Grampian Valuation Joint Board

2021/22 Annual Audit Report

AUDIT SCOTLAND

Prepared for Grampian Valuation Joint Board and the Controller of Audit

January 2023

Contents

Key messages

Audit of 2021/22 annual accounts

1. The Joint Board's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
2. The management commentary, annual governance statement and the audited part of the remuneration report were all consistent with the financial statements and were properly prepared in accordance with the applicable requirements.

Financial sustainability and annual governance statement disclosures

3. The Joint Board underspent its 2021/22 budget by £0.728 million. The majority of this will be returned to constituent authorities (£0.479 million) with the remainder (£0.249 million) added to reserves.
4. Earmarked reserves have been used to balance the 2022/23 budget for NDR reform costs.
5. Disclosures in the Annual Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.

Introduction

1. This report summarises the findings from our 2021/22 audit of Grampian Valuation Joint Board (the Joint Board).

2. The scope of our audit was set out in our 2021/22 Annual Audit Plan presented to the August meeting of the Joint Board. This report comprises the findings from:

- our audit of the Joint Board's annual accounts
- consideration of financial sustainability and the appropriateness of the disclosures in the annual governance statement.

3. The global coronavirus pandemic has had a considerable impact on the Joint Board during 2021/22. We did not identify any significant audit risks related to the pandemic for 2021/22.

Adding value through the audit

4. We add value to the Joint Board through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports (Appendix 2) and good practice guides
- providing clear conclusions on the appropriateness of the disclosures in the annual governance statement and financial sustainability.

5. We aim to help Joint Board promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. The Joint Board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Joint Board is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the Code of Audit Practice 2016 and supplementary guidance and International Standards on Auditing in the UK. 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 Joint Board's Best Value arrangements is focussed on its use of resources to secure financial sustainability.

8. As public sector auditors we give independent opinions on the annual accounts. The wider scope of public audit also requires auditors to conclude on the appropriateness of the organisation's arrangements for financial management, financial sustainability, governance and transparency, and value for money unless the auditor judges that it is not appropriate due to the body's size, nature, and audit risks.

9. As in previous years, and as reported in our 2021/22 Annual Audit Plan, we have applied 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. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice and supplementary guidance.

10. This report raises matters from our audit. 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.

11. 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.

Auditor independence

12. 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and the 2021/22 audit fee of £7,820 as set out in our 2021/22 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

Audit appointment from 2022/23

15. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

16. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Grant Thornton will be the appointed auditor for Grampian Valuation Joint Board. We are working closely with the new auditors to ensure a well-managed transition.

17. We would like to thank elected members, the Assessor and Electoral Registration Officer, the Treasurer and all staff involved in supporting the audit process for their co-operation and assistance over the last six years.

Part 1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

The Joint Board's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

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

Our audit opinions on the annual accounts are unmodified

18. The annual accounts for the year ended 31 March 2022 were approved by the board on 27 January 2023. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and audited part of the remuneration report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

The annual accounts were submitted for audit in line with our agreed timetable, but completion of the audit was delayed due to delays in completing prior year audits

19. The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2022. The working papers provided with the unaudited accounts were generally of a good standard and finance staff provided support to the audit team during the audit.

20. The audited accounts were approved by the Joint Board meeting on 27 January 2023. As noted in our Annual Audit Plan, Audit Scotland prioritised the NHS, agency, and council audits for 2021/22 and this, together with delays in completing the 2020/21 audits, impacted on the time taken to complete the Joint Board audit.

Overall materiality is £95,000

21. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£95,000
Performance materiality	£71,000
Reporting threshold	£5,000

Source: Audit Scotland

We have one significant finding to report on the annual accounts

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have one significant finding to report (refer to Exhibit 2 for details).

Exhibit 2
Significant findings from the audit of the financial statements

Issue	Resolution
1. Accounting for short-term accumulating paid absences Finance Circular 2/2018 withdrew the statutory adjustment for the flexitime and time off in lieu elements of the accrual for untaken leave at the year end with effect from 1 April 2021. The unaudited accounts had included these in the amount charged against the Employee Statutory Adjustment Account. As a result, the Employee Statutory Adjustment Account was understated, and the General Fund balance was overstated by £24,000. Expenditure charged to the General Fund requires to be funded by the constituent authorities and so the amount to be returned to them was reduced by £24,000.	The audited accounts were amended to correct this misstatement.

Source: Audit Scotland

The misstatement was less than our performance materiality threshold and so we did not need to revise our audit approach

23. Audit testing identified only one misstatement of £24,000 (refer to Exhibit 2 above). As this is below our performance materiality threshold, there was no impact on our audit approach.

There are no unadjusted misstatements to report to those charged with governance

24. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all identified misstatements above our reporting threshold and so there are no unadjusted errors to report.

We have obtained assurance over the significant risks identified in our Annual Audit Plan

25. Exhibit 3 sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3
Significant risks from the audit of the financial statements

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by the management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.	Made inquiries of individuals involved in the financial reporting about inappropriate or unusual activity relating to journals and other adjustments. Tested journals at year-end and post-closing entries focusing on significant risk areas. Considered the need to test journal entries and other adjustments during the period. Evaluated significant transactions outside the normal course of business. Assessed any changes to the methods and underlying assumptions used to prepare	**Results & Significant Judgements:** Controls over journal entry processing lack authorisation procedures and we increased our sampling as a result. Officers involved in financial reporting processes did not identify any unusual activity. Audit testing of journal entries at the year-end post-closing and throughout the year did not identify any errors or inappropriate journals. Methodologies and assumptions employed by management in preparing accounting estimates did not significantly vary from the

Audit risk	Assurance procedure	Results and conclusions
	accounting estimates compared to the prior year. Tested income and expenditure transactions around the year-end to confirm they were accounted in the correct year. Tested accruals and prepayments focusing on significant risk areas.	prior year and were consistently applied. Audit testing of income and expenditure transactions confirmed they had been accounted for in the correct financial year. Our testing of accruals and prepayments did not identify any errors and there were no significant transactions outside the normal course of business. **Conclusion:** No issues were identified that indicate management override of controls.
2. Estimation in the valuation of land and buildings 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. 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. A full valuation exercise was completed during 2018/19. The Joint Board has not applied indexation in intervening years. There is a risk that the carrying amount of assets differs materially from the current value at the end of the reporting period.	Tested reconciliation between financial ledger and property asset register. Reviewed management's assessment of the current value of assets that had not been revalued at 31 March 2022 and compared to their carrying amounts in the accounts. Considered evidence used by management to support their assessment including the definition of materiality used.	**Results & Significant Judgements:** The non-current asset note in the financial statements was agreed to the property asset register with no errors identified. Management did not provide an assessment of the current value of assets that had not been revalued at 31 March 2022, nor the definition of materiality used as part of the working papers provided to audit. Following a number of audit queries and a meeting with the valuer, the evidence provided by the valuer to support his assessment of the current value of these assets is considered reasonable. **Conclusion:** the carrying amount of non-current assets in the audited financial statements does not differ materially from their current value at the end of the reporting period.

Audit risk	Assurance procedure	Results and conclusions
		Recommendation 1

Other areas of audit focus

26. We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus were:

- Valuation of the present value of promised retirement benefits and the Joint Board's share of the pension asset/liability of North East Scotland Pension Fund.

27. We considered the reasonableness of actuarial estimates on material elements of the valuation using PwC LLP to review actuarial assumptions across Scottish LGPS, the accuracy of information provided to the actuary by Moray Council on behalf of the Joint Board, and assurances from the auditor of North East Scotland Pension Fund. There are no matters which we need to bring to your attention.

There were no objections raised to the annual accounts

28. The Local Authority Accounts (Scotland) Regulations 2014 require each local government body to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. There were no objections to the Joint Board's 2021/22 annual accounts.

Good progress was made on prior year recommendations

29. The Joint Board has made good progress in implementing our prior year audit recommendations. Two of the three actions carried forward from prior years have been fully implemented and one is no longer required.

Part 2. Financial sustainability and annual governance statement

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services.

Main judgements

The Joint Board underspent its 2021/22 budget by £0.728 million. The majority of this will be returned to constituent authorities (£0.479 million) with the remainder (£0.249 million) added to reserves.

Earmarked reserves have been used to balance the 2022/23 budget for NDR reform costs.

Disclosures in the Annual Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.

The 2021/22 budget was underspent by £0.819 million

30. The Joint Board's net operating expenditure in 2021/22 was £4.114 million compared to budgeted net expenditure of £4.933 million, an underspend of £0.819 million. The majority of this underspend relates to vacant posts (£0.627 million) and ICT costs (£0.171 million). Additional government grant (£0.187 million) was received during the year, and this was used to fund additional costs associated with electoral registration (employee costs (£40,000) and others service expenses (postage (£139,000) and IT costs (£7,000)).

31. Exhibit 4 summarises performance against budget in 2021/22.

Exhibit 4
Performance against budget 2021/22

	Budget £'000	Actual £'000	Variance £'000
Employee costs	3,737	3,110	(627)
Other service expenses (including capital financed from current revenue (CFCR))	1,152	1,150	(2)
Support service recharges	59	62	3
Interest and investment income	(2)	(8)	(6)
Government grants and other service income	(13)	(200)	(187)
Net (under)/overspend against budget	4,933	4,114	(819)
Funded by:			
Requisitions	(4,842)	(4,842)	-
Approved use of Reserves	(91)	-	91
2021/22 Outturn	**-**	**(728)**	**(728)**

32. The net operating expenditure (£4.114 million) differs from the net cost of services disclosed in the comprehensive income and expenditure statement of £4.560 million by £0.446 million. 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.

33. Note 7 to the accounts reconciles the figures in the budget outturn report to the figures in the comprehensive income and expenditure statement (note: £8,000 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.

34. IAS 19 (Retirement Benefits) calculations depend on a number of complex judgements and assumptions which are updated each year. As at 31 March 2022, the actuary has calculated that the Joint Board's future pension commitments exceeds its share of assets in the North East Scotland Pension Fund by £0.503 million. This pension liability will be made good by increased contributions over the remaining working lives of the employees, as assessed by the scheme's actuary.

Reserves increased by £0.249 million with £0.479 million to be returned to constituent authorities

35. 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, in February 2022, that a maximum of 3% of the core costs budget should be added to the uncommitted general fund balance in any one year as long as the cumulative uncommitted balance does not exceed 5% of the core costs budget in that year.

36. In addition, the Joint Board agreed to earmark any underspends on the budget for Non-Domestic Rates reform as an additional part of the General Fund. During 2021/22, the NDR reform budget was underspent by £0.265 million, the majority of which was due to staff vacancies, and all of this was added to the earmarked reserve.

37. The remainder of the underspend (less the budgeted use of reserves) (£0.463 million) will be returned to constituent authorities together with an additional £16,000 to reduce the uncommitted General Fund balance to the reserves policy maximum.

Earmarked reserves have been used to balance the 2022/23 budget

38. The Joint Board approved its 2022/23 budget in February 2022. The budget paper splits the budget between core costs (£4.481 million), and NDR reform costs (£0.415 million) which are funded by the Scottish Government through the local government settlement to constituent authorities. Members agreed to fund £0.147 million of the NDR reform budget from earmarked reserves with the remainder (£4.749 million) to be funded by constituent authorities.

39. Overall, the 2022/23 budget decreased by £37,000 (0.8%) due to a decrease in the budget for NDR reform (£0.129 million (24%)) offset by an increase in the budget for core costs of £0.092 million (2.1%).

40. The latest budget monitoring report, as at 30 September 2022, estimates that the 2022/23 budget will be underspent by £0.443 million (9%). The majority of this projected underspend relates to employee costs (£0.276 million) and IT maintenance and support (£0.107 million).

Annual governance statement disclosures are appropriate

41. Our review of the Annual Governance Statement within the annual accounts assessed the assurances provided to the Treasurer regarding the adequacy and effectiveness of the Joint Board's system of internal control which operated in the financial year. As in previous years, the Treasurer has placed reliance on the Audit and Risk 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.'

42. The Annual Governance Statement sets out the key challenges facing the Joint Board in 2022/23. These include continuing to upgrade operational capacity in order to meet the challenges of moving to a 3-year revaluation cycle and implementing the new two stage proposal and appeal process, and the changes required by the Elections Act 2022.

43. We concluded that the disclosures included in the Annual Governance Statement are consistent with the financial statements and comply with the guidance issued by Scottish Ministers.

44. In previous years we have reported delays in reviewing the Joint Board's key governance policies. These delays continued during 2022 due to staff vacancies and the impact of the pandemic and in August 2022 the Joint Board agreed a revised timetable for review of these policies.

National performance audit reports

45. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Appendix 2 highlights a number of reports published in 2021/22.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. **Estimation in the valuation of land and buildings** 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. We requested this assessment from management but initially were only provided with an assertion that there was no material difference. **Risk:** the carrying amount of assets differs materially from the current value at the end of the reporting period	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. Exhibit 3, no. 2	Agree to provide an explanation of the process used to review the carrying value and evidence for the conclusion reached. **Responsible officer:** Treasurer **Agreed date:** 30 April 2023

Outstanding prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
2. Reserves Policy Audit testing identified that the amount transferred to the General Fund was based on	The Joint Board should revisit its reserve policy to ensure it clearly sets out the basis for calculating the maximum cumulative balance to be held	**Complete** The Joint Board's reserves policy was clarified in the budget report considered by

Issue/risk	Recommendation	Agreed management action/timing
requisitions and not budget as set out in the Joint Board's reserve policy. The reserves policy was agreed before the introduction of a separate budget for NDR reform or use of reserves to fund annual budgets. As a result, there is a lack of clarity as to how the cumulative balance on the uncommitted part of the General Fund should be calculated. **Risk**: the General Fund balance is overstated in the annual accounts.	for emergencies and unforeseen circumstances	the Joint Board in February 2022.
3. Cyber Security Organisations are increasingly threatened by cyber-attacks as evidenced by recent incidents affecting public bodies. The Joint Board's Cyber Essentials Plus accreditation lapsed in August 2020. **Risk**: key systems are not resilient enough to deal with a cyber-attack	The Joint Board should reapply for Cyber Essentials Plus accreditation as soon as practicable	**No longer required** The Joint Board's IT applications and services are in the process of being migrated to Aberdeenshire Council's environment and, due to the integration and constant infrastructure changes, an application for Cyber Essentials Plus accreditation on behalf of the Joint Board is no longer considered appropriate.
4. Management Commentary The management commentary included in the unaudited annual accounts required amendment before we could conclude that it met the requirements of the Code. **Risk**: there is a risk that the Joint Board fails to communicate effectively with its stakeholders	The Joint Board should review the content and presentation of its 2020/21 management commentary against Audit Scotland's good practice guide.	**Complete** The content and presentation of the 2021/22 management commentary was consistent with the financial statements and included clearer explanations of variances against budget and a separate section on the General Reserve policy.

Appendix 2. National reports and briefing papers

May

Local government in Scotland Overview 2021

June

Covid 19: Personal protective equipment

July

Community justice: Sustainable alternatives to custody

September

Covid 19: Vaccination programme

January

Planning for skills

Social care briefing

February

NHS in Scotland 2021

March

Local government in Scotland: Financial Overview 20/21

Drug and alcohol: An update

Scotland’s economy: Supporting businesses through the Covid 19 pandemic

Grampian Valuation Joint Board

2021/22 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

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