



Lothian Valuation Joint Board

2021/22 Annual Audit Report to members of
Lothian Valuation Joint Board and the Controller of
Audit

October 2022



Table of Contents

Key messages	3
Introduction	7
Annual accounts audit	10
Wider scope	23
Appendices	30

Key messages

A solid green horizontal bar spanning the width of the page, positioned below the 'Key messages' heading.

This report concludes our audit of the Lothian Valuation Joint Board (“the Board”) for 2021/22.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	<p>The Board's annual accounts for the year ended 31 March 2022 were approved by the Board on 24 October 2022.</p> <p>We report unqualified opinions within our independent auditor's report.</p>
Key findings on audit risks and other matters	<p>We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate.</p> <p>All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p> <p>The Board had appropriate administrative processes in place to prepare the annual accounts and the required supporting working papers</p>
Audit adjustments	<p>One audit adjustment was made to the annual accounts following the receipt of a revised actuarial report. The overall impact on the annual accounts was a reduction in net assets of £272,000.</p> <p>We also identified disclosure and presentational adjustments during our audit, which have been reflect in the final set of financial statements.</p>
Accounting systems and internal controls	<p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Board's processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were identified.</p>

Wider scope audit

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:



Annual Governance Statement

We are satisfied that the Annual Governance Statement for the year to 31 March 2022 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 internal control systems throughout the year.

Auditor judgement



Risks exist to achievement of operational objectives



Financial Sustainability

The future financial challenges faced by the Board are significant. The Board's revised revenue budget for 2022/23 and indicative budget estimates for the subsequent four years (to 2026/27) show a balanced financial position, utilising general fund reserves, for the first two years with an indicative funding shortfall from 2024/25.

The application of reserves to support service delivery offers a potential short-term solution for 2023/23, it does not achieve a sustainable financial plan to address the significant projected funding gap from 2024/25.

Potential options to develop the budget on a more sustainable basis were presented to the Board in October 2022. The development of future financial plans, on a timely basis and aligned to the Business Strategy, is critical to the Board demonstrating and achieving financial sustainability.

Definition

Our wider scope audit involves consideration of the Board's arrangements as they relate to financial sustainability. We have used the following grading to provide an overall assessment of the arrangements in place.



Introduction



We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence



Scope

1. This report summarises the findings from our 2021/22 audit of the Lothian Valuation Joint Board (“the Board”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Board at the outset of our audit. The core elements of our work include:
 - an audit of the 2021/22 annual accounts and related matters;
 - consideration of the wider dimensions of public audit work, as set out in Exhibit 1; and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



Responsibilities

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 in this report 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 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 do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
5. This is the final year of our audit appointment under the current audit arrangements. We would like to thank all management and staff at both the Board and City of Edinburgh Council for their co-operation and assistance during our appointment period.

Auditor independence

6. 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.
7. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remain independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 1 our assessment and confirmation of independence.

Openness and transparency

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

Adding value through the audit

9. 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

10. 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.

Annual accounts audit

A solid green horizontal bar spanning the width of the page, positioned below the section header.

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.

A horizontal dotted green line spanning the width of the page, positioned below the text.

Overall conclusion

12. The annual accounts were considered by the Board on 24 October 2022. Our independent auditor’s report is unqualified.

Administrative processes

13. We received the unaudited annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at the Board and City of Edinburgh Council for their assistance with our work.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	We have issued unqualified audit opinions.
Going concern basis of accounting	<p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Board’s functions.</p> <p>Our wider scope audit work considers the financial sustainability of the Board.</p>	<p>We reviewed the financial forecasts for 2022/23. 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.</p> <p>Our audit opinion is unqualified in this respect.</p>

Opinion	Basis for opinion	Conclusions
<p>Opinions prescribed by the Accounts Commission on:</p> <ul style="list-style-type: none"> • Management Commentary • Annual Governance Statement • Remuneration Report 	<p>We plan and perform audit procedures to gain assurance that the Management Commentary, Annual Governance Statement and the audited part of the Remuneration Report are prepared in accordance with;</p> <ul style="list-style-type: none"> • statutory guidance issued under the Local Government in Scotland Act 2003 (Management Commentary); • the Delivering Good Governance in Local Government: Framework (Annual Governance Statement); and • The Local Authority Accounts (Scotland) Regulations 2014 (Remuneration Report). 	<p>We have concluded that:</p> <ul style="list-style-type: none"> • the management commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003. • 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 framework. • the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.
<p>Matters reported by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept; or • the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit. 	<p>We have no matters to report.</p>

An overview of the scope of our audit

14. The scope of our audit was detailed in our External Audit Plan, which was presented to the Board in April 2022. The plan explained 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.
15. 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.
16. In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.
18. The significant risk areas 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 financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described below.

Significant risk areas

17. Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk areas

1. Management override

Significant risk description

In any organisation, there exists a risk that management have 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*.

How the scope of our audit responded to the significant risk

Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.

Audit procedures

- Review of the Board's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

Significant risk areas

2. Revenue recognition

Significant risk description

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 Partnership could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present in requisitions received from the constituent local authorities due to a lack of incentive and opportunity to manipulate transactions.

Audit procedures

- Evaluate the significant income streams and review the controls in place over accounting for revenue.
- Consideration of the Board's key areas of income and obtain evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

Key observations

At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for requisitions from constituent local authorities. Our conclusion remained the same throughout the audit.

Based on the work performed, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that it is fairly stated in the financial statements.

Significant risk areas

3. Expenditure recognition

Significant risk description

As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end.

Audit procedures

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Consideration of the Board's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key observations

We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

Significant risk areas

4. Pension assumptions (significant accounting estimate)

Significant risk description

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 data 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.

How the scope of our audit responded to the significant risk

Key judgements

A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation, and mortality rates) can have a material impact on the pension asset/liability.

Audit procedures

- Review of the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate.
- Review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.
- Agree the disclosures in the financial statements to information provided by the actuary.
- Consider the competence, capability and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

Key observations

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.

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.

Other risk factors

Impact of COVID-19 on the annual accounts

19. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential

areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
Access to audit evidence	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.	<p>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.</p> <p>We stayed in close contact with Board and City of Edinburgh Council colleagues to ensure all relevant issues were satisfactorily addressed.</p>

Estimates and judgements

20. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
21. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to pension assumptions, depreciation

and accruals. Other than pension assumptions, we have not determined the accounting estimates to be significant. We revisited our assessment during the audit and concluded that our assessment remained appropriate.

22. Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements

Pension assumptions

Balanced

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience.

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.

We reviewed the reasonableness of the 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.

The Board has disclosed in its financial statements a sensitivity analysis to help users of the financial statements understand the judgements management have made about the sources of estimation uncertainty.

Materiality

23. 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 and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.
24. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Board and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.
25. Our initial assessment of materiality for the Board's financial statements was £110,000. On receipt of the unaudited annual accounts, we reassessed materiality and updated it to £102,000. We consider that our updated assessment has remained appropriate throughout our audit.

Materiality

Overall materiality

£102,000



100%

Accounts materially misstated where total errors exceed this value

Performance materiality

£76,500



75%

Work performed to capture individual errors at this level

Trivial threshold

£5,100



5%

All errors greater than this level are reported

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 financial performance.

Our assessment of materiality equates to approximately 1.5% of the Board's gross expenditure as disclosed in the 2021/22 unaudited annual accounts.

In performing our audit we apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.

Performance materiality

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.

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.

Trivial misstatements

Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

26. One adjustment was made to the unaudited annual accounts. In line with previous years, a revised actuarial report was received following the publication of the unaudited annual accounts. The audited accounts reflect the revised actuarial report. The overall impact on the financial statements was a reduction in the reported net pension asset of £272,000.
27. We also identified some disclosure or presentational adjustments during our audit, which have been reflected in the final set of accounts.

Internal controls

28. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Board. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Area	Assessment	Comment
Control and process environment	Satisfactory	We consider the control environment within the entity to be satisfactory.
Quality of supporting schedules	Satisfactory	The supporting schedules received during the course of the fieldwork were of a good standard and sufficient for our audit purposes.
Responses to audit queries	Satisfactory	Management and City of Edinburgh Council responses to our audit queries were appropriate and received on a timely basis.

Other communications

Accounting policies, presentation and disclosures

29. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the Board.
30. The accounting policies, which are disclosed in the financial statements, are considered appropriate.
31. There are no significant financial statements 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.

32. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

33. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.
34. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

35. As part of our standard audit testing, we have reviewed the laws and regulations impacting the Board. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

The Local Authority Accounts (Scotland) Regulations 2014

36. 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 10¹ as they relate to the annual accounts.
37. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

Written representations

38. We presented a letter of representation to the Treasurer to sign at the same time as the annual accounts were approved.

Related parties

39. We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

40. All requested third party confirmations in respect of bank and legal confirmations have been received.

¹ 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.

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.
-

Wider scope conclusions



Governance Statement

We are satisfied that the Annual Governance Statement for the year to 31 March 2022 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 internal control systems throughout the year.

Auditor judgement



Risks exist to achievement of operational objectives



Financial Sustainability

The future financial challenges faced by the Board are significant. The Board's revised revenue budget for 2022/23 and indicative budget estimates for the subsequent four years (to 2026/27) show a balanced financial position, utilising general fund reserves, for the first two years with an indicative funding shortfall from 2024/25.

The application of reserves to support service delivery offers a potential short-term solution for 2023/23, it does not achieve a sustainable financial plan to address the significant projected funding gap from 2024/25.

Potential options to develop the budget on a more sustainable basis were presented to the Board in October 2022. The development of future financial plans, on a timely basis and aligned to the Business Strategy, is critical to the Board demonstrating and achieving financial sustainability.

Our approach to the wider scope audit

41. Our approach to the wider scope audit (as set out in our 2021/22 External Audit Plan) builds on our understanding of the Board which we developed from previous years, along with discussions with management and City of Edinburgh Council staff, review of minutes and key strategy documents.



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.

42. We are satisfied that the Annual Governance Statement for the year to 31 March 2022 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
43. From our audit work we have 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.
44. 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.

45. The Board's internal audit service is provided by City of Edinburgh Council's internal audit function. 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.

Governance arrangements

46. Governance arrangements continued as normal throughout 2021/22, with Board meetings held remotely.
47. The accounting and internal control system continued to operate effectively during remote working, with no significant changes in controls.
48. The Board received and considered all standing items in 2021/22 including regular budget monitoring reports, performance information and updates on ongoing activity.
49. We are satisfied that the Board received sufficient and timely information throughout the year to support effective scrutiny, challenge and decision making.
50. The Assessor and Electoral Registration Officer retired from the Board in October 2022; prior to the approval of the 2021/22 annual accounts. An Interim Assessor and Electoral Registration Officer has been appointed (Michael Wilkie).
51. Suitable handover arrangements were in place to ensure a smooth transition between Assessors in 2021/22 to enable the Interim Assessor to sign the annual accounts.

Scottish Local Government Elections

52. The local government elections in May 2022 resulted in changes to the Board's membership. Board members received induction training at the Board meeting in September 2022.



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

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

Financial sustainability

In February 2022 the Board approved its revenue budget for 2022/23 and indicative budget estimates for the subsequent four years (to 2026/27). The indicative financial plan 2023/24 to 2026/27 identifies that, without an increase in council requisition and/or delivery of sustainable savings, a funding shortfall of £0.513million is forecast from 2023/24. This increases to £1.038million by 2026/27, before any drawdown from the Board's unallocated General Fund Reserve which is set at £0.869million across the five year period.

The Board faces increasing cost pressures, particularly around employee costs which comprise c.74% of the Board's expenditure.

The Financial Plan assumes that there will be no increase in council requisition until at least 2026/27. The last increase in council requisition was in 2009/10, with the approved 2021/22 annual budget marking over a decade without increase in requisitions.

The Board has committed to developing a comprehensive and sustainable medium term strategic plan to address the significant projected funding gaps.

Noted in the 2021/22 External Audit Plan

54. Our detailed findings on the Board's financial framework for achieving medium term financial sustainability are set out below.

Financial plans

55. The Board's revised revenue budget for 2022/23 and indicative budget estimates for the subsequent four years (to 2026/27) show a balanced

financial position, utilising general fund reserves, for the first two years with an indicative funding shortfall from 2024/25.

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Core expenditure and IER	6,148	6,561	6,744	6,915	7,089
Council requisitions	(5,847)	(5,847)	(5,847)	(5,847)	(5,847)
Net expenditure	301	714	897	1,068	1,242
Opening balance on unearmarked General Fund	1,122	821	107	-	-
Use of IER grant reserves	(80)	-	-	-	-
General reserve drawdown - core	(221)	(714)	(107)	-	-
Total unearmarked balance on General Fund at 31 March	821	107	-	-	-
Net shortfall	-	-	790	1,068	1,242
Total General Reserves					
Unearmarked balance	821	107	(790)	(1,858)	(3,100)
Earmarked for future costs of NDR Reform	148	-	-	-	-
Approved Minimum Reserve Balance (3%)	180	180	180	180	180
Total General Fund Reserves at 31 March	1,149	287	(610)	(1,678)	(2,920)

Source: Revenue Budget 2022 - 2027 (October 2022)

56. Key assumptions in the 2022/23 budget and indicative financial plans include;
- Pay awards of 3% each year from 2023/24 and a reduction of 1.25% in employers National Insurance contributions;
 - No employee turnover savings from 2023/24;
 - An increase in office rental costs and forecast increase in the rates liability following Revaluation.
57. The Financial Plan assumes there will be no change in council requisitions. Increasing cost pressures will instead be met through utilisation of reserves. The Board's approved reserve policy is to maintain a minimum general fund reserve level of 3% of annual requisition (£180,000). The Board will fall below its approved reserve level in 2024/25.
58. The challenges faced by the Board are significant. The Business Strategy 2020/21 – 2022/23, considered by the Board in November 2019, recognised that a three year strategic plan was required to address:
- Projected funding gaps;
 - The ongoing expectation that financial sustainability should be established;
 - The need to meet legislative changes on service delivery.
59. A key outcome of the Business Strategy was the creation of a medium-term financial forecast to identify funding shortfalls. Four year financial plans are now presented to the Board on an annual basis.
60. The financial plans are subject to ongoing review and development. The application of reserves to support service delivery offers a potential short-term solution for 2023/23, it does not achieve a sustainable financial plan to address the significant projected funding gap from 2024/25.
61. Potential options to develop the budget on a more sustainable basis; as presented by the Treasurer to the Board in October 2022, include:
- Development of the Board's Transformation Programme to create sustainable employee cost savings in future years;
 - A review of all non-employee costs, to identify potential savings;
 - Discussion with constituent councils regarding future years' requisition.
62. The development of future financial plans, on a timely basis and aligned to the Business Strategy, is critical to the Board demonstrating and achieving financial sustainability.
- ### Financial performance in 2021/22
63. The Comprehensive Income and Expenditure Statement for 2021/22 shows that the Board spent £6.808million on the delivery of services, resulting in an accounting deficit of £711,000.
64. 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 2021/22 Code),

and which are subsequently adjusted to show their impact on reserves.

65. Taking account of these adjustments, the Board reported a surplus of £218,000 increasing general fund reserves to £1.450million.
66. At the outset (February 2021) the Board approved a balanced revenue budget. The actual outturn position (a net underspend of £320,000 against core expenditure) is primarily a result of underspends (including filling of vacant posts, reduced property and travel costs due to the pandemic) offset with additional costs associated with elections. After drawing down £102,000 to meet costs of Individual Electoral Registration, a contribution of £218,000 was made to the Board's Reserves. Of this, unspent Non-Domestic Rates Reform funding of £148,000 was transferred to an earmarked balance.

Appendices



Appendix 1: Respective responsibilities of the Board and the Auditor	31
Appendix 2: Audit differences identified during the audit	35
Appendix 3: Follow up of prior year recommendations	36



Appendix 1: Respective responsibilities of the Board and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of the Board and the auditor and are detailed below.

Board responsibilities

The Board is required to make arrangements for the proper administration of 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).

Area	Board responsibilities
Corporate governance	<p>The Board is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements.	<p>The Board has responsibility for:</p> <ul style="list-style-type: none">• preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures;• maintaining proper accounting records; and• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the Board. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate</p>

Area	Board responsibilities
	<p>disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The Board is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>The Board is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p>Financial position</p>	<p>The Board is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best value</p>	<p>The Board has a specific responsibility to ensure that arrangements have been made to secure best value. They are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>

Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Controller of Audit when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public 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.

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

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Audit and non-audit services

The total fees charged to the Board for the provision of services in 2021/22 (with prior year comparators) is as follows:

	Current year	Prior year
	£	£
Audit of Lothian Valuation Joint Board (Auditor remuneration)	7,160	6,620
Total audit	7,160	6,620
Non-audit services	-	-
Total fees	7,160	6,620

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services were provided to the Board.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at the Board since appointment can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

Appendix 2: Audit differences identified during the audit

Adjusted audit differences

No	Detail	Assets	Liabilities	Reserves	CIES
		Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
		£'000	£'000	£'000	£'000
1.	Revision of pension figures following receipt of revised actuarial report	(272)	-	-	272
Net impact of adjustments					272
Total reserves per the unaudited annual accounts					3,314
Total reserves per the audited annual accounts					3,042

Uncorrected misstatements

We did not identify any uncorrected misstatements during our audit of the annual accounts.

Appendix 3: Follow up of prior year recommendations

We have followed up on progress in implementing the outstanding actions raised in prior years.

Payroll reconciliations

Recommendation The Board should undertake a year-end reconciliation of employee expenditure per the nominal ledger to the payroll system.

Rating

Other deficiency

Implementation date:

March 2022

Complete

Reconciliations now performed.

Review of the Board's Business Strategy

Recommendation The Board should carry out a review of its Business Strategy to ensure it remains appropriate and applicable. The review should consider any lessons learned as a result of the pandemic. Any updates to the strategy should be reflected in the medium term financial plans.

Rating

Other observation

Implementation date:

March 2022

Ongoing

Following the change in the Board's Senior Management Team in Summer 2022, the new Interim Assessor will progress a review and update of the Business Strategy, recognising the importance of the Strategy in the current economic climate

Financial forecasts

Recommendation We 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.

Rating	Other observation	Implementation date:
		1 February 2021

Ongoing

An update of the indicative Financial Plan was reported to the Board on 7 February 2022. A further update is reported to the Board on 24 October 2022. Given ongoing financial and economic developments, a further update will be prepared for the Board meeting of 30 January 2023, when a budget for 2023/24 will be presented for approval. The Financial Plan will then continue to be updated and reported to the Board, as material changes occur.



© Azets 2022. All rights reserved. Azets refers to Azets Audit Services Limited. Registered in England & Wales Registered No. 09652677. VAT Registration No. 219 0608 22. Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.
Accounting | Tax | Audit | Advisory | Technology
