



Lothian Valuation Joint Board

2019/20 Annual Audit Report to members of Lothian Valuation Joint Board and the Controller of Audit

November 2020



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Key messages



Annual accounts audit

We report within our independent auditor's report unqualified opinions on the financial statements and on other prescribed matters. There are no matters which we are required to report by exception.

We specifically updated our risk assessment and audit plan in light of the COVID-19 pandemic and recognised this as a key audit risk. Our findings as they relate to this risk are documented under each section of this report.

Our thanks go to management and staff at the Board and City of Edinburgh Council for their co-operation and assistance during our audit.

Wider scope audit

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Annual Governance Statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions and key observations are set out below:



Governance statement

- We have reviewed the Annual Governance Statement and have concluded that it is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government Framework (2016).
- The Board has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Board's accounting and internal control systems throughout the period or as a result of remote working during the COVID-19 pandemic.



Financial sustainability

- The Board has in place a four year medium term financial plan (commencing 2020/21). The financial plan shows that the Board is forecasting an indicative funding shortfall of £1.036million by 2022/23. This is prior to utilising its approved general fund reserve level of £180,000. We have recommended that more frequent discussions are held at Board level with regard to the future financial position of the organisation with actions developed to address this position.

Conclusion

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Azets
November 2020

Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of Lothian Valuation Joint Board for 2019/20.

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (UK) 260: *Communication with those charged with governance*.

The Board is designated as "those charged with governance".

Introduction

1. This report summarises the findings from our 2019/20 audit of Lothian Valuation Joint Board (“the Board”).
2. We outline the scope of our audit in our External Audit Plan. The core elements of our work include:
 - an audit of the 2019/20 annual accounts and related matters;
 - consideration of the Board’s arrangements against the audit dimensions within the Code of Audit Practice (Exhibit 1); and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



3. The Board is responsible for preparing annual accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We would like to thank all management and staff at the Board and the City of Edinburgh Council for their co-operation and assistance during our audit.

Confirmation of independence

5. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
6. We confirm that we complied with the Financial Reporting Council’s (FRC) Ethical Standards. In our professional

judgement, the audit process is independent, and our objectivity has not been compromised in any way.

7. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

8. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

9. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

Openness and transparency

10. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Annual accounts

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

In this section we summarise the findings from our audit of the 2019/20 annual accounts.

Annual accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2020 were approved by the Board on 9 November 2020. Our independent auditor's report includes an unqualified opinion on the annual accounts and on other prescribed matters.

Overall conclusion

11. The annual accounts for the year ended 31 March 2020 were considered and approved by the Board on 9 November 2020. We report within our independent auditor's report:
 - An unqualified opinion on the annual accounts; and
 - An unqualified opinion on other prescribed matters.
12. We are also satisfied that there were no matters which we are required to report by exception.

Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described below.

Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Noted in the 2019/20 External Audit Plan

14. We have not identified any indications of management override in the year. We have reviewed the Board's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Noted in the 2019/20 External Audit Plan

15. At the planning stage of our audit cycle, we reported that we did not believe the risk of fraud in revenue recognition was material to the annual accounts and we therefore rebutted this risk. The Board receive the majority of its income from requisitions and Cabinet Office grants both of which can be readily agreed to external sources. Our assessment of this risk has been reviewed throughout the audit and our conclusion to rebut this risk has remained appropriate.

Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 “*The Audit of Public Sector Financial Statements*” which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Noted in the 2019/20 External Audit Plan

16. We have evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion, we carried out testing to confirm that the Board’s policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

Pension assumptions

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

Noted in the 2019/20 External Audit Plan

17. We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.
18. We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 ‘Audit Evidence’. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.
19. The unaudited annual accounts were prepared based on an actuarial report received in April 2020. A subsequent actuarial report was received in May 2020 which had been revised to take account of the year-end results of Lothian Pension Fund. This resulted in an

increase in the net pension liability as reported by the Board of £124,000.

20. The net pension liability within the audited annual accounts has been further revised to take account of the latest reliable, available information on the 'McCloud Judgement':

McCloud judgement

21. This case relates to an employment tribunal ruling that transitional provisions impacting on a public sector final salary scheme were unlawfully age discriminatory. This was upheld in the Courts in December 2018 although the Government at that stage sought leave to appeal this judgement. In June 2019, the Supreme Court rejected the Government's request for a further appeal.
22. In July 2020, the Government released its consultation on applying the remedy to address the age discrimination inherent within the transitional protections that were adopted by the public service schemes in 2014 and 2015. The SPPA on behalf of Scottish Ministers also released a consultation document which sets out its preferred policy approach for remedying the discrimination in the Local Government Pension Scheme. The Board's Actuaries highlighted that the remedy consultation could have a material impact on the treatment of McCloud in the March 2020 actuarial pension valuations.
23. Estimates require to be based on the latest available, reliable information, including information that becomes available after 31 March. The issue of the consultation paper from SPPA on the McCloud judgement is an adjusting event as it provides evidence of conditions that existed as at 31 March 2020.
24. The financial effect of this pension issue is a past service gain of £458,000. As a consequence of both revisions, the net pension liability of £6.453million as reported in the unaudited annual accounts is now a net pension liability of £6.119million.

Goodwin tribunal

25. The Goodwin tribunal relates to a recent employment tribunal that changes the pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, the male spouse survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005. The change therefore affects the pension of male spouse survivors where their entitlement arose (i.e. where the female member died) on or after 5 December 2005.
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26. Management instructed its Actuaries to calculate an estimated cost of the Goodwin impact on the Employer's future obligations. The Actuaries estimated that the closing obligations as at 31 March 2020 may be around 0.03% higher as a result of the Goodwin tribunal. Based on this information, management assessed the impact on the Board's pension liability to be immaterial and no adjustment has been made in respect of the Goodwin tribunal.
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Update to our initial risk assessment

27. Planning is a continuous process and our audit plans are updated during the

course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk¹.

COVID-19

The COVID-19 pandemic is presenting unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, arrangements for governance, decision making and performance management have been adapted, and many organisations are forecasting large operating deficits due to loss of income and/or additional cost pressures. It is uncertain how long these challenges will persist.

The implications of these risks and uncertainties are under consideration by the Board. We continue to monitor government and relevant announcements as they pertain to the audit and have adapted our audit approach as required.

28. In response to this risk we identified potential areas where there was the risk of material misstatement to the annual accounts and/or our audit opinion. These areas included:

- Content of the annual accounts;
- Access to audit evidence; and
- Timescales/administrative processes.

Content of the annual accounts

29. In response to the impact of the COVID-19 pandemic, the Scottish Government issued Finance Circular 10/2020 which allows bodies to disapply specified requirements for Finance Circular 5/2015 (which provides statutory guidance on the preparation of a Management Commentary).

¹ A key audit risk is one which may result in a material misstatement to the financial statements or

significantly impact on our audit judgements and conclusions on the wider scope dimensions..

30. The Board took the decision to include, where applicable to the organisation, the full disclosures in the Management Commentary.

Access to audit evidence

31. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.
32. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.
33. We are pleased to report we received all audit evidence requested to allow us to form our audit opinion.
34. We received the unaudited annual accounts and supporting papers of a high standard. Our thanks go to staff at the Board and City of Edinburgh Council for their assistance with our work.

Timescales/Administrative processes

35. Schedule 6 of the Coronavirus (Scotland) Act 2020 allows a local government body to postpone submitting the unaudited accounts to auditors and publishing the audited accounts until it is reasonably practicable. The Scottish Government has provided guidance on this in Finance Circular 10/2020. The guidance advises that 30 November should be considered a reasonably practicable date for publishing the audited accounts.
36. Audit Scotland has revised the deadline for auditors to submit the

audited annual accounts from 30 September to 30 November 2020. However, it is for local auditors to agree a timetable with each local government body with a view to completing the process as early possible while still delivering a high quality audit.

37. The annual accounts were considered and approved by the Board on 9 November 2020; thereby meeting the revised timetable as set out above.

An overview of the scope of our audit

38. The scope of our audit is detailed in our External Audit Plan. The plan explains that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
39. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
40. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we have applied

the concept of materiality, which is explained below.

consider our updated assessment has remained appropriate throughout our audit.

Our application of materiality

41. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.
42. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
43. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
44. Our initial assessment of materiality for the annual accounts was £130,000. This was increased upon receipt of the unaudited annual accounts to £140,000. This equates to approximately 2% of the Board's 2019/20 gross expenditure. We

	Materiality £
Overall materiality: Our assessment is made with reference to the Board's gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing the performance of the Board.	140,000
Performance materiality: Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	105,000

45. We note within our External Audit Plan that we would report on all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the financial statements.

Audit differences

46. One adjustment was made to the annual accounts in respect of the net pension liability (paragraphs 19-24).
47. There were no unadjusted differences to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements.

Representations

48. We have requested that a signed representation letter be presented to us at the date of signing the annual accounts. This letter is to be signed by the Treasurer on behalf of the Board.

Legality

49. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:

- Reviewing minutes of Board meetings;
- Enquiring of senior management and the Board's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

50. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

51. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

52. As part of our audit we reviewed the Board's compliance with the Local Authority Accounts (Scotland)

Regulations 2014, in particular with respect to regulations 8 to 10² as they relate to the annual accounts.

53. The Scottish Government included in its Finance Circular 10/2020 guidance on the publication and inspection of the unaudited annual accounts as a result of the COVID-19 pandemic.

54. Overall we concluded that appropriate arrangements were in place to comply with the Regulations and the guidance as set out in Finance Circular 10/2020.

Management commentary

55. The Local Authority Accounts (Scotland) Regulations 2014 require local authority bodies to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.

56. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003 (refer to paragraphs 29-30 of this report).

Annual governance statement

57. We are satisfied that the governance statement within the annual accounts is consistent with the financial statements and it has been prepared

² Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public

right to inspect and object to the accounts and consideration and signing of the audited accounts.

in accordance with the Delivering Good Governance in Local Government: Framework (2016). We have provided further detail on our work and findings within the Wider Scope section of our report.

Remuneration report

58. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Going concern

59. As at 31 March 2020, the Board reported a net liability position of £5.002million.
60. The Board's unusable reserves totalled £5.899million. These reserves primarily comprise the net pension liability of £6.119million.
61. In the Board's opinion, the organisation will be able to continue for the foreseeable future. The Board has adequate budget to meet the ongoing employer contributions required by Lothian Pension Fund.

Systems of internal control

62. We have evaluated Board's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatement in the annual accounts. Our approach has included documenting key internal financial controls and performing walkthroughs

to confirm they are operating as intended.

63. We did not identify any material weaknesses in the Board's accounting and internal control systems.

Follow up of prior year recommendations

64. As part of our audit we have followed up on the audit recommendations from prior years. Detail is included in the action plan at Appendix 2.

Prevention and detection of fraud and irregularity

65. Our audit was planned to provide a reasonable expectation of detecting material misstatement in the annual accounts resulting from fraud and irregularity. We found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate and appropriate.

Qualitative aspects of accounting practices and financial reporting

66. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the Board.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	<p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts.</p> <p>Significant estimates have been made in relation to pension liabilities. We consider the estimates made, and the related disclosures, to be appropriate to the Board.</p> <p>We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.</p>
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Board will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.

Qualitative aspect considered	Audit conclusion
Apparent misstatements in the management commentary or material inconsistencies with the accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit. Our audit this year has been carried out remotely. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Wider scope

Following consideration of the size, nature and risks of the Board, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
 - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
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Wider scope conclusions

Governance statement



We are satisfied that the Annual Governance Statement for the year to 31 March 2020 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

The Board has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Board's accounting and internal control systems throughout the year or as a result of remote working during the COVID-19 pandemic.

Financial sustainability



The Board has in place a four year medium term financial plan (commencing 2020/21). The financial plan shows that the Board is forecasting an indicative funding shortfall of £1.036million by 2022/23. This is prior to utilising its approved general fund reserve level of £180,000. We have recommended that more frequent discussions are held at Board level with regard to the future financial position of the organisation with actions developed to address this position.

Our approach to the wider scope audit

67. Our approach to the wider scope audit (as set out in our 2019/20 External Audit Plan) builds upon our understanding of the Board which we developed from previous years, along with discussions with management and review of Board minutes and key strategy documents.

68. Our annual audit work on the wider scope is restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and

- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.



Annual Governance Statement

Our audit opinion considers whether the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016) and is consistent with the financial statements.

69. We are satisfied that the Annual Governance Statement for the year to 31 March 2020 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
70. The Treasurer has confirmed that in his opinion, reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system.
71. From our audit work performed we concluded that the Board has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Board's accounting and internal control systems.
72. The Board's internal audit function is provided by City of Edinburgh Council's internal audit service. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the Annual Governance Statement.
73. The Assessor and Electoral Registration Officer retired from the Board on 30 September 2020. During 2019/20, a handover of responsibilities took place with the newly appointed Interim Assessor and Electoral Registration Officer. This handover

enables the Interim Assessor to sign the 2019/20 Annual Governance Statement.

Impact of COVID-19

74. From the end of March 2020 all Board staff commenced working from home. This resulted in a high level of service delivery across all statutory functions being maintained.
75. The COVID-19 pandemic required changes to governance arrangements. All meetings of the Board due to take place in 2019/20 took place, but the Board meeting of 20 April 2020 was cancelled. In 2020/21, Board meetings have taken place using electronic technology.



Financial sustainability

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

Significant audit risk

76. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities.

Financial sustainability

Progress was made during 2018/19 to develop a four year medium term financial plan.

In setting the revenue budget for 2020/21, revenue budget options were presented to the Board which were developed in line with the Board's Transformation Programme. The Board approved a phased implementation of its Transformation Programme with 'flat cash' council requisitions in 2020/21 and a draw down from general fund reserves of £0.657million; resulting in a balanced budget for 2020/21.

Indicative budget estimates were also reported for 2021/22 to 2023/24. At the same Board meeting, information was provided aligning budget provision with service delivery. The indicative budget estimates are subject to further update to the Board as the Transformation Programme is progressed. The indicative budget estimates show that the Board is forecasting an indicative funding shortfall of £1.036million by 2022/23.

As noted in the 2019/20 External Audit Plan

77. In February 2020, the Board approved its revenue budget for 2020/21 and noted the indicative budget estimates for the following three years (commencing 2021/22).
78. The approved 2020/21 revenue budget required no change in council requisitions but a drawdown of general fund reserves.

	20/21	21/22	22/23	23/24
	£'000	£'000	£'000	£'000
Core expenditure	6,037	5,933	5,995	5,628
IER	109	0	0	0
Voluntary severance costs	467	324	888	216
Total expenditure	6,613	6,257	6,883	5,844
Council requisitions	5,847	5,847	5,847	5,847
IER grant carried forward	109	188	0	0
Use of general fund reserves	657	53	0	0
Net shortfall	0	169	1,036	(3)

Source: Revenue Budget 2020/21 Board 3 February 2020

79. The Board's approved reserve policy is to maintain a minimum general fund reserve level of 3% of annual requisition (£180,000). The above analysis does not draw down upon the minimum general reserve level.

	20/21	21/22	22/23	23/24
	£'000	£'000	£'000	£'000
General fund reserves brought forward	890	233	180	180
Draw down	(657)	(53)	0	0
Balance on general fund reserves	233	180	180	180

80. The Board should it utilise its general fund reserves will be in a deficit position by 2022/23. This forecast position was reported to the Board in February 2020. The Board has not since received an updated position. We would recommend that more frequent discussions are

held at Board level to address the future financial position and sustainability of the organisation. The position should also be updated, where possible, to take into account the impact of COVID-19 on the organisation. Actions should be developed and monitored to address the future financial position.

Action plan point 1

Impact of COVID-19 in 2020/21

81. In the Period 6 Financial Statement 2020/21 monitoring report, the forecast based on the position as at 30 September is for net expenditure to be in line with the approved budget. The paper notes, in respect of the impact the COVID-19 pandemic is having on the Board:
 - There is the potential for a reduction in employee costs due to longer recruitment lead times
 - There was additional investment in ICT equipment as a result of home working
 - Additional expenditure has been incurred on office preparation costs.
82. The forecast continues assumes that any employee cost savings will contribute to offsetting additional ICT equipment costs, with office preparation costs met from within the approved budget.
83. In the event there is an overall net underspend, this will reduce the planned drawdown of £0.657million from the Board's unallocated reserve.
84. The Board has received 9,541 valuation appeals, as a consequence of the Coronavirus Pandemic. This represents an additional workload to the Board and reflects a national trend. The Scottish Government has extended the statutory disposal date to 31 December 2021, which will reduce the risk of additional costs being incurred to meet the original disposals deadline date.
85. The 2020/21 approved budget included £0.109m for delivery of Individual Electoral Registration (IER), with all costs met from Cabinet Office grant carried forward from 2019/20. The Cabinet Office subsequently awarded the Board grant of £53,834, with the possibility of a top up at year end, subject to justification. Total funding for IER of £0.162million is therefore currently in 2020/21.

The Board's performance in 2019/20

86. The Comprehensive Income and Expenditure Statement for 2019/20 shows that the Board spent £8.223million on the delivery of services, resulting in an accounting deficit of £478,000. However, the accounting deficit includes certain elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the 2019/20 Code).
87. Taking account of these adjustments, the Board reported a breakeven position resulting in general fund reserves remaining at the level as in the previous year (£897,000).

Appendices



Appendix 1: Respective responsibilities of the Board and the Auditor

Responsibility for the preparation of the annual accounts

The Board is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Treasurer has been designated as that officer.

The Treasurer is responsible for the preparation of the Board's annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Treasurer is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- complying with legislation; and
- complying with the Code.

The Treasurer is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of the affairs of the body as at 31 March 2020 and of its income and expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code;
- 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;
- the use of the going concern basis of accounting in the preparation of the financial statements is appropriate or the Treasurer has disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Board's best value arrangements has been integrated into our audit approach, including our work on the wider scope dimensions.

Independence

International Standard on Auditing (UK) 260 "*Communication with those charged with governance*" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Confirmation of independence

We confirm that we have complied with the FRC's Ethical Standards. In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets, the Board or senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

The recommendations are rated to help the Board assess the significance of the issues and prioritise the actions required.

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Current year action plan

Financial forecasts

Initial rating	Issue & recommendation	Management comments
Grade 4	<p>The Board is forecasting a deficit position by 2022/23, should it utilise its general fund reserves. This forecast position was reported to the Board in February 2020. The Board has not since received an updated position.</p> <p>Risk</p> <p>There is a risk over the future financial viability of the organisation and the delivery of statutory functions.</p> <p>Recommendation</p> <p>We would recommend that more frequent discussions are held at Board level to address the future financial position and sustainability of the organisation. The position should also be updated, where possible, to take into account the impact of COVID-19 on the organisation. Actions should be developed and monitored to address the future financial position.</p>	<p>The Board's Medium-Term Financial Plan will be fully updated and reported to the Board, when presenting the revenue budget for 2021/22 for approval by the Board at its meeting on 1 February 2021</p> <p>Responsible officer: Treasurer/Interim Assessor and Electoral Registration Officer</p> <p>Implementation date: 1 February 2021</p>

Follow up of prior year recommendation

We are pleased to report that the one recommendation included in our 2018/19 annual audit report has been closed, as described below.

Related parties

Initial rating	Issue & recommendation	Management comments
<p>Grade 3</p>	<p>While we concluded during our audit that while the relevant disclosures in respect of related party transactions had been made in the annual accounts; improvements could be made over the procedures for collating this information.</p> <p>Once potential related parties have been identified, an exercise should be carried out to review accounting records for transactions associated with those related parties. This part of the process is carried out by the City of Edinburgh Council (the Council) on behalf of the Board and is dependent on potential related parties being identified by management at the Board and reported to the Council.</p> <p>Risk</p> <p>There is a risk that the disclosure within the annual accounts is incomplete.</p> <p>Recommendation</p> <p>We would encourage both management at the Board and the Council to review existing procedures to ensure these are carried out in the most efficient and effective way.</p>	<p>A review of existing procedures to identify related parties will be undertaken.</p> <p>Responsible officers: Assessor and Treasurer</p> <p>Implementation date: 31 March 2020</p>
Current status	Update	
<p>Closed</p>	<p>In response to this recommendation, the Board's Governance Team developed a Members Code of Conduct which sets out expectations on declarations of interest. Each Board Member is requested to provide a Register of Interests Declaration Form which should be regularly maintained and updated. These will be used, going forward, to assist in the identification of potential related parties.</p>	



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