

Grampian Valuation Joint Board

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Grampian Valuation Joint Board

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Grampian Valuation Joint Board (the Joint Board). The main elements of our work include:

- understanding the key systems of internal control, and how weaknesses in these systems could impact on the financial statements
- an audit of the financial statements, and provision of an Independent Auditor's Report
- an audit opinion on statutory other information published within the annual accounts including the management commentary, annual governance statement and the audited part of the remuneration report
- consideration of arrangements in relation to the wider audit dimensions that frame the wider scope of public sector audit (as amended by supplementary guidance): the appropriateness of the disclosures in the governance statement and financial sustainability.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to the Joint Board through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the Joint Board promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Joint Board and actively participate in discussions.

Respective responsibilities of the auditor and the Joint Board

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the Joint Board. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the Joint Board to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Joint Board's responsibilities

8. The Joint Board is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. The Joint Board also has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described below. The materiality values for the Joint Board are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for Grampian Valuation Joint Board

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2022 based on the approved revenue budget for 2021/22.	£99,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£74,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£5,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of the Joint Board, its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at Joint Board meetings and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the 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 to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries focusing on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Estimation in the valuation of land and buildings</p> <p>The Joint Board held land and buildings with a NBV of £0.7 million at 31 March 2021. Land and buildings are revalued every five years.</p> <p>There is a significant degree of subjectivity in the measurement and valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>A full valuation exercise was completed during 2018/19. The Joint Board has not applied indexation in intervening years.</p> <p>There is a risk that the carrying amount of assets differs materially from the current value at the end of the reporting period.</p>	<p>The Joint Board has clearly defined procedures in place, including the use of experts to make significant estimations and judgements.</p> <p>Estimates and valuations are reviewed by qualified finance staff.</p>	<ul style="list-style-type: none"> • Test accruals and prepayments focusing on significant risk areas. • Test the reconciliation between the financial ledger and the property asset register. • Review management's assessment of the current value of assets that have not been revalued as at 31 March 2022 and compare to their carrying value in the accounts. • Consider the evidence used by management to support their assessment including the definition of materiality used.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud in the recognition of revenue. We have considered the risk of fraud over income recognition (ISA 240). We also considered the risk of fraud over expenditure, as most public bodies are net spending bodies, and the risk of external fraud (in accordance with Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)).

16. We have rebutted the presumption that a material risk exists, with the exception of management override, as noted above. This is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting
- most income is provided by the constituent authorities and is easily verified
- most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale
- experience in the sector and of the audit of the Joint Board, including a review of past misstatements.

17. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

18. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

19. The areas of specific audit focus are:

- **Valuation of IAS19 net pensions liability:** Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy and CPI growth. These are subject to significant discounting based on corporate bond rates. Assets are based on individual employer body shares of assets at last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.

We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions and results including comparison with councils. We will establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Moray Council on behalf of the Joint Board.

Audit risk assessment process

20. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

21. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

22. As in previous years, we plan to apply the small body provisions of the Code of Audit Practice to the Joint Board's 2021/22 audit. This is due to the small volume and lack of complexity of the Joint Board's financial transactions. Consequently, our wider scope audit work will focus on the appropriateness of the disclosures in the governance statement and the Joint Board's financial sustainability.

Best Value

23. Local government bodies have a responsibility to have arrangements in place to demonstrate Best Value in how they conduct their activities. Our audit work on the Joint Board's Best Value arrangements is focussed on the use of resources to secure financial sustainability.

Audit dimension risks

24. No new audit dimension risks have been identified for the Joint Board in 2021/22. Progress on the outstanding audit dimension risks identified in prior years will be followed-up with management during the course of the 2021/22 audit.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

26. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

27. We will provide an independent auditor's report to the Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the Joint Board and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

28. [Exhibit 3](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 3

2021/22 Audit outputs

Audit Output	Target date	Joint Board date
Annual Audit Plan	31 March 2022	17 June 2022
Independent Auditor's Report	31 October 2022	November 2022
Annual Audit Report	31 October 2022	November 2022

Source: Audit Scotland

Timetable



29. The effect of Covid-19 on the 2019/20 and 2020/21 audits means that we are starting the 2021/22 audits later than in previous years. We expect that this year will continue to be challenging and we have reviewed resources and timings across the audits which Audit Scotland delivers.

30. In the interests of public accountability, and with a view to the new audit appointments from 2022/23, Audit Scotland is prioritising NHS, agency and council audits this year. Although the target date for the completion of local government audits is 31 October 2022, this cannot be met in all cases.

31. We have included the proposed timetable for the audit of the Joint Board at [Exhibit 4](#) which has been discussed with management. We continue to seek ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality. Progress against the proposed timetable will be discussed with finance officers over the course of the audit.

Exhibit 4

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	17 June 2022
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2022
Agreement of audited unsigned annual accounts and issue of Letter of Representation and proposed independent auditor's report	31 October 2022
Signed Independent Auditor's Report	November 2022

Source: Audit Scotland

32. To support an efficient audit, it is critical that high quality unaudited accounts and supporting working papers are provided and that the timetable for producing the annual accounts for audit is achieved.

Audit fee

33. The proposed audit fee for the 2021/22 audit of the Joint Board is £7,820 (2020/21: £7,610). In determining the audit fee, we have taken account of the risk exposure of the Joint Board, the planned management assurances in place and the level of reliance we plan to take from the work internal audit.

34. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Other matters

Internal audit

35. Internal audit is provided by Moray Council's internal audit section. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

36. We do not plan to place any formal reliance on the work of internal audit in 2021/22 as we intend to use a substantive approach for the audit of the Joint Board's financial statements. We plan to consider internal audit's work on the annual governance statement as part of our wider dimension audit responsibilities.

Independence and objectivity

37. Auditors appointed by the Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

38. The engagement lead (i.e. appointed auditor) for Grampian Valuation Joint Board is Maggie Bruce, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Joint Board.

Quality control

39. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

40. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

41. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Grampian Valuation Joint Board

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