



Lothian Valuation Joint Board

2020/21 Annual Audit Report to members of
Lothian Valuation Joint Board and the Controller of
Audit

November 2021



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Key messages

This report concludes our audit of the Lothian Valuation Joint Board (“the Board”) for 2020/21.

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 2021 were approved by the Board on 27 October 2021.</p> <p>We report unqualified opinions within our independent auditor's report.</p>
Key findings on audit risks and other matters	<p>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. We are pleased to report those risks identified did not materialise.</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>Audit adjustments are detailed at appendix 2. The overall impact on the financial statements was a reduction in net liabilities of £523,000.</p> <p>All misstatements identified during our audit have been adjusted for in the financial statements.</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 2021 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 or as a result of remote working during the COVID-19 pandemic.

Financial sustainability

Auditor judgement



Appropriate arrangements are in place to support medium term financial planning.

The Board's approved revenue budget for 2021/22 and indicative budget estimates for the subsequent three years (to 2024/25) show a balanced budget for the first two years with an indicative funding shortfall from 2023/24.

The Board's Business Strategy (2021-2023) recognises the financial challenges facing the organisation. We note however that the Business Strategy has not been updated to reflect lessons learned from the pandemic and the impact that these could have on the Board's medium-term financial plans.

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 2020/21 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 2020/21 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. 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 audit.

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.

Financial statements audit



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.

Overall conclusion

12. The annual accounts were considered by the Board on 27 October 2021. Our independent auditor’s report is unqualified.
13. We received the unaudited annual accounts and supporting papers of an adequate 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>As at 31 March 2021, the Board reported a net liability position of £6.619million. This includes the net pension liability of £8.050million. In the Board’s opinion, the organisation will be able to continue for the foreseeable future. The Board has budgeted for the ongoing employer contributions required by Lothian Pension Fund.</p> <p>We reviewed the financial forecasts for 2021/22. 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. 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 read all the statutory information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been 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>The statutory other information contains no material misstatements or inconsistencies with the financial statements.</p> <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.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<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. 	We have no matters to report.

An overview of the scope of our audit

- The scope of our audit was detailed in our External Audit Plan, which was presented to the Board in April 2021. 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.
- 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.
- 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.

Significant risk areas

- 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.
- 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

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*.

Risk assessment: High

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.

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 Board 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.

Risk assessment: High

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 applicable to the Board given its sources of income (i.e. requisitions received from the constituent local authorities or grant funding) and the lack of incentive and opportunity to manipulate such sources of income.

Audit procedures

- As the Board does not undertake any income generating activity and requisitions and grant funding are its only source of income, we have rebutted this risk and no audit procedures were deemed necessary.

Key observations

At the planning stage of our audit, we reported that we did not believe the risk of fraud in revenue recognition was material to the financial statements and therefore rebutted this risk. Our assessment has been reviewed throughout the audit and our conclusion to rebut this risk has remained appropriate.

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.

Risk assessment: High

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 accruals 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.

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.

Risk assessment: High

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

As at 31 March 2020, the Board showed a net pension liability of £6.119 million. By 31 March 2021, this had increased to a net pension liability of £8.050million.

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities (obligations) are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The 31 March 2020 formal valuations for Scottish LGPS Funds were concluded by 31 March 2021.

The accounting balance sheet position as at 31 March 2021 is based on the roll forward from the 2020 formal valuation. This differs to the balance sheet position as at 31 March 2020 which was based on a roll forward from the 2017 formal valuation. This 'step change' can lead to sizeable asset and obligation 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2020

to 31 March 2021. In addition, reductions in the discount rate increase the pension liability.

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 have stayed in close contact with Board and City of Edinburgh Council colleagues right up until the point of accounts signing, to ensure all relevant issues are satisfactorily addressed.</p>

Area considered	Description	Conclusion
Timescales	<p>The pre COVID-19 deadline was 30 September and the provisional deadline for 2020/21 was 31 October. The Scottish Government amended the accounts regulations to require the 2020/21 annual accounts to be signed off by 31 October (amended from 30 September) and published by 15 November (amended from 31 October).</p> <p>However, the provision of the Coronavirus (Scotland) Act 2020 (which permitted bodies to delay publication of the 2019/20 accounts until reasonably practicable) have been extended. 'Reasonably practicable' was considered to be 30 November and this date is considered appropriate for 2020/21. The extension of the Act also allows flexibility over the date (usually 30 June) for the unaudited accounts.</p>	<p>The annual accounts were approved by the Board on 27 October 2021 and therefore are in line with the revised timescales.</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 £100,000. On receipt of the unaudited annual accounts, we reassessed materiality and updated it to £112,000. We consider that our updated assessment has remained appropriate throughout our audit.

Materiality

Overall materiality

£112,000



100%

Accounts materially misstated where total errors exceed this value

Performance materiality

£84,000



75%

Work performed to capture individual errors at this level

Trivial threshold

£5,600



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 2020/21 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

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

Audit differences

26. Audit adjustments are detailed at appendix 2. The overall impact on the financial statements was a reduction in net liabilities of £523,000.
27. All misstatements identified during our audit have been adjusted for in the financial statements.
28. We also identified disclosure and presentational adjustments during our audit, which have been reflect in the final set of accounts.

Internal controls

29. 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 have included these at Appendix 3. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Follow up of prior year recommendations

30. We followed up on progress in implementing the one audit recommendation from the prior year. Detail on this implementation of this recommendation is included Appendix 4.

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

31. 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.

32. The accounting policies, which are disclosed in the financial statements, are considered appropriate.
33. 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.

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

Fraud and suspected fraud

35. 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.
36. 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

37. 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

38. 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 11 as they relate to the annual accounts.

39. 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.
40. Overall we concluded that appropriate arrangements are in place to comply with these Regulations and the guidance as set out in the Finance Circular 10/2020.

Written representations

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

Related parties

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

Confirmations from third parties

43. All requested third party 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



Annual governance statement

We are satisfied that the Annual Governance Statement for the year to 31 March 2021 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 or as a result of remote working during the COVID-19 pandemic.



Financial sustainability

Auditor judgement

Appropriate arrangements are in place to support medium term financial planning.

The Board's approved revenue budget for 2021/22 and indicative budget estimates for the subsequent three years (to 2024/25) show a balanced budget for the first two years with an indicative funding shortfall from 2023/24.

The Board's Business Strategy (2021-2023) recognises the financial challenges facing the organisation. We note however that the Business Strategy has not been updated to reflect lessons learned from the pandemic and the impact that these could have on the Board's medium-term financial plans.

Our approach to the wider scope audit

44. Our approach to the wider scope audit (as set out in our 2020/21 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.

45. During our audit we also considered the following risk areas as they relate to the Board:

- Impact of COVID-19 on financial sustainability;
- Changes in governance arrangements in response to the pandemic; and

- Counter-fraud arrangements, including the risk of fraud and corruption in relation to the procurement function.

46. Overall, we concluded that the Board has appropriate arrangements in place in respect of these areas as noted below

<p>Impact of COVID-19 on financial sustainability</p>	<p>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.</p> <p>Additional costs incurred as a result of the pandemic have been factored into the budget and are reported as part of the financial reporting to the Board.</p>
<p>Changes in governance arrangements in response to the pandemic</p>	<p>Governance arrangements were adapted in response to the pandemic. Meetings of the Board have been held virtually throughout the period. The April 2020 meeting was cancelled; however, assurances were provided at the following June meeting to ensure appropriate scrutiny over the Board's performance.</p> <p>We are satisfied that the Board has received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.</p>
<p>Counter-fraud arrangements, included the risk of fraud and corruption in the procurement function</p>	<p>Since the start of the pandemic, there has been potential for the risk of fraud and error to increase as the control environment and internal controls have changed. The accounting and internal control system has continued to operate effectively during 2020/21, with no significant changes in controls.</p> <p>We found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate. We reviewed the Board's arrangements against Audit Scotland's report on COVID-19 Emerging Fraud Risks and satisfied ourselves that appropriate arrangements are in place.</p> <p>We reflected on the risk of fraud and corruption in respect of the procurement function as part of our 2019/20 audit and deemed the level of risk to be low. We have revisited this assessment during our 2020/21 audit and have not identified any changes to this.</p>



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.

47. We are satisfied that the Annual Governance Statement for the year to 31 March 2021 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
48. 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.
49. 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.
50. The Board's internal audit function is provided by City of Edinburgh Council . 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.
51. The Assessor and Electoral Registration Officer retired from the Board on 30 September 2020. An interim Assessor and Electoral Registration Officer has been in place since September 2020. In September

2021, the Board ratified the decision to make the interim appointment permanent.

52. Suitable handover arrangements were in place over to ensure a smooth transition between Assessors in 2019/20.

Governance arrangements during COVID-19

53. With national lockdown announced on 23 March 2020, all Board activity moved to being delivered remotely and they have continued to operate as such to date.
54. Meetings of the Board have been held virtually throughout the period. The April 2020 meeting was cancelled; however, assurances were provided at the following June meeting to ensure appropriate scrutiny over the Board's performance.
55. The Board continued to receive and consider all standing items in 2020/21 including regular budget monitoring reports, performance information and an update on ongoing activity. We are satisfied that the Board received sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making.
56. Since the start of the pandemic, there has been potential for the risk of fraud and error to increase as the control environment and internal controls have changed. The accounting and internal control system has continued to operate effectively during 2020/21, with no significant changes in controls.
57. We found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate. We reviewed the Board's arrangements against Audit Scotland's

report on COVID-19 Emerging Fraud Risks and satisfied ourselves that appropriate arrangements are in place.



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

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

Financial sustainability

In February 2021 the Board approved its revenue budget for 2021/22 and indicative budget estimates for the subsequent three years (to 2024/25). A balanced budget has been set for the first three years with an indicative funding shortfall of £0.439million in 2024/25. This is a significantly improved position from the revenue budget approved in the prior year (February 2020) which identified a shortfall of £0.169million in 2021/22 and £1.036million in 2022/23.

The improved position is primarily a result of rephrasing the implementation of the Board's Transformation Programme. As part of the programme, potential employee severance releases were identified in line with the Board's Voluntary Early Release Arrangement Policy and five business cases were approved in 2020/21. The COVID-19 pandemic however is presenting increased uncertainty and unprecedented challenges to operation of public sector bodies. Hence the Board agreed it would be prudent to postpone the consideration of any further employee severance releases for at least 12 months, which is reflected in the 2021/22 budget and indicative budget estimates for the subsequent three years.

Whilst the Board's financial plans present a balanced budget until 2024/25, the timely implementation of the Board's Transformation Programme is still key in supporting the Board to deliver services in a financially sustainable manner.

Noted in the 2020/21 External Audit Plan

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

Financial plans

60. The Board's approved revenue budget for 2021/22 and indicative budget estimates for the subsequent three years (to 2024/25) show a balanced budget for the first two years with an indicative funding shortfall from 2023/24. This is a significantly improved position from the revenue budget approved in the prior year (February 2020) which identified a shortfall of £0.169million in 2021/22 and £1.036million in 2022/23².

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Core expenditure	5,788	5,923	6,110	6,286
IER	92	94	43	0
Total expenditure	5,880	6,017	6,153	6,286
Council requisitions	(5,847)	(5,847)	(5,847)	(5,847)
Use of IER grant reserves	(92)	(94)	(43)	0
Use of general fund reserves	0	(76)	(232)	0
Net shortfall / (surplus)	(59)	0	31	439
Total Balance on General Fund Reserves at 31 March	488	412	149	(290)

Source: Revenue Budget and Indicative Financial Plan 2022 to 2025

61. Key assumptions in developing the 2021/22 budget and indicative financial plans include;
- Pay award uplift of 2% applied in 2021/22 and 2022/23, with additional provisions made for employee increment uplifts;
 - Employer pension fund contribution rate of 21.8%, with the fixed contribution sum removed following the outcome of the 2020 actuarial valuation; and

² As noted in our External Audit Plan and extract from our Plan in this report, the improved position is primarily a result of rephasing the implementation of the Board's Transformation Programme. The COVID-19 pandemic however is presenting increased uncertainty and unprecedented challenges to operation of public sector bodies. Hence the Board

agreed it would be prudent to postpone the consideration of any further employee severance releases for at least 12 months, which is reflected in the 2021/22 budget and indicative budget estimates for the subsequent three years.

- Other assumptions required to reflect the timing and scale of current activity.
62. The Financial Plan assumes there will be no change in council requisitions until at least 2024/25. 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 2023/24 and fall below reserve levels in 2024/25.
63. The challenges faced by the Board remain 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
64. 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.
65. Since the creation of the Business Strategy, however, the pandemic has impacted on strategic and operational aspects of the organisation and a new Assessor has been appointed.
66. We would encourage the Board to 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.

Action Plan Point 1

Financial performance in 2020/21

67. The Comprehensive Income and Expenditure Statement for 2020/21 shows that the Board spent £7.358million on the delivery of services, resulting in an accounting deficit of £490,000.
68. 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 2020/21 Code), and which are subsequently adjusted to show their impact on reserves.
69. Taking account of these adjustments, the Board reported a surplus of £51,000 increasing general fund reserves to £1.232million.
70. At the outset (February 2020) the Board approved a balanced revenue budget which required the drawdown from general fund reserves of £657,000 to meet Transformation Programme severance costs (£0.468million) and running costs (£0.189million). The actual outturn position (contribution to reserves of £51,000) is primarily a result of underspends (including filling of vacant posts, reduced property and travel costs due to the pandemic and additional funding received during 2020/21 which has not been spent in year and carried forward to subsequent years.

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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.

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 2020/21 (with prior year comparators) is as follows:

	Current year	Prior year
	£	£
Audit of Lothian Valuation Joint Board (Auditor remuneration)	6,620	6,430
Total audit	6,620	6,430
Non-audit services	-	-
Total fees	6,620	6,430

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/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix 2: Adjusted 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.	Reversal of deferred income ³ as it relates to IER funding (prior year restatement, including adjustment to opening balances)	-	284	(371)	87
2.	Reversal of deferred income as it relates to IER funding (current year)		(102)		102
3.	Revision to pension figures following receipt of revised actuarial report		75		(75)
4.	Reversal of VERA costs (identified twice)		90		(90)
5.	Reversal of deferred income as it relates to Scottish Parliamentary Elections		176		(176)
Net impact of adjustments					(523)
Total reserves per the unaudited annual accounts					7,142
Total reserves per the audited annual accounts					6,619

³ Audit adjustments were made in the annual accounts to reverse grant funding which had been deferred. In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, grants and contributions received should be recognised immediately as income unless any conditions that could lead to their return have not been satisfied by the year end.

Disclosure amendments

No	Detail
1	The audit adjustments to reflect reversal of deferred income impacted on the cash flow statement and expenditure and funding analysis.
2.	Amendment were made to the property lease disclosures.

Appendix 3: Action Plan

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

The recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

1. Payroll reconciliations		Other deficiency
Observation	The Board historically has not carried out a year-end reconciliation of employee expenditure as reported in the nominal ledger to the payroll system.	
Implication	There is a risk that adjustments to employee expenses are not identified.	
Recommendation	The Board should undertake a year-end reconciliation of employee expenditure per the nominal ledger to the payroll system.	
Management response	<p>The Board has a dedicated payroll group provided by the City of Edinburgh Council's Payroll Service. This payroll is only used for employees of the Board. A monthly download is taken during the year to reconcile and monitor payroll costs at a detailed level (employee-by-employee) against the approved budget. This process is also undertaken as part of the year-end accounts closure process, but at a summary level. The process will be extended as part of the year-end accounts closure procedures to reconcile at a detailed level.</p> <p>Responsible Officer: Treasurer</p> <p>Implementation Date: March 2022</p>	

2. Review of the Board’s Business Strategy

Other observation

Observation	<p>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.</p> <p>Since the creation of the Business Strategy, however, the pandemic has impacted on strategic and operational aspects of the organisation and a new Assessor has been appointed.</p>
Implication	<p>There is a risk that, due to the current operating environment and changes within the Board, that the Business Strategy is no longer fit for purpose. In addition any changes to the strategic plans of the organisation should be reflected in the medium term financial plans as there is a risk that these do not align to the strategic objectives of the Board.</p>
Recommendation	<p>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.</p>
Management response	<p>Work has already commenced on the review of the Business Strategy with updated financial forecasting being provided by the Treasurer reflecting the impact of COVID-19. The review will further consider the continued use of VERA and the ongoing effect of transformation within my organisation. It is the intention to have an updated version of the Business Strategy presented to the Board early next year.</p> <p>Responsible Officer: Assessor</p> <p>Implementation Date: March 2022</p>

Appendix 4: Follow up of prior year recommendations

We have followed up on progress in implementing the outstanding action raised in the prior year.

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

Following completion of the external audit of the Annual Accounts for 2020/21 and an update of the 2021/22 forecast, based on budget performance to the end of September 2021, the Board's indicative medium-term Financial Plan has been updated, with a report to be presented to the Board on 27 October 2021. The Financial Plan will continue to be updated, as material changes occur.



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