

Grampian Valuation Joint Board

DRAFT 2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Grampian Valuation Joint Board and the Controller of Audit
24 August 2018

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

2017/18 annual report and accounts

- 1 The Joint Board's financial statements give a true and fair view of its state of affairs and of its income and expenditure, and have been properly prepared in accordance with the Code of Practice on local authority accounting in the UK 2017/18.
- 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 guidance.

Financial sustainability

- 3 The Joint Board has effective arrangements in place for financial management. An overspend of £56,000 was reported against the 2017/18 budget which was funded from reserves.
- 4 Budgets are prepared and approved on an annual basis. The Joint Board has recognised the need to improve its financial planning and is working towards the development of a sustainable four-year plan. Limited progress has, however, been made with this since our last Annual Audit Report.
- 5 The Joint Board is facing a number of challenges in maintaining a sustainable financial position in the medium to longer term. These include 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).

Governance and transparency

- 6 Overall, the Joint Board has appropriate arrangements in place to support good governance, accountability and scrutiny. Limited progress was made, however, with the review of key governance documents during 2017/18.
- 7 An external assessment of internal audit has not been undertaken since the introduction of the Public Sector Internal Audit Standards and so internal audit can't demonstrate compliance with these standards. A self-assessment has recently been completed but the results have yet to be reported.
- 8 Arrangements for identifying and reporting related party transactions with elected members and senior officers require improvement. In addition, senior officers should be asked to complete a register of interests disclosure.
- 9 The Joint Board is open and transparent in the way it conducts its business. The public can attend meetings of the Joint Board and minutes of the meetings are available on the Joint Board's website.

Introduction

- 1.** This report summarises the findings from our 2017/18 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 26 January 2018 meeting of the Joint Board. This report comprises the findings from:
 - an audit of the Joint Board's annual accounts
 - consideration of Joint Board's arrangements for achieving financial sustainability and for governance and transparency.
- 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 governance and transparency.
- 5.** Grampian Valuation Joint Board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with the accounts direction from Scottish Ministers. The Joint Board is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
- 6.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and guided by the auditing profession's ethical guidance.
- 7.** As public sector auditors we give independent opinions on the annual accounts and conclusions on securing financial sustainability and governance and transparency. In doing this, we aim to support improvement and accountability.
- 8.** 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.
- 9.** 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.

10. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and, therefore, the 2017/18 audit fee of £7,080 set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to Grampian Valuation Joint Board by providing insight and foresight on financial sustainability, governance and transparency and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the Joint Board promote improved standards of financial planning, better management and decision making.

12. This report is addressed to the Joint Board and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

The Joint Board's financial statements give a true and fair view of its state of affairs and of its income and expenditure, and have been properly prepared in accordance with the Code of Practice on local authority accounting in the UK 2017/18.

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 guidance.

Audit opinions on the annual accounts

14. The annual accounts for the year ended 31 March 2018 were approved by the Board on 24 August 2018 (TBC). We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- the Management Commentary, the 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 guidance.

15. Additionally, we have nothing to report in respect of misstatements in the other information presented with the financial statements, the adequacy of accounting records or the information and explanations we received.

Submission of the annual accounts for audit

16. We received the unaudited annual accounts on 28 May 2018 in line with our agreed audit timetable.

17. The unaudited annual accounts 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

18. [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed.

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

Materiality

19. 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.

20. We carried out our initial assessment of materiality for the annual accounts during the planning phase of the audit. On receipt of the unaudited annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate with only minor upward adjustments required based on actual gross expenditure for the year. There was no change in our reporting threshold. The resulting materiality figures are summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£46,000
Performance materiality	£33,000
Reporting threshold	£2,000

Source: Audit Scotland

How we evaluate misstatements

21. 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. All identified misstatements were adjusted by management and there are, therefore, no unadjusted misstatements to report.

Significant findings from the audit (ISA 260)

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised 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.

23. The findings include our views about significant qualitative aspects of the board's accounting practices including: significant financial statements disclosures, the impact of any uncertainties, misstatements in the annual report and accounts, accounting estimates and judgements and the effect of any unusual transactions on the financial statements.

Exhibit 2

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. 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 (£4.497 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 2017/18 financial statements on the going concern basis.</p>
<p>2. Accounting for support services</p> <p>Moray Council charges the Joint Board for the provision of support services including the preparation of the annual accounts. These costs were not processed until after the year end and so should have been included in creditors but had been incorrectly offset against the cash and cash equivalents figure in the balance sheet. As a result, cash and cash equivalents and creditors were both understated in the unaudited accounts by £56,000.</p>	<p>Management agreed to amend the accounts to correct this misstatement.</p>
<p>3. Cash flow statement</p> <p>Net cash flows from investing activities and adjustment for non cash movements were overstated by £18,000 in the unaudited accounts due to the incorrect treatment of capital creditors.</p>	<p>Management agreed to amend the accounts to correct this misstatement.</p>

Source: Audit Scotland

Follow up of prior year recommendations

24. We have followed up progress in implementing the actions agreed as a result of the recommendations included in our 2016/17 annual audit report (see paragraphs 31 to 35 and 38 to 40 and [Appendix 1](#)). Progress in implementing both the recommendations has been limited during 2017/18. [Appendix 1](#) includes revised responses and timescales which have been agreed with management.

Part 2

Financial sustainability



Main judgements

The Joint Board has effective arrangements in place for financial management. An overspend of £56,000 was reported against the 2017/18 budget which was funded from reserves.

Budgets are prepared and approved on an annual basis. The Joint Board has recognised the need to improve its financial planning and is working towards the development of a sustainable four-year plan. Limited progress has, however, been made with this since our last Annual Audit Report.

The Joint Board is facing a number of challenges in maintaining a sustainable financial position in the medium to longer term. These include 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).

Financial performance in 2017/18

25. The Joint Board's net operating expenditure in 2017/18 was £4.095 million compared to budgeted net expenditure of £4.039 million, an overspend of £56,000 which was funded from reserves. The majority of this overspend relates to lower than anticipated government grant for additional costs relating to individual electoral registration (£57,000).

26. The net operating expenditure (£4.095 million) differs from the net cost of services disclosed in the comprehensive income and expenditure statement of £4.455 million by £360,000. 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.

27. Note 7 to the accounts reconciles the figures in the budget outturn report to the figures in the comprehensive income and expenditure statement (note: £2,000 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.

28. As highlighted in [Exhibit 3](#), the Joint Board's balance sheet as at 31 March 2018 was in a net liabilities 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.

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.

Reserves

29. 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.

30. As at 31 March 2018, the Joint Board had a General Fund balance of £153,000 (£209,000) and a Capital Fund balance of £55,000 (£73,000). 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.

Financial planning

31. The Joint Board's budgets are prepared and approved on an annual basis and include an indicative budget for the following year. Last year 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.

32. Scenario planning is particularly important when future Scottish Government funding is not known. Local government bodies should plan for a range of scenarios so they are prepared for different levels of funding and income. The majority of the Joint Board's income comes from constituent authorities who are facing reductions to their government funding. To date, the Joint Board has received a grant from the Cabinet Office to cover the additional costs of Individual Electoral Registration. Going forward, the amount of this funding is uncertain, although the Cabinet Office has indicated that the funding will be available until 2019/20.

33. The Treasurer has recognised the need to improve the Joint Board's financial planning and, in response to our 2016/17 recommendation, 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 budget was set in January 2018. The budget report would also consider different scenarios for the core activities of the Assessor's service and the impact these would have on the requisitions from constituent authorities.

34. Progress with implementing this action has been limited during 2017/18. An annual budget was prepared for 2018/19 with indicative figures for 2019/20. Scenario planning was used to a limited extent to model the impact of different pay awards (from 1.5% to 2.8%) and government grant in respect of individual electoral registration (IER) (from 2016/17 level to 2/3 of 2016/17 level).

35. 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 4

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.

2018/19 budget

36. The Joint Board approved its 2018/19 budget in January 2018. The budget was set at £4.292 million, an increase of £0.253 million (6.3%) on the 2017/18 budget. The latest budget monitoring report, as at 30 June 2018, shows an underspend against the budget to date of £45,000. A detailed estimated outturn statement will be reported to the Joint Board meeting in October 2018.

37. Indicative figures were also included for 2019/20 and these show that Joint Board gross expenditure is forecast to rise by a further £90,000 (2%) in 2019/20. Employee costs now account for 76% of the Joint Board's expenditure. It is likely that the funding of local government bodies will continue to contract over the medium term. In common with other local government bodies, the Joint Board will need to make difficult decisions to ensure the sustainability of the service in the medium to longer term

Part 3

Governance and transparency



Main judgements

Overall, the Joint Board has appropriate arrangements in place to support good governance, accountability and scrutiny. Limited progress was made, however, with the review of key governance documents during 2017/18.

An external assessment of internal audit has not been undertaken since the introduction of the Public Sector Internal Audit Standards and so internal audit can't demonstrate compliance with these standards. A self-assessment has recently been completed but the results have yet to be reported.

Arrangements for identifying and reporting related party transactions with elected members and senior officers require improvement.

The Joint Board is open and transparent in the way it conducts its business. The public can attend meetings of the Joint Board and minutes of the meetings are available on the Joint Board's website.

Governance arrangements

38. Members and management of the Joint Board are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

39. We reviewed the Joint Board's governance arrangements and concluded that effective overarching and supporting governance arrangements are in place to provide an appropriate framework for organisational decision making.

40. Last year we reported that a number of key governance documents required to be reviewed to ensure that they were up to date and reflected good practice. In response, the Assessor developed a timetable for the review of these policies but progress against this has been limited during 2017/18. We also noted that some policies (including IT policies) are not scheduled for review and update until 2020.

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



Recommendation 3

Governance documents should be reviewed regularly to ensure that they are up to date and reflect best practice.

Annual governance statement

41. 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.' We have been advised that plans are in place to introduce a more formalised assurance process. We will follow up progress with this as part of our 2018/19 audit.

42. The Annual Governance Statement sets out the key challenges facing the Joint Board in 2018/19. These include responding to government plans to reform non-domestic rates, implementing the new General Data Protection Regulations with effect from 25 May 2018, and working towards an efficient system of individual electoral registration.

43. 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.

Internal Audit

44. Internal audit provides senior management and elected members with independent assurance on the Joint Board's overall risk management, internal control and corporate governance processes.

45. The Joint Board's internal audit function is provided by Moray Council's internal audit team. As part of our Moray Council audit we reviewed the internal audit function and noted that an external assessment against the Public Sector Internal Audit Standards (PSIAS) had not been undertaken since the introduction of the PSIAS on 1 April 2013.

46. The PSIAS requires that an external assessment take place at least every five years and so internal audit have not complied with this requirement. We have been advised that an external assessment will be undertaken in September 2018. The Internal Audit Manager recently completed a self-assessment of the internal audit function but has yet to report the results of his review. We will undertake a further review of internal audit as part of our planning for the 2018/19 audit.



Recommendation 1

An external assessment of the internal audit function against the Public Sector Internal Audit Standards should be undertaken as a matter of urgency and the results reported to the Joint Board.

47. We adopted a substantive approach to the audit of the Joint Board in 2017/18 and so did not place any formal reliance on internal audit's work.

Arrangements for maintaining standards of conduct

48. The 2017/18 Code requires that ‘authorities shall identify related party relationships and transactions, identify outstanding balances between the authority and its related parties, and identify the circumstances in which disclosures are required, in accordance with IAS24 Related Party Disclosures except where adaptations to fit the public sector are detailed in the Code.’ This applies to all chief officers, elected members and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.’

49. As part of the final accounts process, members are requested to complete and submit returns in order to ensure the financial statements adequately disclose the necessary related party transactions. 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.

50. We also reviewed the arrangements for the maintenance of registers of interests for Joint Board members and noted that the Joint Board relies on the registers of interests maintained by the constituent bodies. Review of the Joint Board members’ registers of interests 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.



Recommendation 2

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.

Transparency

51. Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Joint Board is taking decisions and how it is using resources such as money, people and assets. Citizens should be able to hold the Joint Board to account about the services it provides.

52. Overall, we concluded that the Joint Board conducts its business in an open and transparent manner. Members of the public can attend meetings of the Joint Board, and minutes and supporting papers are available on the Joint Board’s website. The website also allows the public to access a wide range of information about the service, including corporate policies, performance reports and the annual accounts which include a management commentary providing details of performance against budget, information on the use of reserves and the risks and uncertainties facing the Joint Board.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<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>An external assessment will take place as part of the programme organised by the Scottish Local Government Chief Internal Auditors Group to ensure compliance with the PSIAS across Scotland. The assessment has been timetabled for September 2018.</p> <p>Responsible officer:</p> <p>Internal Audit Manager</p> <p>Agreed date:</p> <p>September 2018</p>
2	<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>Procedures will be reviewed, incorporating senior officers, and Board members will be reminded of their responsibility in this regard.</p> <p>Responsible officer:</p> <p>Assessor & ERO and Treasurer</p> <p>Agreed date:</p> <p>March 2019</p>



No. Issue/risk

Recommendation

Agreed management action/timing

Follow up of prior year recommendations

<p>3</p> <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>Code of Corporate Governance was reviewed in August 2017.</p> <p>Code of Conduct was reviewed by HR in 2017 and the Management Team is schedule to review and approve the revised Code in September 2018. Only minor changes have been made to the previous Code.</p> <p>Anti-fraud and corruption policy is scheduled for review in 2018</p> <p>Confidential Reporting Policy is scheduled for review in 2018</p> <p>Contingencies Plan is scheduled for review in 2018</p> <p>Scheme of delegation was implemented in August 2017.</p> <p>IT policies are scheduled for review in 2020. These are routine in nature and relate to user behaviour. They meet current PSN requirements and our systems are regularly tested in order to attain our IT security accreditation. A report on the government's Cyber Security initiative has been considered by the Management Team and work will continue on this during 2018/19.</p> <p>Responsible officer: Assessor & ERO</p> <p>Revised dates: as above</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
4	<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>A report showing indicative financial plans for different scenarios and setting out the operational issues facing the Assessor & ERO will be prepared for the Board meeting in October 2018. That will be used to underpin the budget paper for 2019/20, which will incorporate a first draft medium term (5 years) financial strategy.</p> <p>Responsible officer: Treasurer and Assessor & ERO</p> <p>Revised date: January 2019</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 to 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		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm that expenditure and income have been accounted for in the correct financial year.</p>	<p>No issues have arisen as part of our audit work that would indicate management override of controls affecting the outturn or year-end position.</p>
<p>2 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the pension liability included in the annual accounts. This subjectivity represents an increased risk of misstatement in the accounts.</p>	<p>Completion of a 'review of the work of an expert' file in accordance with ISA 500 for the professional actuary.</p> <p>Focussed testing of IAS19 disclosures.</p>	<p>Our audit procedures did not identify any issues with the estimation and judgements used in compiling the financial statements.</p>
<p>3 Changes in key finance staff</p> <p>The Principal Accountant responsible for the preparation of the annual accounts plans to retire at the end of March 2018. There is a risk that appropriate arrangements are not put in place to ensure a smooth transition during the accounts preparation and audit processes.</p>	<p>Clarify the arrangements for the preparation of the 2017/18 annual accounts.</p> <p>Confirm arrangements for regular and final clearance meetings during final accounts audit process.</p>	<p>A new Principal Accountant was appointed to oversee the preparation of the accounts and the same finance staff were involved in their preparation in 2017/18 and 2016/17.</p> <p>Regular meetings and discussions were held with key staff throughout the audit process and audit queries were answered promptly.</p>

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>4 Financial sustainability</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>Review the financial strategy and framework and comment on financial sustainability in the annual audit report.</p>	<p>As noted in Part 2 of this report, progress with the development of medium to longer term financial planning has been limited during 2017/18. Some scenario planning was included in developing the 2018/19 budget.</p> <p>Refer Appendix 1, no.4</p>
<p>5 Governance and transparency</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 Conduct (last reviewed 2006) • Anti-Fraud and Corruption Policy (last reviewed 2009) • Confidential Reporting (Whistleblowing) Policy (last reviewed 2008) • Contingencies Plan (last reviewed 2010). • IT policies (last reviewed 2013) <p>There is a risk that existing governance arrangements are not up to date and/or do not reflect good practice.</p>	<p>Monitor progress against the timetable and comment on the governance arrangements in the annual audit report.</p>	<p>As noted in Part 3 of this report, progress with the review and update of key governance documents has been limited during 2017/18. Reviews of all of the documents listed opposite have still to be completed at the time of writing this report.</p> <p>Refer to Appendix 1, no. 3.</p>

Appendix 3

Summary of national performance reports 2017/18

 2017/18 Reports	
	Apr
	May
Common Agricultural Policy Futures programme: further update 	Jun  Scotland's colleges 2017
	Jul  NHS workforce planning
Self-directed support: 2017 progress report 	Aug
Equal pay in Scottish councils 	Sept
Transport Scotland's ferry services 	Oct  NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17 	Nov
	Dec
	Jan
Early learning and childcare 	Feb
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