Tayside Valuation Joint Board
2018/19 Annual Audit Report

Prepared for the Members of Tayside Valuation Joint Board and the Controller of Audit
9 September 2019
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

2018/19 annual accounts

1 The Joint Board’s financial statements give a true and fair view of the state of affairs of the Joint Board as at 31 March 2019 and of its income and expenditure for the year then ended and were properly prepared.

2 The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

Financial sustainability

3 The Joint Board’s financial position is sustainable in the foreseeable future. It has a sufficient level of reserves and there is a medium term financial plan in place.

Governance and transparency

4 The Joint Board has appropriate governance arrangements in place that support the scrutiny of decisions made.

5 The Joint Board generally demonstrates a commitment to transparency in the way it conducts its business, although Joint Board meeting minutes and agendas on the website are not up to date.
Introduction

1. This report summarises the findings arising from the 2018/19 audit of Tayside Valuation Joint Board (the Joint Board).

2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the January 2019 meeting of the Joint Board. This report comprises the findings from:
   - an audit of the annual accounts
   - consideration of the financial sustainability and the governance & transparency arrangements in the Joint Board.

3. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements as illustrated in Exhibit 1.

Exhibit 1
Audit dimensions

4. The Code of Audit Practice 2016 (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the financial sustainability of the body and its services and the appropriateness of the disclosures in the annual governance statement.

5. As highlighted in our 2018/19 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2018/19 audit of the Joint Board.
Added value through the audit

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

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports (Appendix 4) and good practice guides
- Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance arrangements and financial sustainability.

7. In so doing, we aim to help the Joint Board promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

8. 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.

9. 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.

10. 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.

11. As public sector auditors we give independent opinions on the annual accounts. Additionally, for the Joint Board we conclude on:

- the suitability and effectiveness of corporate governance arrangements, and
- the arrangements for securing financial sustainability.

12. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016.

13. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. 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.

14. 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 the steps being taken to implement them.

15. We can confirm that we comply with the Financial Reporting Joint Board’s Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £7,280 as set out in our Annual Audit
Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

16. 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.

17. We would like to thank all management and staff for their cooperation and assistance during the audit.
Part 1
Audit of 2018/19 annual accounts

Main judgements

The Joint Board’s financial statements give a true and fair view of the state of affairs of the Joint Board as at 31 March 2019 and of its income and expenditure for the year then ended and were properly prepared.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

The Joint Board’s annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Audit opinions on the annual accounts

18. The annual accounts for the Joint Board for the year ended 31 March 2019 were approved by the Joint Board on 26 August 2019. We reported, within the independent auditor’s report that the;

- financial statements give a true and fair view of the state of affairs of the Joint Board as at 31 March 2019 and of its income and expenditure for the year then ended and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

19. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

Submission of the annual report and accounts for audit

20. We received the unaudited annual accounts on 28 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan.

21. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

Risk of material misstatement

22. Appendix 2 provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

23. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.
Materiality

24. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

25. We carried out our initial assessment of materiality for the annual accounts during the planning phase of the audit. On receipt of the annual accounts we reviewed our planning materiality calculations. The revised materiality levels are summarised in Exhibit 2.

Exhibit 2
Materiality values

<table>
<thead>
<tr>
<th>Materiality level</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall materiality - this is the calculated figure we use in assessing 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 2019.</td>
<td>£75,000</td>
</tr>
<tr>
<td>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 calculated performance materiality at 75% of planning materiality.</td>
<td>£56,000</td>
</tr>
<tr>
<td>Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.</td>
<td>£4,000</td>
</tr>
</tbody>
</table>

Source: Audit Scotland

How we evaluate misstatements

26. All misstatements identified during the audit, which exceeded our reporting threshold, have been amended in the financial statements.

27. We identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Significant findings from the audit (ISA 260)

28. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. Two significant findings were identified during our audit and these are summarised in Exhibit 3.
Exhibit 3
Significant findings from the audit of the financial statements

<table>
<thead>
<tr>
<th>Finding</th>
<th>Resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 International Accounting Standard 19 (IAS 19): Pension liabilities amendment</strong></td>
<td>The audited accounts have been adjusted.</td>
</tr>
<tr>
<td>The Joint Board accounts for its share of Tayside Pension Fund in accordance with International Accounting Standard 19 - Employee Benefits (IAS19). An amendment was required to the accounts as a result of a legal judgement which impacted on the estimated value of pension liabilities of UK public sector organisations. The impact of the judgement on the pension liabilities of the Joint Board was to increase the liabilities from £2.657 million to £2.858 million. This increase is offset by an equivalent increase in the pension reserve to £2.858 million. This has been adjusted in the audited accounts. A further legal judgement required that pension schemes must equalize the discriminatory effects of guaranteed minimum pension (GMP). The issue is a long standing one and the many complexities of dealing with it have meant that there is, as yet, no agreed solution to calculating the liabilities of pension schemes. The actuary highlighted that “they do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome”. The Joint Board has therefore adjusted the audited accounts to include an unquantified contingent liability for GMP as a note to the accounts. Further details on these matters are noted at appendix 3.</td>
<td></td>
</tr>
</tbody>
</table>

| **2. Capital expenditure accounted for as revenue expenditure** | The audited accounts have been adjusted.                                    |
| The Joint Board accounted for £0.016 million of IT equipment as revenue expenditure, rather than correctly capitalising the expenditure. This has no impact on the general fund balance as the resultant increased underspend is returned to the constituent authorities as a refund of contributions. There is also no impact on the net assets as the £0.016 million increase in property, plant and equipment is offset by the increase of £0.016 million in the creditors balance for increased refunds of contributions due for lower than anticipated expenditure but not yet paid. |

Source: Tayside Valuation Joint Board Annual Accounts 2018/19

Follow up of prior year recommendations

29. We made two recommendations in our Annual Audit Report of 2017/18. The Joint Board has made good progress in implementing our prior year audit recommendations. Details of actions taken and any remedial action required are set out in Appendix 1.

Objections

30. The Local Joint Board Accounts (Scotland) Regulations 2014 require a local Joint Board 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. The Joint Board complied with the regulations. There were no objections to the accounts.
Part 2
Financial sustainability

Main judgements
The Joint Board’s financial position is sustainable in the foreseeable future. It has a sufficient level of reserves and there is a medium term financial plan in place.

Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial performance in 2018/19

31. The Joint Board approved its 2018/19 budget on 22 January 2018. The budget was set at £2.791 million, which was the same level as approved for 2017/18.

32. The 2018/19 budget was to be met by £2.765 million of requisitions from constituent authorities, with the remaining £0.026 million to be met from the Joint Board’s general reserve. The financial performance of the Joint Board during 2018/19 was such that no transfer from the general reserve transfer was required.

33. While the Joint Board came in £0.026 million under budget, there are variations in some areas of service, the more significant of which are summarised in Exhibit 4.

Exhibit 4
Summary of significant (under) / overspends against budget

<table>
<thead>
<tr>
<th>Area</th>
<th>(Under)/over spend</th>
<th>Reason for variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff costs</td>
<td>£(0.061) million</td>
<td>Higher than normal vacancies following the move of offices from Dundee to Forfar.</td>
</tr>
<tr>
<td>Property costs</td>
<td>£(0.043) million</td>
<td>Lower costs due to the vacation of offices in Dundee.</td>
</tr>
<tr>
<td>Supplies &amp; services</td>
<td>£0.074 million</td>
<td>Additional printing, IT and postage costs incurred on Individual Electoral Registration.</td>
</tr>
<tr>
<td>Third party payments</td>
<td>£(0.015) million</td>
<td>Lower than anticipated number of contentious appeals.</td>
</tr>
<tr>
<td>Requisition income</td>
<td>£0.017 million</td>
<td>Increased refund of contributions to constituent councils</td>
</tr>
</tbody>
</table>

Source: Tayside Valuation Joint Board 2018/19 Annual Accounts
Financial planning

34. It is important that longer-term financial strategies are in place which link spending to the Joint Board’s strategies. Although members only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the Joint Board.

35. The Accounts Commission recommended that when future funding is not known, plans should be made for a range of scenarios so that the organisation is prepared for different levels of funding and income.

36. In January 2019, the Joint Board approved a report on its provisional revenue budget 2019/20 to 2023/24. The report set out the provisional revenue budget for 2019/20 and also included indicative revenue budgets for the following four years. This is a positive step toward long term financial planning.

37. The report shows a requirement for constituent authorities over the period, increasing from £2.765 million in 2019/20 (the same as 2018/19) to £2.983 million by 2023/24, an increase of 7.9% over the period.

38. As noted in the Annual Governance Statement, the Joint Board’s continuous improvement agenda includes an action to investigate options for ensuring that the medium term financial strategy integrates with service priorities and resource constraints. This is scheduled to be complete by 30 September 2019.

Reserves and savings plans

39. One of the key measures of the financial health of a joint board is the level of usable reserves held. Usable reserves are used to fund the delivery of services and provide a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows. The level of usable reserves held by the Joint Board as at 31 March 2019 was £0.102 million (31 March 2018 £0.102 million).

40. The Joint Board reviews the level of its uncommitted reserves when setting the budget each year. The Joint Board’s approved reserves strategy specifies that the minimum uncommitted reserves should be £0.060 million. The level of uncommitted general fund reserves as at 31 March 2019 is in line with the approved strategy.

41. We have concluded that the Joint Board’s financial position is sustainable in the short–medium term.
Part 3
Governance and transparency

Main Judgements

The Joint Board has appropriate governance arrangements in place that support the scrutiny of decisions made by the Joint Board.

The Joint Board generally demonstrates a commitment to transparency in the way it conducts its business, although Joint Board meeting minutes and agendas on the website are not up to date.

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.

Annual Governance Statement

42. Our review of the annual governance statement assessed the assurances which are provided to the Assessor and Electoral Registration Officer regarding the adequacy and effectiveness of the Joint Board’s system of internal control which operated in the financial year.

43. The statement highlights areas for improvement including revision of data protection policies following the recent implementation of the General Data Protection Regulations, review of the scheme of delegation and investigating options for ensuring that the Joint Board’s medium term financial strategy integrates with service priorities and resource constraints. The statement also summarises internal audit findings and key reports issued in the year, with the overall conclusion in internal audit’s annual report noted as being that “the Board operates adequate internal control systems”.

44. We concluded that the information in the annual governance statement is consistent with the financial statements and complies with applicable guidance.

Governance arrangements

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

46. 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.

47. Based on our observations and audit work performed during 2018/19, we have concluded that the Joint Board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision-making.
Openness and transparency

48. Openness and transparency means that the general public 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.

49. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny.

50. There is evidence from several sources which generally demonstrate the Joint Board’s commitment to transparency. Members of the public can attend meetings of the Joint Board. Minutes of the Joint Board meetings and supporting papers are readily available on the Joint Board’s website.

51. However, agendas and minutes on the Joint Board’s website are not up to date. As at 14 August 2019, the latest Joint Board meeting minute available on the website is January 2019. An agenda for the June 2019 meeting is on the website but the supporting papers/reports are not attached.

---

**Recommendation 1**

**Minutes should be published on the Joint Board’s website as soon as possible after the meeting. Published agendas should include all reports referred to in the agenda in advance of the meeting date, unless the report is required to be considered in private session.**

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52. The Joint Board makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the Joint Board.

53. Overall, subject to the issue raised at paragraph 51 above, we have concluded that the Joint Board conducts its business in an open and transparent manner.

Internal audit

54. The joint board’s internal audit function is carried out by Henderson Loggie. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentations standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

55. We reviewed the Joint Board’s internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. Overall, we concluded that the internal audit service generally operates in accordance with PSIAS and has sound documentation standards and reporting practices in place.

56. In our 2018/19 annual audit plan we highlighted that we planned to place reliance on internal audit’s work on Risk Management / Business Continuity Planning and we did not plan to place reliance on the work of internal audit for our financial statements responsibilities.

57. Henderson Loggie assessed the Joint Board’s Risk Management / Business Continuity Planning arrangements as ‘good’ which is the highest of their four assessment ratings.
Standards of conduct for prevention and detection of fraud and error

58. The Joint Board has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

59. We concluded that the Joint Board has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.
## Appendix 1
### Action plan 2018/19

<table>
<thead>
<tr>
<th>No.</th>
<th>Issue/risk</th>
<th>Recommendation</th>
<th>Agreed management action/timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Governance arrangements</td>
<td>Minutes should be published on the Joint Board’s website as soon as possible after the meeting. Published agendas should include all reports referred to in the agenda in advance of the meeting date, unless the report is required to be considered in private session. <strong>Paragraph 51</strong></td>
<td>Agreed action: The Assessor will arrange for the agendas and minutes to be updated on the Joint Board website more timeously. The agenda papers will include the reports referred to in the agenda unless there is a substantive reason for their unavailability. Responsible officer: Assessor Action date: 18 November 2019</td>
</tr>
</tbody>
</table>

### Follow up of prior year recommendations

**PY1** Public Notice of Accounts

The Joint Board must give public notice of the right of interested persons to inspect and object to its accounts in accordance with The Local Authority Accounts (Scotland) Regulations 2014. This public notice must be given no later than 17 June immediately following the financial year to which the accounts relate. The public notice was uploaded to the Joint Board’s website on 24 June 2017, 6 days after the latest date allowable under the statutory regulations.

**Risk**

The Joint Board may be open to legal challenge if it does not comply with regulations.

**Updated response:** Action closed – 2018/19 public notice published in line with statutory requirements.

**PY2** Financial planning

The Joint Board’s budget for 2018/19 was approved in January 2018 and although the Joint

The Joint Board should develop medium/long term financial plans, linked to its approved corporate plan and service plan and

**Updated response:** the Joint Board approved a provisional revenue budget for 2019/20 to 2023/24 in January 2019. The report set out the
<table>
<thead>
<tr>
<th>No.</th>
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<th>Agreed management action/timing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Board did reference medium/long term financial planning considerations in its 2018/19 Revenue Budget report, there remains no formal medium to long term planning incorporating scenario planning.</td>
<td>incorporating scenario planning. The impact of EU withdrawal should be covered in the plan.</td>
<td>provisional revenue budget for 2019/20 and also included indicative revenue budgets. The Joint Board is scheduled to investigate options for ensuring that the medium term financial strategy integrates with service priorities and resource constraints by 30 September 2019 (see paragraph 38).</td>
</tr>
<tr>
<td></td>
<td><strong>Risk</strong></td>
<td></td>
<td>Responsible officer: Treasurer</td>
</tr>
<tr>
<td></td>
<td>The Joint Board may fail to set realistic targets in its business plans or may be unable to achieve its objectives due to lack of resources.</td>
<td></td>
<td>Agreed date: 30 September 2019.</td>
</tr>
</tbody>
</table>
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 accounts and those relating our wider responsibility under the Code of Audit Practice 2016.

<table>
<thead>
<tr>
<th>Audit risk</th>
<th>Assurance procedure</th>
<th>Results and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risks of material misstatement in the financial statements</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 1 Risk of management override of controls | • 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. | • No instances of management override of controls were identified.  
• All journals and significant transactions tested (including accruals) were found to be appropriate.  
• Sources of accounting estimates were reviewed and found to be without management bias.  
• We reviewed transactions for the year. No significant transactions were identified that are outside the normal course of the Joint Board’s business. |
| 2 Risk of fraud over expenditure | • Assessment of adequacy of key financial controls over expenditure.  
• Detailed testing of transactions focusing on the greater areas of risk. | • No significant issues were found in relation to controls in place across the key financial systems.  
• From a review of expenditure transactions during the year, no issues were highlighted in relation to the risk of fraud over expenditure. |
| 3 Estimation and judgements | • Completion of ‘review of the work of an expert’ for the actuary.  
• Focused testing of pension and provisions. | • Estimations and judgements applied were tested to confirm they were appropriate and reasonable. No issues were highlighted with the estimates and judgements applied. |
<p>| 4 Compliance with the Local Authority Accounts (Scotland) Regulations 2014 | • Review of the board’s website to ensure the statutory deadline for the public notice of the accounts is met. | • Public notice published in line with statutory requirements. |</p>
<table>
<thead>
<tr>
<th>Audit risk</th>
<th>Assurance procedure</th>
<th>Results and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The board must give public notice of the right of interested persons to inspect and object to its accounts no later than 17 June immediately following the financial year to which the accounts relate. For 201S\textsc{pa}7/18, the notice was uploaded to the board’s website on 24 June 2018, six days after the latest date allowable under the statutory regulations.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Risks identified from the auditor's wider responsibility under the Code of Audit Practice**

5 **Financial sustainability**

Our 2017/18 Annual Audit Report highlighted that the board referenced medium to long term financial planning in its budget considerations but did not have a formal medium to long term financial plan in place. This was recognised in the board’s continuous improvement agenda.

There is a risk that the board may fail to set realistic targets in its plans or is unable to achieve its objectives due to lack of resources.

- Medium to long-term financial plans are being developed for 2019/20 budget process. These financial plans will link to the corporate and service plans and incorporate scenario planning (including the impact of EU withdrawal). We will monitor progress in implementing the agreed actions.

- We have monitored the financial position and consider the joint board to be financially sustainable in the short to medium term. Further comments on financial planning are covered in appendix 1, item PY2.
Appendix 3

Adjusted pensions liabilities

International accounting standards require all organisations to disclose information on pension liabilities in their financial statements. Tayside Valuation Joint Board is a member of Tayside Pension Fund (TPF), which has assets of £3.89 billion.

Annual valuations of pension fund assets and liabilities are made by the TPF actuary (Barnett Waddingham LLP). The resulting liability is then allocated between the participating members of TPF and these are included as pension disclosures in individual participating members’ annual accounts. The calculation of TPF assets and liabilities is complex and dependent on a number of external variables, including projected rates of return on assets, projected rates of price and pay inflation, interest rates and mortality estimates.

Historically, there has been considerable volatility year on year on the valuation of net pension liabilities across the public sector. Small changes in actuarial assumptions can have a significant impact on the calculation of liabilities.

In addition to the “normal” variation in the annual estimate of the Joint Board’s pension liability the impact of two distinct pensions issues, affecting the accounts of UK public sector organisations, became apparent during 2019:

- following a judgement handed down by the Supreme Court (the McCloud case) on 28 June 2019, UK public sector organisations were obliged to obtain revised pension liability figures to reflect the Court’s judgement on age discrimination on pension scheme transitional protection
- in October 2018 the High Court (England) held that pension schemes must eliminate the discriminatory effects of guaranteed minimum pensions.

The following sections summarise the issues and the actions taken by the Joint Board to reflect the impact in the 2018/19 annual accounts.

Age discrimination on pension scheme transitional protection

In March 2011 the Independent Public Services Pension Commission published a review of Public Sector Pensions, the Hutton Report. It recommended wholesale public sector pension reform in order to place public sector pensions on a more sustainable footing. The Government largely accepted the recommendations of that Report and enacted pension reforms through the Public Service Pensions Act 2013. The main changes were: pensions are now based on career average rather than final salary; retirement ages are now aligned with state pension eligibility age; rates of the annual accrual of pension benefits are changed.

The reforms included transitional protection for scheme members approaching retirement age. In December 2018, the Court of Appeal ruled that the transitional protection provided to some members of the judiciary and fire fighters schemes amounted to unlawful age discrimination. On 28 June this judgement was upheld by the Supreme Court. Although this (McCloud) case related to specific schemes the principle applies to other public sector groups who have seen similar changes to their pension schemes.

As a result, the Joint Board was obliged to reflect the additional liabilities arising from the McCloud decision in the financial statements for 2018/19.

Sex discrimination on guaranteed minimum pension rights

Contracting out of the state earnings related pension scheme (SERPS) became possible in April 1978. This provided for reduced employer and employee National Insurance contributions in return for members receiving a guaranteed minimum pension (GMP) from an occupational pension scheme. GMPs are
discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they built up at different rates, reflecting the earlier payment age for women.

In October 2018 the High Court (England) held that pension schemes must equalize the discriminatory effects of GMPs. The Court’s judgement will be applicable across all affected public sector defined benefit pension schemes. An interim method of calculating costs in respect of persons retiring from April 2016 and April 2021 has been agreed. However, the issue is a long standing one and the many complexities of dealing with it have meant that there is, as yet, no agreed solution to calculating the liabilities of pension schemes.

The Tayside Pension Fund actuaries, Barnett Waddingham, advised that no adjustment was required to the pension figures at this time for GMP highlighting:

Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA (State Pension Age) by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

As a result the Joint Board disclosed an unquantified contingent liability to reflect the potential liability arising from the GMP decision in the financial statements for 2018/19.
Appendix 4
Summary of national performance reports 2018/19

Reports of relevance to the Joint Board

Local government in Scotland: Challenges and performance 2018 – April 2018

Local government in Scotland: Financial overview 2017/18 – November 2018

Local government in Scotland: Challenges and performance 2019 – March 2019