# Grampian Valuation Joint Board External Audit Plan

## Year ending 31 March 2023

31/03/2023

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# Contents



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

## Purpose

This document provides an overview of the planned scope and timing of the external audit of Grampian Valuation Joint Board (VJB) for those charged with governance.

We are appointed by The Accounts Commission as the external auditors of Grampian VJB for the five year period 2022/23 to 2026/27.

## Respective responsibilities

Audit Scotland has issued an updated Code of Audit Practice ('the Code') covering this audit appointment period. There are no significant changes in the scope of our work compared to the previous 2016 Code. However, the 2021 Code applies the requirement to communicate key audit matters to all bodies, but requires them to be reported in the Annual Audit Report.

The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the Grampian VJB are summarised in Appendix 1 of this Audit Plan. We draw your attention to this and the Code.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on Grampian VJB's financial statements, which have been prepared by management with the oversight of those charged with governance (the Grampian VJB Board). Our audit of the financial statements does not relieve management or the Grampian VJB Board of your responsibilities.

It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. As part of our wider scope work, we will consider how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of Grampian VJB and is risk based.

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# Plan overview

The audit plan sets out our risk based audit approach for Grampian VJB. This plan outlines our initial risk assessment and is reported to those charged with governance (Grampian VJB Board) and will be shared with Audit Scotland.

## 01 Materiality

We have calculated our planning materiality using prior year gross expenditure as per audited 2021/22 financial statements as our benchmark, resulting in the following:

- Planning materiality of £90,000 is based on 1.90% of gross expenditure.
- Performance materiality of £58,500 is based on 65% of planning materiality.
- Triviality of £4,500 is based on 5% of performance materiality.
- A lower materiality of £5,000 will be used for the auditable elements of the Remuneration Report.

We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2022/23.

## 02 Financial statement audit

At planning, in accordance with the ISA's (UK) and Practice Note 10 (Revised 2020) 'The Audit of Public Sector Financial Statements' issued by the Public Audit Forum we have identified the following significant financial statement audit risks:

- Management override of controls (ISA (UK) 240);
- Risk of fraud in expenditure recognition – non payroll expenditure (cut-off) (PN10);
- Valuation of land and buildings (valuation);
- Valuation of defined benefit pension scheme (valuation).

Two revised Auditing Standards (ISA (UK) 315 (Revised July 2020) ISA (UK) 240 (Revised May 2021)) will be applicable to your audit for the first time in 2022/23. Further detail on the impact of these revised standards is set out in the appendices.

## 03 Wider Scope and Best Value Audit

In accordance with Code and supporting guidance: "Supplementary guidance -wider scope audit , less complex bodies and Best Value" we have concluded that Grampian VJB is a Less Complex Body and therefore carried out more limited wider scope work as set out in this Audit Plan.

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# Plan overview (continued)

## 04 Other audit matters

We summarise other audit matters for Grampian VJB Board awareness. This includes:

- Consideration of going concern in accordance with Practice Note 10.
- In accordance with the Code and planning guidance we also required to complete and submit a number of information returns and other deliverables to Audit Scotland during the year.

## 05 Our Audit Fee

Audit fees were shared by Audit Scotland with Grampian VJB in December 2022. Our fee agreed with Grampian VJB is £18,620 This fee includes a contribution of £710 to Audit Scotland costs. A Sectoral cap adjustment of -£10,530 has been applied, such that the total expected fee is £8,800.

Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP.

We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

## 06 Adding Value Through the Audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials . We use our LEAP audit methodology and data analytics to ensure delivery of a quality audit.

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# Audit approach

**Kick off Audit Planning**
Acceptance and Continuance and risk management considerations
(Jan 2023)

**Audit planning**
Including liaison with prior year auditor, management inquires, materiality, risk assessment
(Feb & Mar 2023)

**Draft Audit Plan**
Submitted to Grampian VJB Officers and Audit Scotland
(Mar 2023)

**Opening balances**
Review of predecessor auditor's working papers
(Apr 2023)

**Walkthrough of controls** relevant to areas of significant audit risk and early transaction testing
(Mar & Apr 2023)

**Final Audit Plan**
Presented to Grampian VJB Board and Audit Scotland
(Jun 2023)

**Wider Scope work**
focused on wider scope areas in line with the less complex body exemption
(May & Jun 2023)

**Final audit scoping**
Setting testing approach for financial statement line items including significant audit risks
(Jul 2023)

**Financial statement audit** - substantive testing of unaudited financial statements
(Jul & Aug 2023)

**Concluding audit procedures** including reporting, drafting of auditor's report and letter of representation
(Aug 2023)

**Reporting to the Grampian VJB Board**
(Sep 2023)

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# Audit timeline

The target dates specified by Audit Scotland for submission of audit Plans, audited accounts and the Annual Audit Report have been brought forward in the 2021 Code. We are required to submit audit plans to Audit Scotland by 31 March 2023, and the target date to submit audited accounts and the Annual Audit Report is 30 September 2023. We have set out below our planned timescales for the Grampian VJB audit.


## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging our other audit engagements. Where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft accounts, comprising financial statements and related reports, of good quality, by the deadline you have agreed with us
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements
- ensure that all appropriate staff, including valuers of land and buildings, are available to us for queries over the planned period of the audit , or as otherwise agreed
- respond promptly and appropriately to all audit queries, within agreed timescales.

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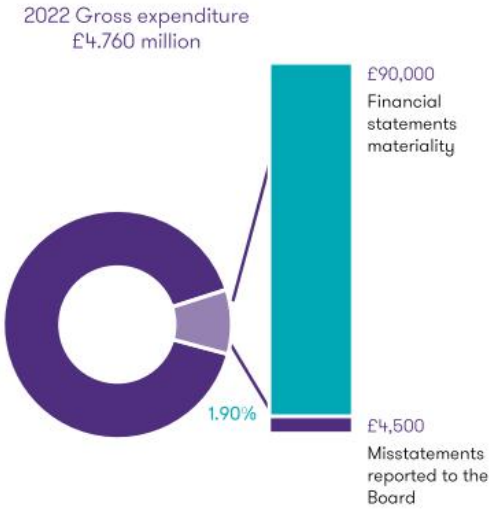
# Materiality

Financial statement materiality is determined based on a proportion of gross expenditure. We have determined planning materiality to be £90,000, which equates to approximately 1.90% of gross expenditure as per the 2021/22 audited financial statements.




Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed financial statement materiality. We use this to determine our testing approach to the financial statements. We have set this at 65% of planning materiality (£58,500). This is based on our understanding of Grampian VJB and our overall risk assessment procedures.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We apply a separate **lower materiality level of £5,000** to the auditable elements of the Remuneration Report.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be 5% of performance materiality, giving a trivial amount of £4,500.

**We will update our materiality based on the unaudited 2022/23 financial statements when received in June 2023. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.**

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# Significant audit risks

Significant risks are defined by ISAs(UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| | |
|---|---|
| Management Override of Controls (as required by Auditing Standards – ISA (UK) 240) | As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.<br><br>We will:<br>• Document our understanding of and evaluate the design effectiveness of management's key controls over journals;<br>• Analyse your full journal listing for the year and use this to determine our criteria for selecting high risk journals;<br>• Test the high risk journals we have identified;<br>• Gain an understanding of the critical judgements applied by management in the preparation of the financial statements and consider their reasonableness;<br>• Gain an understanding of the key accounting estimates made by management and carry out substantive testing on in scope estimates.<br>• Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

# Significant audit risks (continued (1))

| | |
|---|---|
| Risk of Fraud in Revenue (as required within Auditing Standards– ISA (UK) 240)<br>(Rebutted) | As set out in ISA (UK) 240 (Revised May 2021) there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Grampian VJB, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are deemed to be limited. |

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# Significant audit risks (continued (2))

**Risk of Fraud in Expenditure (as recommended in Practice Note 10)**

As set out in practice note 10 (Revised 2020) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

Grampian VJB's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as a result of fraud to occur in this area.

We therefore focus our risk on the following non-payroll expenditure streams: Other service expenses, Support service recharges. Our testing will include a specific focus on year end cut-off arrangements, including consideration of the existence of accruals in relation to non payroll/non finance expenditure.

We will:

- Evaluate your accounting policy for recognition of expenditure for appropriateness and compliance with the CIPFA/LASAAC Code of Practice 2022/23;
- Perform detail testing of expenditure transactions at and around year end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct accounting period;
- Review the judgements and estimates made by management when recognising accruals at year end within the financial statements, and where appropriate challenge management accordingly.

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# Significant audit risks (continued (3) )

### Valuation of land, buildings and council dwellings

**This significant risk is one of the most significant assessed risks of material misstatement for the audit and is expected to be a key audit matter.**

In accordance with the CIPFA/LASAAC Code of Practice, subsequent to initial recognition, Grampian VJB is required to hold property and property, plant and equipment (PPE) on a valuation basis. The valuation basis used will depend on the nature and use of the assets. Specialised land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value.

Grampian VJB appoint Moray Council's Head of Estates to undertake a rolling programme of valuations across their asset base, valuing land, buildings and council dwellings at least once every five years. In the intervening periods Grampian VJB carries out a desktop review to assess the material accuracy of the assets not revalued. As at 31 March 2022, Grampian VJB held PPE of £0.730m including land and buildings of £0.638m. From our discussions with management, we understand that Grampian VJB are currently not planning to revalue any of these assets in 2022/23, with the next revaluation scheduled to be during 2023/24. Management's assessment of the impact of the movement in assets since the last valuation will be a key part of our audit challenge

Given the significant value of the land held by Grampian VJB, and the level of complexity and judgement involved in their estimation process, there is an inherent risk of material misstatement in the year end valuation of some of these assets. However, the risk is less prevalent in other assets as these are generally held at depreciated historical costs, as a proxy of fair value and therefore less likely to be materially misstated. We will therefore focus our audit attention on assets that have large and unusual changes in valuations compared to last year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of land and buildings in our Annual Audit Report in September.

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# Significant audit risks (continued (4) )

## Valuation of land, buildings and council dwellings (continued)

This significant risk is one of the most significant assessed risks of material misstatement for the audit and is expected to be a key audit matter.

Our testing will include:

- Evaluating management's processes and controls for the calculation of the valuation estimates, the instructions issued to their management experts and the scope of their work;
- Evaluating the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantively tested to ensure the valuations are reasonable;
- Challenging the key data and assumptions used by management's experts in the valuation process for these assets;
- Testing a selection of other asset revaluations made during the year to ensure they have been input accurately into the entity's asset register, and the revaluations have been correctly reflected in the financial statements;
- Evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

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# Significant audit risks (continued (5))

**Defined benefit pension scheme**

**This significant risk is one of the most significant assessed risks of material misstatement for the audit and a key audit matter.**

Grampian VJB participates in the North East Scotland Pension Fund (NESPF), a local government pension scheme, which is administered by Aberdeen City Council. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Grampian VJB is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position. As at 31 March 2022 Grampian VJB had pension fund liabilities of £0.503m.

Grampian VJB's actuary Mercer Limited provide an annual IAS 19 actuarial valuation of Grampian VJB's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme's gross assets and gross liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme net liability could be materially misstated within the financial statements. This risk is focussed on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and the suitability of these for Grampian VJB.

We will:

- Evaluating management's processes and controls for the calculation of the gross asset and gross liability and estimates, the instructions issued to the actuarial expert and the scope of their work
- Evaluate the assumptions made by Mercer in the calculation of the estimate, using work performed by an auditor's expert commissioned on behalf of Audit Scotland and additional follow up procedures (where required)
- Evaluating the data used by management's experts in the calculation of the estimates
- Performing substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations;
- Assessing the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements.

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# Other matters

## Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2022/23 issued by Audit Scotland:

- We audit parts of your Remuneration Report, as required under the Code, and check whether these sections have been properly prepared (opinion).
- We read the sections of your Statement of Accounts which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in Delivering Good Governance in Local Government: Framework (2016) (opinion).
- We consider our other duties under the Code and planning guidance (2022/23), as and when required, including:
  - Supporting Audit Scotland's reporting to the Accounts Commission
  - Contributing to Audit Scotland Performance Reports and providing regular updates to Audit Scotland to share awareness of current issues
  - Contributing to the National Fraud Initiative (NFI) report
  - Notifying the Controller of the Audit when circumstances indicate a statutory report may be required
  - Completing mandated information requests and returns and notifying Audit Scotland of any cases of money laundering or fraud
  - Review of Technical guidance prior to issue by Audit Scotland.

## Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 was updated in 2020 to take account of revisions to ISAs (UK), including ISA (UK) 570 (Revised September 2019) on going concern. PN 10 allows auditors to apply a 'continued provision of service approach' when auditing going concern in the public sector, where appropriate. Audit Scotland's also issued further guidance in a Going Concern publication in December 2020).

Within our wider scope work we will conclude on Grampian VJB's arrangements to ensure financial sustainability.

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# Other matters (continued (1))

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be considered as part of our audit. However, the procedures will not be as extensive as the procedures adopted for the significant risks we have identified and highlighted in this Audit Plan.

## Internal control environment

During our initial audit planning we will develop our understanding of your control environment (design) as it relates to the preparation of your financial statements. In particular we will:

- Consider key business processes and related controls
- Assess the design of key controls over all significant risks we have identified. This will include key controls over: journal entries, valuation of land and buildings, valuation of defined benefit pension liabilities and other material areas of management estimate and judgement.

Our focus is on design and implementation of controls only. We do not intend to assess, or place any reliance on the operating effectiveness of your controls during our audit.

## Audit handover

To facilitate effective audit planning and deliver an efficient audit we gain a detailed understanding of Grampian VJB from discussions with key personnel at the entity, internal audit and the prior year auditor, attendance at Grampian VJB Board meetings and review of key documents.

In line with Audit Scotland's Handover guidance we seek to place as much assurance as possible on your previous auditor's work on your opening balances. We will visit your previous auditor in April and reviewed their prior year audit working paper files.

## Financial reporting developments

During our audit we will actively discuss emerging financial reporting developments with you.

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# Other matters (continued (2))

## Progress against prior year audit recommendations

The predecessor auditor identified the following issues in their 2021/22 audit of Grampian VJB's financial statements, which resulted in one recommendation being reported in their 2021/22 Annual Audit Report.

We have asked management about the implementation of the predecessor auditor's recommendation and the progress is noted below. We will provide an update in the Annual Audit Report.

| Assessment | Issue and risk previously communicated | Update from management on actions taken to address the issue |
|---|---|---|
| In progress | **Issue:** The Joint Board revalues its land and buildings every five years. In the intervening years, the Accounting Code of Practice requires that management consider whether the carrying amount of assets included in the financial statements differs materially from that which would be determined using the current value at the end of the reporting period. The previous auditor requested this assessment from management but initially were only provided with an assertion that there was no material difference.<br><br>**Risk:** the carrying amount of assets differs materially from the current value at the end of the reporting period<br><br>**Previous auditor recommendation:** Management should provide a working paper that demonstrates that the carrying value of non-current assets not revalued in the year does not differ materially from the current value of the assets at the reporting date. This working paper should include the evidence used to reach this conclusion, the definition of materiality used and consider the impact of reversing any accumulated depreciation on the carrying value of these non-current assets. | Management have confirmed that they are preparing to provide a working paper clearly showing their assessment for the 2022/23 financial statements. |

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# Wider scope exemption

Under the Code and supporting guidance: "Supplementary guidance - wider scope audit, less complex bodies and Best Value" issued by Audit Scotland, there is an exemption in relation to the normal wider scope audit requirements of the Code for public bodies which are smaller and have limited financial activity (referred to as "Less Complex Bodies").

As required by the Code and this supporting guidance. we have assessed both the quantitative and qualitative risk factors related to Grampian VJB and concluded that Grampian VJB qualifies for this exemption for 2022/23. From a quantitative perspective the gross revenue, gross assets and gross liabilities of Grampian VJB are not expected to exceed the £10.2 million limit set out in Audit Scotland's guidance, and from a qualitative perspective we have not identified any wider scope risks beyond financial sustainability that would require further consideration during the audit.

## Financial Sustainability

Grampian VJB have prepared a three year budget from 2023/24. The budget is showing a proposed total requisition of £5.034 million for 2023/24 (2022/23 budget was £4.749 million). The budget is particularly affected by salaries with employee benefits representing around 75% of expenditure. The risk associated with this has been reflected in the budget by way of a 5% pay award, being the midpoint of a range considered.

It is not expected that the use of reserves will be required to balance spend in 2023/24 and reserves at 31 March 2023 will remain at the maximum approved level of £0.244 million, after transferring the estimated surplus from 2022/23.

While the 2022/23 year-end position is currently predicting an underspend of £0.405 million against budget, there is a risk over future financial sustainability and planning in light of the significant financial challenges faced across the public sector, including uncertainties over levels of funding and cost increases particularly around employee benefits.

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# Wider scope exemption

Our wider scope work at Grampian VJB will be limited to the following areas specified for Less Complex Bodies in the Code:

| Wider scope arrangements for less complex bodies set out in the 2021 Code |
|---|
| A review of the Annual Governance Statement |
| Concluding on the financial sustainability of the body and the services that it delivers over the medium to longer term |

We will report our findings, conclusions and any recommendations in our Annual Audit Report.

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# Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC on audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the Scottish quality framework.

Audit fees were shared by Audit Scotland with Grampian VJB in December 2022. We will agree our proposed audit fee with the Treasurer, and this is set out on page 19 of this Audit Plan. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

## Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified.

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

The baseline fee of £8,800 has been set by Audit Scotland. In accordance with Audit Scotland guidance, we are able to discuss a variation to the audit fee where additional work is required.

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# Audit Fees (continued)

## Audit fees for 2022/23

| Service | Fees £ |
|---|---|
| External Auditor Remuneration | £18,620 |
| Pooled Costs | Nil |
| Contribution to Audit Scotland support costs | £710 |
| Contribution to Performance Audit and Best Value | Nil |
| Sectoral cap adjustment | -£10,530 |
| **2022/23 Fee** | **£8,800** |

## Additional Fees (Non-Audit Services)

| Service | Fees £ |
|---|---|
| At planning stage we confirm there are no planned non-audit services | Nil |

## Fee assumptions

In setting the fee for 2022/23 we have assumed that you will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence for all critical and significant judgements and estimates made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- Provide ongoing access to officers and management experts throughout the audit and timely responses to audit queries.

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# Adding value through the audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials and our LEAP audit methodology and use of data analytics to ensure delivery of a quality audit.

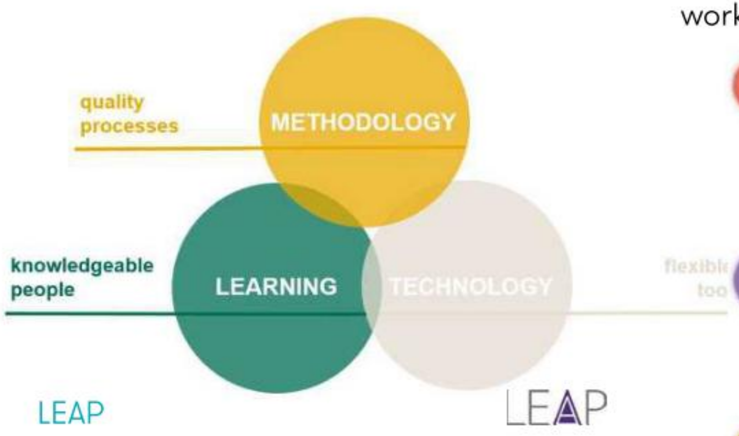
Our audit methodology is risk based and includes developing a good understanding of Grampian VJB. The diagram opposite summarises how our methodology and use of data adds value to our audit.

We comply with UK Auditing Standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest through our Audit Investment Plan, which is supported by a specific national Public Sector Investment Plan.

We comply with Audit Scotland's quality arrangements, including submitting an Annual Quality Report on our Audit Scotland portfolio. Audit Scotland's quality report for 2021/22 can be found on the Audit Scotland website.

Our wider quality arrangements are set out in our annual transparency reports which are available on our website here: Annual report 2021.

**Use of audit, data interrogation and analytics software**




## LEAP

- A globally developed ISA-aligned methodology that re-engineers our audit approach to focus on quality and effectiveness
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- The LEAP approach allows us to tailor the audit programme to help engagement teams respond quickly to any changes as they occur, keeping quality high through responsiveness and flexibility.

## Inflo

Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.

REQUEST AND SHARE
- Communicate and transfer documents securely; Extract data directly from client systems; Work flow assignment and progress monitoring

ASSESS AND SCOPE
- Compare balances and visualise trends; Understand trends and perform more granular risk assessment

VERIFY AND REVIEW
- Automate sampling; Download automated work papers

INTERROGATE AND EVALUATE
- Analyse 100% of transactions quickly and easily; Identify high risk transactions for investigation and testing; Provide client reports and relevant benchmarking KPIs

FOCUS AND ASSURE
- Visualise relationships impacting core business cycles; Analyse 100% of transactions to focus audit on unusual items; Combine business process analytics with related testing to provide greater audit and process assurance

INSIGHTS
- Detailed visualisations to add value to meetings and reports

# Appendices

# Independence

## Auditor independence

Ethical Standards and ISA (UK) 260 'Communication with Those Charged With Governance' require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the Firm, or covered persons. relating to our independence.

We encourage you to contact us to discuss any independence issues, with us and will discuss the matter with you if we make any significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors of Grampian VJB that we are required to report or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the 2019 Ethical Standard.

Our team complete annual fit and proper declarations, including independence confirmations, as well as confirming independence from individual audited bodies when completing timesheets. The work of our Ethics team is overseen by our Ethics partner and all staff undergo regular ethics training each year.

**We confirm we are independent of Grampian VJB.**

## Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We did not provide any non-audit or additional services to Grampian VJB prior to our appointment as auditors.

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# Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

## Grampian VJB

Your responsibilities include:

- Maintaining adequate accounting records and working papers
- Preparing accounts for audit, comprising financial statements, which give a true and fair view, and related reports
- Establishing and maintaining a sound system of internal control
- Establishing sound arrangements for proper conduct of affairs, including the regularity of transactions
- Maintaining standards of conduct for the prevention and detection of fraud and other irregularities
- Maintaining strong corporate governance arrangements and a financial position that is soundly based
- Establishing and maintaining an effective internal audit function.

## External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope and Best Value work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required
- Notifying Audit Scotland of any known or suspected frauds greater than £5,000
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2022/23).

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# Communication

ISA (UK) 260 'Communication with Those Charged With Governance', as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Grampian VJB Board). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Grampian VJB Board.

| Our communication plan | Audit Plan | Annual Report (our ISA 260 Report) |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant matters in relation to going concern | • | • |
| Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud | • | • |
| Views about the qualitative aspects of Grampian VJB's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures | | • |
| Significant findings from the audit | | • |
| Significant matters and issues arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report or emphasis of matter | | • |

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# Fraud responsibilities

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on Grampian VJB was the year ended 31 March 2023. Requirements in ISA (UK) 240 (Revised May 2021) have been enhanced for the identification and assessment of risks of material misstatement due to fraud and the response to those risks.

**The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Grampian VJB.**

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.

It is Grampian VJB's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

As auditors, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

As part of our risk assessment procedures we are required to:

- identify and assess the risks of material misstatement in the financial statements due to fraud, including financial misreporting and misappropriation of assets.
- hold separate discussions with management, those charged with governance and others (as appropriate) to gain insights on their views of fraud.

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# Fraud responsibilities (continued)

During our audit work we will:

- design and implement appropriate audit procedures to respond to the risks of misstatement we have identified and reported in this Audit Plan
- remain alert to new risks and amend our risk assessments accordingly
- respond appropriately to any risks identified.

Throughout the audit we work with you to consider the significant risks we identify, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control. We will report to you any significant deficiencies we identify.

In addition, as set out in the Audit Scotland Planning Guidance 2022-23 ,we are required to:

- provide information on fraud cases to Audit Scotland on a quarterly basis
- communicate emerging issues to Audit Scotland, and
- contribute to the National Fraud Initiative report.

## Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the Audit Scotland Planning Guidance for 2022-23) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Grampian VJB we will report to the Accounts Commission as required by Audit Scotland.

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# IT audit strategy

ISA (UK) 315 (Revised July 2020): Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on Grampian VJB was the year ended 31 March 2023.

We are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). The revised requirements in ISA (UK) 315 (Revised July 2020) include:

| Key changes |
|---|
| • An emphasis has been added on the need for auditors to not bias their work toward obtaining corroborative evidence or excluding evidence that is contradictory. |
| • The concept of 'inherent risk factors' has been introduced to assist the auditor in identifying events or conditions that may affect the susceptibility of assertions about classes of transactions, account balances or disclosures to misstatement. |
| • A new concept of significant classes of transactions, account balances or disclosures refers to those classes for which there are assertions with an identified risk of material misstatement (referred to as relevant assertions).<br>• A new concept of spectrum of inherent risk applies to the extent to which inherent risk varies. |
| • Significant risk relates to an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the affect of inherent risk factors on the combination of the likelihood of a misstatement and the magnitude. |
| • A requirement for auditors to understand the entity's use of IT in its business, the related risks and the system of internal control addressing such risks. (Guidance is being provided from Audit Scotland's Digital Auditing team to assist auditors in this regard). |

During our audit we will complete an assessment of the design and implementation of relate ITGCs.

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# IT audit strategy (continued)

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

| Audit area | Planned level IT audit assessment |
|---|---|
| Financial Reporting | A detailed review of the IT General Controls related to security management, development and maintenance and technology infrastructure will be carried out for the 2022/23 financial year on these in scope systems. We will look to gain assurance on the work performed in year in relation to the design effectiveness and implementation of IT General Controls for the current financial year and update our understanding of any changes in the system since the prior financial year. We will review any changes identified in key controls from the prior year and assess the impact of any changes on the planned audit approach. |
| Payroll | |

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# Future auditing developments

There are changes to the following ISAs (UK) which will impact on our LG audits for the first time in future years.

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2022:

- ISQM (UK) 2 (Issued July 2021) 'Engagement Quality Reviews'
- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2023.

- ISA (UK) 600 (Revised September 2022) 'Special Considerations- Audits of Group Financial Statements (including the work of component auditors)' - Applicable for audits of financial statement for periods commencing on or after 15 December 2023.

A summary of the impact of the key changes on various aspects of the audit is included on the next slide.

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# Future auditing developments (continued (1))

A summary of the impact of the key changes on various aspects of the audit is included below:

| Area of change | Impact of changes |
| --- | --- |
| Quality control | • ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer (EQR) and the EQRs responsibilities relating to the performance and documentation of an engagement quality review.<br>• The objective of the firm, through appointing an EQR, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.<br>• The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements; and the auditor's report issued is appropriate in the circumstances. |
| Direction, supervision and review of the engagement | • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures. |
| Definition of engagement team | • The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The group auditor is required to determine the nature, timing and extent of involvement of component auditors in any group audit.<br>• Component auditors may increasingly be involved in all phases of the group audit. The group auditor should be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and evaluating the results of that work. |
| Documentation | • The amendment to these auditing standards will result in additional documentation requirements to demonstrate how these requirements of these revised standards have been addressed. |

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# Future auditing developments (continued (2))

## IFRS 16 Leases

Following further deferral of IFRS 16 Leases in Local Government, this accounting standard is now mandated for implementation by local government bodies from 1 April 2024 (although earlier adoption is permitted).

The new standard brings significant changes for lessee accounting. Key points that Grampian VJB will need to consider on transition include:

- The need to recognise the cumulative effects of initially applying IFRS 16 on the date of implementation as an adjustment to the opening balances of taxpayers' equity. (This means prior year comparators will not need to be restated).
- The need to recognise the right-of-use asset for leases previously classified as operating leases at an amount equal to the outstanding lease liability.
- No adjustments are needed for leases for which the underlying asset is of low value (less than £5,000 new) or where the lease term ends within 12 months.
- Assets where there is no or a below market rate peppercorn lease premium should be recognised as a right-of-use asset measured at current value in existing use or fair value as appropriate. Any difference between this and the lease liability will be recognised as part of the adjustment to the opening balances of taxpayers' equity.
- Irrecoverable VAT should not be included in the lease liability nor the value of the right of use asset.
- Existing finance lease and PFI liabilities that have an element based on an index or other rate will need to be reviewed and possibly amended as such variable payments are incorporated into the measurement of the lease liability under IFRS 16.
- In the year prior to implementation, the financial statements will need to disclose the anticipated impact of adopting IFRS 16 from 1 April of the following year.
- Systems will need to be in place to capture the relevant information for new leases entered into on or after implementation.

Grampian VJB will need to ensure that controls are in place to identify all of its contracts and any other arrangements which might contain the use of an asset, in order to ensure that the disclosures made in 2023/24 and accounting balances included within Grampian VJB's financial statements are complete and accurate.

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