treasurer</p> <p>Revised date</p> <p>August 2019</p> |

Follow up of recommendations still outstanding from 2016/17

| | | | |
|---|---|--|---|
| 4 | <p>Governance documents</p> <p>The following policies require to be reviewed to ensure that they are up to date and reflect the latest guidance:</p> <ul style="list-style-type: none"> • Code of Corporate Governance (last reviewed 2006) • Code of Conduct (last reviewed 2008) • Anti-Fraud and Corruption Policy (last reviewed 2009) • Confidential Reporting (Whistleblowing) Policy (last reviewed 2008) • Contingencies Plan (last reviewed 2010). <p>In addition, a scheme of delegation has not been prepared for the Joint Board.</p> | <p>Governance documents should be reviewed regularly to ensure that they are up to date and reflect best practice.</p> | <p>2017/18 update:</p> <p>Code of Corporate Governance was reviewed in August 2017.</p> <p>Scheme of delegation was implemented in August 2017.</p> <p>The following are scheduled for review in 2018:</p> <ul style="list-style-type: none"> • Code of Conduct • Anti-fraud and corruption policy • Confidential Reporting Policy • Contingencies Plan <p>IT policies are scheduled for review in 2020.</p> <p>2018/19 update:</p> <p>Contingencies Plan was reviewed in November 2018</p> |
|---|---|--|---|



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|---|--|
| | | | <p>Code of Conduct was approved by the Board in February 2019.</p> <p>Anti-fraud and corruption policy was reviewed during 2018 and will be considered by the Board at the August 2019 meeting.</p> <p>Confidential Reporting Policy is scheduled for review in November 2019.</p> <p>IT policies are scheduled for review in 2020.</p> <p>Revised action</p> <p>An updated timetable has been developed for the ongoing review of governance documents.</p> <p>Responsible officer</p> <p>Assessor & ERO and Treasurer</p> <p>Revised date</p> <p>As above</p> |
| 5 | <p>Medium to long-term financial planning</p> <p>The Joint Board's budgets are prepared and approved on an annual basis and include indicative budgets for the following two years. Scenario planning is not used to model the impact of different funding levels.</p> | <p>A long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be developed. Plans should set out scenario plans (best, worst, most likely) with a clear assessment of the impact of budget assumptions on activity and any residual risks.</p> | <p>This matter has been carried forward to the 2018/19 action plan (point 1).</p> <p>Ongoing</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 conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

| Audit risk | Assurance procedure | Results and conclusions |
|--|---|--|
| Risks of material misstatement in the financial statements | | |
| 1 Risk of management override of controls 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 consideration of the risk of management override of controls to change the position disclosed in the financial statements. | Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business. | No issues have arisen as part of our audit work that would indicate management override of controls affecting the outturn or year-end position. |
| 2 Estimation and judgements There is a significant degree of subjectivity in the measurement and valuation of the pension liability and non-current asset values included in the annual accounts. This subjectivity represents an increased risk of misstatement in the accounts. | Assessment of the scope, independence and competence of the professionals engaged in providing estimates. Assessment of the appropriateness of the actuarial assumptions. Establish officers' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end. Focussed testing of IAS19 disclosures. | Our audit procedures did not identify any issues with the estimation and judgements used in compiling the financial statements. |
| 3 Related party returns and registers of interest Our 2017/18 Annual Audit Report highlighted that improvements were required to procedures to ensure that related party returns are completed and up to date registers of interest are maintained for all elected members and senior officers. There is a risk that related party | Review of updated policies and procedures. Inspection of registers of interest of members and senior officers. Focussed testing of related party disclosures within the annual accounts. | The Joint Board has introduced registers of interest for all staff as well as members. The policy was approved at the 21 June 2019 meeting of the Joint Board and is in the process of being implemented. Related party returns continue to be requested from all members to support the information in the annual accounts. However, only 11 out of 15 members (73%) |

| Audit risk | Assurance procedure | Results and conclusions |
|---|---------------------|--|
| transactions are not all detected and disclosed within the annual accounts as required by the 2018/19 Code. | | responded to the request. This is an improvement from prior year (53%). (refer to Appendix 1, Recommendation 3) |

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

| | | |
|--|---|---|
| <p>4 Medium to long term financial planning</p> <p>The Joint Board's budgets are prepared and approved on an annual basis and include indicative budgets for the following two years. Scenario planning is not used to model the impact of different funding levels. Without medium to longer term financial planning, there is a risk that the Joint Board is not fully prepared for potential changes in its funding levels and that opportunities and risks may not be fully realised/mitigated.</p> | <p>Review the 2019/20 budget paper and five-year financial strategy.</p> <p>Comment on financial sustainability within our annual audit report.</p> | <p>A five-year financial strategy has not been prepared. The target time period has been reduced to three-years with work due to commence in September 2019.</p> <p>(refer to paragraphs 37 to 39, and Appendix 1, Recommendation 1)</p> |
| <p>5 Governance documents</p> <p>In previous years we have highlighted that a number of key governance documents are overdue for review and update. In response, the Assessor developed a timetable for the review of these policies but progress against this was limited during 2017/18. Without regular review and update, there is a risk that the Joint Board's policies and procedures do not reflect current regulations and/or best practice.</p> | <p>Obtain a revised timetable and monitor progress against this.</p> <p>Comment on governance arrangements within our annual audit report.</p> | <p>Progress against the previous timetable is set out at Appendix 1, recommendation 4.</p> <p>A revised timetable, dated July 2019, was provided to audit and we will continue to monitor progress as part of our 2019/20 audit.</p> <p>Overall, we concluded that progress had been slower than planned.</p> |

Appendix 3

Summary of national performance reports 2018/19

2018/19 Reports

| | | | |
|--|---|------|--|
| Local government in Scotland: Challenges and performance 2018 |  | Apr | |
| Councils' use of arm's-length organisations |  | May | Scottish Fire and Rescue Service: an update |
| Scotland's colleges 2018 |  | Jun | |
| | | Jul | The National Fraud Initiative in Scotland 2016/17 |
| Forth Replacement Crossing |  | Aug | Major project and procurement lessons |
| Children and young people's mental health |  | Sept | Superfast broadband for Scotland: further progress update |
| NHS in Scotland 2018 |  | Oct | |
| Health and social care integration: update on progress |  | Nov | Local government in Scotland: Financial overview 2017/18 |
| | | Dec | |
| | | Jan | |
| | | Feb | |
| | | Mar | Local government in Scotland: Challenges and performance 2019 |

Grampian Valuation Joint Board

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