

# Grampian Valuation Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

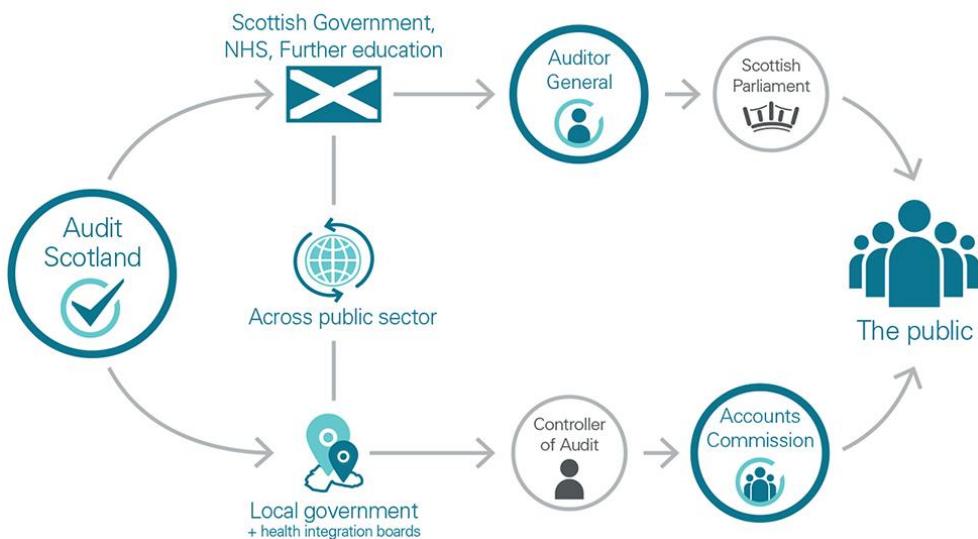
Prepared for Grampian Valuation Joint Board

January 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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# Risks and planned work

- 1.** This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit including the new approach to Best Value.
- 2.** The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
- 3.** Supplementary Guidance 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 (the Joint Board).

## Audit risks

- 4.** Based on our discussions with staff, attendance at Board meetings and review of supporting information we have identified the following main risk areas for Grampian Valuation Joint Board. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2017/18 key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<b>1 Risk of management override of controls</b>  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.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	Detailed testing of journal entries.  Review of accounting estimates.  Focused testing of accruals and prepayments.  Evaluation of significant transactions that are outside the normal course of business.  Substantive testing of transactions after the year end to confirm that expenditure and income have been accounted for in the correct financial year.

Audit Risk	Source of assurance	Planned audit work
<b>2 Estimation and judgements</b> <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>Use of professional actuaries appointed by the Pension Fund to value pension adjustments required by IAS19.</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>
<b>3 Changes in key finance staff</b> <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>The Principal Accountants are reviewing duties regarding the year end to ensure that appropriate arrangements are in place and that a transfer of knowledge is part of the planning process for the preparation of the annual accounts.</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>
<b>Wider dimension risks</b>		
<b>4 Financial sustainability</b> <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 financial strategy and framework will be prepared for a five year period, and a three year budget reported to the Board when the budget is set in January 2018. The budget report will consider different scenarios for the core activities of the Assessor's service and the impact these would have on the requisitions from constituent authorities.</p>	<p>Review the financial strategy and framework and comment on financial sustainability in the annual audit report.</p>
<b>5 Governance and transparency</b> <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"> <li>• Code of Conduct (last reviewed 2006)</li> <li>• Anti-Fraud and Corruption Policy (last reviewed 2009)</li> <li>• Confidential Reporting (Whistleblowing) Policy (last reviewed 2008)</li> <li>• Contingencies Plan (last reviewed 2010).</li> <li>• IT policies (last reviewed 2013)</li> </ul> <p>There is a risk that existing governance arrangements are not up to date and/or do not reflect good practice.</p>	<p>A policy review timetable will be agreed ahead of the Board's meeting in January 2018.</p>	<p>Monitor progress against the timetable and comment on the governance arrangements in the annual audit report.</p>

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**6.** 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.

**7.** We will provide an independent auditor's report to Grampian Valuation Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Treasurer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 audit outputs

Audit Output	Target date	Joint Board Date
Annual Audit Report	17 August 2018	31 August 2018
Independent Auditor's Report	31 August 2018	N/A

## Audit fee

**8.** The agreed audit fee for the 2017/18 audit of Grampian Valuation Joint Board is £7,080 (2016/17 £6,970). In determining the audit fee we have taken account of the risk exposure of Grampian Valuation Joint Board, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 31 May 2018.

**9.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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 outwith our planned audit activity.

## Responsibilities

### Joint Board and Treasurer

**10.** Audited bodies have the 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 successfully deliver their objectives.

**11.** The audit of the financial statements does not relieve management or the Grampian Valuation Joint Board as those charged with governance, of their responsibilities.

### Appointed auditor

**12.** Our responsibilities as independent auditor are established by the 1973 Act for local government and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

**13.** Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the audited body's arrangements for financial sustainability and governance and transparency. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**14.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Grampian Valuation Joint Board and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Grampian Valuation Joint Board will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**15.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code) of the state of affairs of the Joint Board as at 31 March 2018 and of its income and expenditure for the year then ended
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, and interpreted and adapted by the 2017/18 Code; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003.



## Materiality

**16.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**17.** We calculate materiality at different levels as described below. The calculated materiality values for Grampian Valuation Joint Board are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the revenue budget for 2017/18.	£43,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of planning materiality.	£30,000
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£2,000

Source: Audit Scotland

- 18.** We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issue identified will be reported to the Joint Board.

#### Timetable

- 19.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Joint Board dates.

## Exhibit 4

### Financial statements timetable

Key stage	Date
Latest submission date of unaudited annual accounts with complete working papers package	31 May 2018
Consideration of unaudited financial statements by those charged with governance	29 June 2018
Latest date for final clearance meeting with Treasurer	3 August 2018
Agreement of audited unsigned annual accounts, and issue of Annual Audit Report including ISA 260 report to those charged with governance	17 August 2018
Independent auditor's report signed	31 August 2018

## Internal audit

**20.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. The Joint Board's internal audit function is provided by the Moray Council's internal audit section.

**21.** In our 2016/17 Report on the Audit we noted that an assessment against the Public Sector Internal Audit Standards (PSIAS) has not been undertaken and so internal audit cannot demonstrate compliance with these Standards. Plans are in place for the internal audit function to be externally assessed in February 2018.

**22.** We do not plan to place any formal reliance on the work of Internal Audit in 2017/18 as we intend to use a substantive approach for the audit of Grampian Valuation Joint Board's financial statements.

## Audit dimensions

**23.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). As noted in paragraph 3, due to the nature and size of the Board we have assessed the extent of our wider dimension work and concluded that a reduced scope, as outlined in paragraph 53 of the Code of Audit Practice, can be applied. This means that our work will focus on financial sustainability and governance and transparency.

### Exhibit 5

#### Audit dimensions



Source: Code of Audit Practice

## **Financial sustainability**

**24.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

## **Governance and transparency**

**25.** 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. We will review, conclude and report on:

- whether the Joint Board can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision – making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

## **Independence and objectivity**

**26.** Auditors appointed by the Accounts Commission or Auditor General 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 in place robust arrangements 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.

**27.** The engagement lead 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 Grampian Valuation Joint Board.

## **Quality control**

**28.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is 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.

**29.** 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**30.** 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.

### **Adding value**

**31.** Through our audit work we aim to add value to Grampian Valuation Joint Board. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well Grampian Valuation Joint Board has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Grampian Valuation Joint Board

## Annual Audit Plan 2017/18

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