

**10.00am, Monday 9<sup>th</sup> November 2020**

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

**1. Recommendations**

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The Board is recommended to note:

- 1.1 the External Audit Plan 2019/20;
- 1.2 the Annual Audit Report to members of Lothian Valuation Joint Board and the Controller of Audit, including the Action Plan and management responses.

**Hugh Dunn,**

**Treasurer**

Contact: Iain Shaw, Principal Accountant,

Finance Division, Resources Directorate, City of Edinburgh Council

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

### **2. Executive Summary**

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- 2.1 The External Audit Plan 2019/20 summarises the work plan for the external audit of Lothian Valuation Joint Board.
- 2.2 The Annual Audit Report summarises the findings arising from the Board's 2019/20 external audit.

### **3. Background**

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- 3.1 The Board's External Audit Plan 2019/20 was due to be reported to the meeting of the Board on 20 April 2020. As this meeting was cancelled due to the COVID19 pandemic, the Plan is now presented alongside the Annual Audit Report for 2019/20.
- 3.2 The unaudited Annual Accounts were noted by the Board at its meeting on 15th June 2020 and submitted to the appointed external auditor – Scott-Moncrieff - by the required date of 30 June 2020. During the course of the audit, Scott-Moncrieff was rebranded as Azets. The Annual Audit Report for 2019/20 is therefore issued under the Azets name.

### **4. Main Report**

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#### **External Audit Plan 2019/20**

- 4.1 The External Audit Plan 2019/20 was due to be reported to the meeting of the Board on 20 April 2020. As this meeting was cancelled due to the COVID19 pandemic, the Plan is now presented alongside the Annual Audit Report for 2019/20. The External Audit Plan requires to be noted by those charged with governance, prior to its submission to Audit Scotland. The Plan was written in March 2020 and is therefore in the name of Scott-Moncrieff. The Plan is appended at Appendix 1.

#### **External Audit Annual Report 2019/20**

- 4.2 Schedule 6 of the Coronavirus (Scotland) Act 2020 allows a local government body to postpone publishing the audited accounts until it is reasonably practicable. The Scottish Government provided guidance on this in Finance Circular 10/2020. The guidance advises that 30 November should be considered a reasonably practicable date for publishing the audited accounts.

Audit Scotland revised the deadline for auditors to submit the audited annual accounts from 30 September to 30 November 2020.

- 4.3 In discharging its work, the external auditor is required to comply with Audit Scotland's revised Code of Audit Practice and ISA260: Communications with those charged with governance.
- 4.4 An unqualified opinion has been given on the financial statements and other prescribed matters. The Auditor's opinion states that the financial statements present a true and fair view of the financial position of the Board as at 31st March 2020 and its income and expenditure for the year then ended.
- 4.5 Adjustment was made to the annual accounts in respect of the net pension liability, following confirmation by the Board's Actuary of the adjustment required for the McLeod judgement. The pension liability has decreased to £6.119m. This adjustment only affects unusable reserves so will not change the Board's general reserve balance of £0.897m.
- 4.6 There were no unadjusted differences to the unaudited annual accounts.
- 4.7 The key messages from the audit are presented on pages 3 to 5 of the External Audit Annual Report. Action points for the Board to address, with management responses provided by the Board, including assigned responsibility and associated timescale for implementation, are shown in Appendix 2 at pages 32 to 34. Appendix 2 also summarises progress made in implementing the recommendations contained in previous years' reports. .

## **5. Background reading/external references**

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None

## **6. Appendices**

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- 6.1 Appendix 1 - Annual Audit Plan to members of Lothian Valuation Joint Board
- 6.2 Appendix 2 - Annual Audit Report to members of Lothian Valuation Joint Board and the Controller of Audit



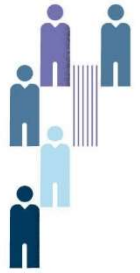
Scott-Moncrieff  
business advisers and accountants

With **Campbell Dallas**  
a Coopers & Lybrand company

# Lothian Valuation Joint Board

External Audit Annual Plan 2019/20

March 2020





# Table of contents

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1. Introduction	<b>1</b>
2. Respective responsibilities of the auditor and the Board	<b>3</b>
3. Audit strategy	<b>8</b>
4. Annual accounts	<b>10</b>
5. Wider scope	<b>15</b>
6. Audit outputs, timetables and fees	<b>17</b>
7. Appendices	<b>20</b>

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# 1. Introduction

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## Introduction

1. This document summarises the work plan for our 2019/20 external audit of the Lothian Valuation Joint Board (the “Board”).
2. The core elements of our work include:
  - an audit of, and provision of a specified audit opinion, on the 2019/20 annual accounts;
  - consideration and reporting on, where applicable, the Board’s arrangements on the four audit dimensions: financial sustainability, financial management, governance and transparency, and value for money; and
  - any other work requested by Audit Scotland, including the contribution to performance audits (including overview reports, performance audit reports, and impact reports).

## Audit appointment

3. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission’s work is governed mainly by the Local Government (Scotland) Act 1973.
4. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Scott-Moncrieff as external auditor of Lothian Valuation Joint Board for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2019/20 and summarises:
  - the responsibilities of Scott-Moncrieff as the external auditor;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Scott-Moncrieff and the audit management team.

## Confirmation of 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 comply with the Financial Reporting Council’s (FRC) Ethical Standards. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

## Adding value through the audit

9. All of our clients quite rightly 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.

## Openness and transparency

11. This plan will be published on Audit Scotland’s website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



## 2. Respective responsibilities of the auditor and the Board

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## Respective responsibilities of the auditor and the Board

### Auditor responsibilities

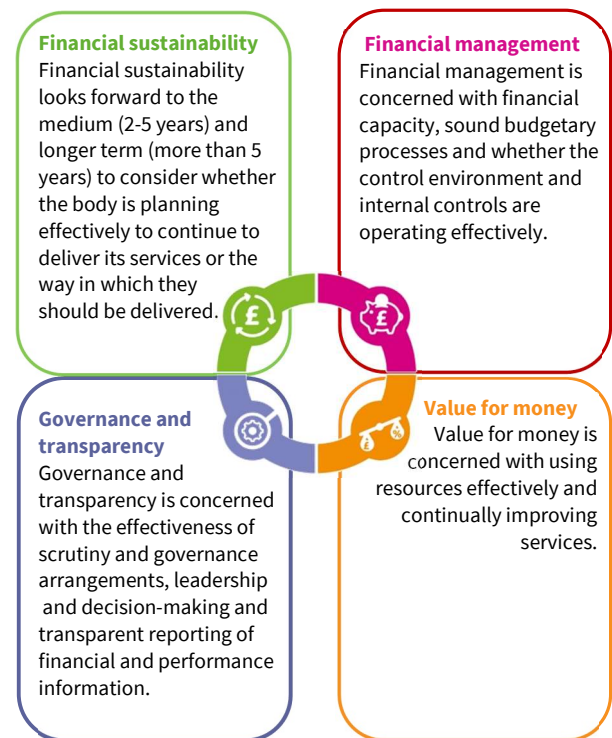
#### Code of Audit Practice

12. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

#### Our responsibilities

13. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 15). These are to:
- undertake statutory duties, and comply with professional engagement and ethical standards
  - provide an opinion on audited bodies' 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
  - demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
    - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
    - suitability and effectiveness of corporate governance arrangements
    - financial position and arrangements for securing financial sustainability
14. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements 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.

#### Exhibit 1: Audit dimensions of wider scope public audit



#### Wider scope audit work

15. 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.
16. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
17. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:



- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
  - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
18. Our assessment takes into account the size, nature and risks of the organisation. Taking these factors into consideration, we have concluded that application of the restricted wider scope is appropriate at the Board.

### Best Value

19. Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.
20. Our work in respect of the Board's arrangements to secure best value will be integrated into our audit approach, including our work on the wider scope audit dimensions referred to above.

### Strategic audit priorities for local government audits

21. The Accounts Commission has set the following five strategic Audit Priorities that it expects auditors to consider in all work across local government<sup>1</sup>:
- Having clear priorities with a focus on outcomes, supported by effective long term planning (governance and transparency).
  - The strategic appraisal of options to reshape services in line with priorities. This should consider good practice, innovation and collaborative working with partners (financial sustainability).
  - Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future (financial sustainability).
  - Empowering local communities and involving them in the design and delivery of local services and planning for their local area (governance and transparency).
  - Reporting the organisation's performance in a way that enhances accountability to citizens and communities, helping them contribute better to

the delivery of improved outcomes (value for money).

22. Our consideration of these priorities will be integrated into our 2019/20 audit work. The extent to which we will report on these will be dependent on the findings of our work as it relates to the four dimensions referred to above.

### Board responsibilities

23. The Board has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The Board's responsibilities are summarised in Exhibit 2.

<sup>1</sup> Areas noted in ( ) relate to the corresponding wider scope audit dimension



## Exhibit 2 – Lothian Valuation Joint Board’s responsibilities

Area	Board responsibilities
<p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>The Board has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;</li> <li>• maintaining proper accounting records;</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.</li> </ul>
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</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"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>



Area	Board responsibilities
<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>The Board is responsible for ensuring that financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</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 their objectives and safeguard and secure value for money from the public funds at its disposal.</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 by putting proper arrangements in place.</p>
<p><b>Governance and transparency:</b> Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>The Board is responsible for establishing arrangements to ensure the proper conduct of their 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> <p>The Board is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</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>



# 3. Audit strategy

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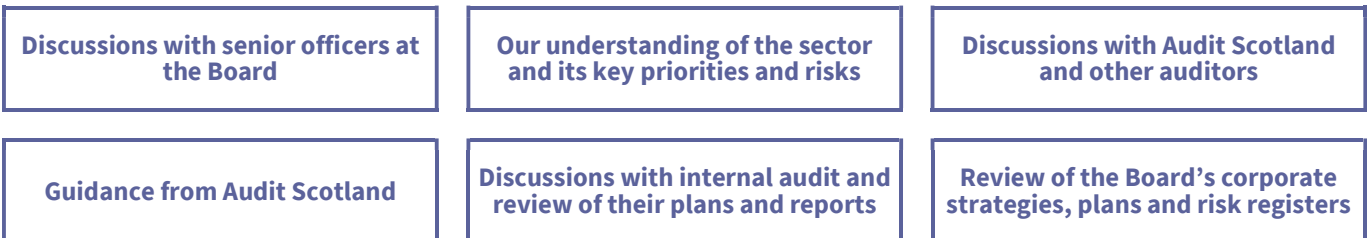


## Audit strategy

### Risk-based audit approach

24. 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. Our audit planning is based on:



25. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

### Communications with those charged with governance

26. Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Board.

30. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review the Board's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We also consider the extent to which the Board uses the national performance reports as a means to help improve performance at the local level.

### Professional standards and guidance

27. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK) (ISAs (UK)), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

31. During the year we may also be required to provide information to Audit Scotland to support the national performance audits or provide information to support the assessment of the impact of specified published performance audit reports.

### Partnership working

28. We will coordinate our work with Audit Scotland, internal audit and other external auditors recognising the increasing integration of service delivery and partnership working within the public sector.

### Internal audit

32. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the Board's total audit resource. The Board's internal audit function is provided by the City of Edinburgh Council's internal audit team. We will consider the findings of the work of internal audit during our audit process and look to minimise duplication of effort, to ensure the total audit resource to the Board is used efficiently and effectively.

### Audit Scotland

29. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with them throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We share

### Service organisations

33. The Board uses the City of Edinburgh Council (the "Council") to provide financial ledger services. We will work with the Council to understand the controls in place.



# 4. Annual accounts

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# Annual accounts

## Introduction

34. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section of our plan set outs our approach to the audit of the Board's annual accounts.

## Approach to audit of the annual accounts

35. Our opinion on the annual accounts will be based on:

### Risk-based audit planning

36. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

### An audit of key systems and internal controls

37. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.
38. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We examine and test compliance with best practice and the Board's own policies and procedures.
39. We take cognisance of any relevant internal audit reviews of systems and controls.
40. We update the risk assessment following our evaluation of systems and controls which ensures that we continue to focus attention on the areas of highest risk.

### A final audit of the annual accounts

41. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.
42. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code).

## Independent auditor's report

43. Our opinion on whether the financial statements give a true and fair view of the financial position and the income and expenditure will be set out in our independent auditor's report which will be included in the annual accounts.
44. We also provide an opinion on the audited part of the remuneration report, annual governance statement and management commentary.

## Materiality

45. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout our audit.
46. 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.
47. 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.
48. Our initial assessment of materiality and performance materiality is set out in the following table:





Materiality £	
<b>Overall materiality:</b> Our initial assessment is based on c.1.7% of the Board's 2018/19 gross expenditure. We consider gross expenditure to be the principal consideration for the users of the annual accounts when assessing the performance of the Board.	130,000
<b>Performance materiality:</b> using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	97,500

49. We will also report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of 5% of the overall materiality figure; and
- Other misstatements below the 5% threshold that we believe warrant reporting on qualitative grounds.

#### Key audit risks in the annual accounts

50. Auditing standards require that we inform the Board of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Board if our assessment changes significantly during the audit.



## Exhibit 3 – Key audit risks in the annual accounts

### Management override

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

51. In response to this risk we will review the Board's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this key audit risk. We will review the key accounting estimates, judgements and decisions made by management. This will include, for example, depreciation and accruals.

### Revenue recognition

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

52. At this stage of our audit cycle, we do not believe the risk of fraud in revenue recognition is material to the annual accounts and have therefore rebutted this risk. We will however continue to review this position.

### Risk of fraud in the recognition of expenditure


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

53. In response to this risk we will evaluate the significant expenditure streams at the Board (excluding payroll which we do not consider to be a significant audit risk area) and review the controls in place over accounting for expenditure. We will consider the Board's key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.



## Pension assumptions

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

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54. We will review the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will agree the disclosures in the financial statements to information provided by the actuary.



# 5. Wider scope

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## Introduction

55. As described in section 2, the Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. 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 will therefore be 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.
56. Our planned audit work against these two areas is risk based and proportionate. Our initial assessment builds upon the understanding of the Board which we developed from previous years,
57. In 2019/20, Audit Scotland has also identified the following wider scope risks, which we will consider during our audit as they relate to the Board:
- Fraud and corruption in respect of the procurement function; and
  - EU withdrawal
58. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit (Exhibit 4). Audit planning is a continuous process and we will report any identified significant risks, as they relate to the wider scope, in our annual audit report.

### Exhibit 4 – Wider scope significant risk

#### Financial sustainability

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

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

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

59. During our audit we will review whether the Board has appropriate arrangements in place to develop its medium term financial plans. Our work will include an assessment of progress made in developing financially sustainable plans that support the delivery of the Board's statutory functions and strategic objectives.



# 6. Audit outputs, timetables and fees

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## Audit outputs, timetable and fees

This section of our plan provides details of our audit outputs, timetable and proposed audit fees for the audit of the Board.

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2019/20.	April 2020
Independent Auditor's Report	Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.	September 2020
Annual Report to the Board and the Controller of Audit	Report	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	September 2020

### Audit outputs

60. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
61. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

	2019/20	2018/19
Auditor remuneration	£6,430	£6,280
Pooled costs	£630	£610
Audit support costs	£390	£390
<b>Total expected fee</b>	<b>£7,450</b>	<b>£7,280</b>

### Audit fee

62. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
63. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.
64. For 2019/20 we propose setting the audit fee at the expected fee level. The audit fees for the current year and prior year are set out in the table below:
65. We will take account of the risk exposure of the Board and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.



## Audit timetable

66. A summary timetable, including audit outputs, is set out as follows:

<b>FEB 20</b>	●	Planning meetings with officers from the Board and City of Edinburgh Council
<b>APR 20</b>	●	Presentation of External Audit Annual Plan to the Board
<b>JUN 20</b>	●	Unaudited annual accounts presented to those charged with governance
<b>JUL 20</b>	●	Final audit takes place
<b>SEPT 20</b>	●	Presentation of our Annual Report on the Audit to the Board





# 7. Appendices

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## Appendix 1: Scott-Moncrieff

Scott-Moncrieff is one of Scotland's leading firms of auditors and business advisers. We are part of the fast-growing Cogital Group, giving us a both a UK-wide presence and international reach in 190 offices with 6,500 staff. Cogital Group is an innovator, investor and early adopter of technologies that provide continuous improvement to the service we provide our clients.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

### Your audit management team



#### Karen Jones

##### Director

[karen.jones@scott-moncrieff.com](mailto:karen.jones@scott-moncrieff.com)

Karen is one of our directors responsible for the audit of our Audit Scotland external audit appointments. She has considerable experience in planning and delivering audits, producing management reports and liaising with senior officers.



#### Nicola MacKenzie

##### Assistant Manager

[nicola.mackenzie@scott-moncrieff.com](mailto:nicola.mackenzie@scott-moncrieff.com)

Nicola has over 5 years' public sector external audit experience. She has delivered external audit services to a range of public sector bodies.

Nicola will manage the onsite team and work alongside Karen to deliver the audit engagement.



## Appendix 2: Confirmation of independence

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

In particular, FRC's Ethical Standards stipulate that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Scott-Moncrieff has not been appointed by the Board to provide any non-audit services during the year.

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



## Appendix 3: Statement of understanding

### Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the Board and Scott-Moncrieff.

### Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit.

### Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the Board's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Board during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Treasurer.

### Internal audit

It is the responsibility of the Board to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

### Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

### Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if she knows or suspects that any person has engaged in money laundering or terrorist financing. Audit Scotland has extended this responsibility to the Accounts Commission in respect of local government.

We require the Board to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

### Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales.

### Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved.

### Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Karen Jones. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of you not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants in England and Wales.



We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

## Agreement of terms

We shall be grateful if the Board would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.





# Lothian Valuation Joint Board

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

November 2020



# Table of Contents

Key messages	3
Introduction	6
Annual report and accounts	9
Wider scope	21
Appendices	28



# Key messages



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## Annual report and accounts audit

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

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

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

## Wider scope audit

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

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

Our conclusions and key observations are set out below:



### Governance statement

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



#### Financial sustainability

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

## Conclusion

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

Azets  
November 2020

# Introduction



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

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

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

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## Introduction

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

### Exhibit 1: Audit dimensions within the Code of Audit Practice



3. The Board is responsible for preparing annual accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
  4. We would like to thank all management and staff at the Board and the City of Edinburgh Council for their co-operation and assistance during our audit.
- ### Confirmation of independence
5. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
  6. We confirm that we complied with the Financial Reporting Council’s (FRC) Ethical Standards. In our professional

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

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

## Adding value through the audit

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

## Feedback

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

## Openness and transparency

10. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Annual accounts

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

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

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## Annual accounts

### An unqualified audit opinion on the annual accounts

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

### Overall conclusion

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

### Our assessment of risks of material misstatement

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




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

### Management override

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


*Noted in the 2019/20 External Audit Plan*

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

### Revenue recognition

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


*Noted in the 2019/20 External Audit Plan*

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

### **Risk of fraud in the recognition of expenditure**

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


*Noted in the 2019/20 External Audit Plan*

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

### **Pension assumptions**

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

*Noted in the 2019/20 External Audit Plan*

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

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

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

#### **McCloud judgement**

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

#### **Goodwin tribunal**

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

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

course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk<sup>1</sup>.

### COVID-19

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

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

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

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

### Content of the annual accounts

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

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

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

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

#### Access to audit evidence

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

#### Timescales/Administrative processes

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

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

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

#### An overview of the scope of our audit

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

the concept of materiality, which is explained below.

## Our application of materiality

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

consider our updated assessment has remained appropriate throughout our audit.

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

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

## Audit differences

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



## Representations

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

## Legality

49. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:
- Reviewing minutes of Board meetings;
  - Enquiring of senior management and the Board's solicitors the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
50. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

## Other matters identified during our audit

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

### The Local Authority Accounts (Scotland) Regulations 2014

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

Regulations 2014, in particular with respect to regulations 8 to 10<sup>2</sup> as they relate to the annual accounts.

53. The Scottish Government included in its Finance Circular 10/2020 guidance on the publication and inspection of the unaudited annual accounts as a result of the COVID-19 pandemic.
54. Overall we concluded that appropriate arrangements were in place to comply with the Regulations and the guidance as set out in Finance Circular 10/2020.

### Management commentary

55. The Local Authority Accounts (Scotland) Regulations 2014 require local authority bodies to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.
56. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003 (refer to paragraphs 29-30 of this report).

### Annual governance statement

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

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

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

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

### Remuneration report

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

### Going concern

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

### Systems of internal control

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

to confirm they are operating as intended.

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

### Follow up of prior year recommendations

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

### Prevention and detection of fraud and irregularity

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

### Qualitative aspects of accounting practices and financial reporting

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



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

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

# Wider scope

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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 2020 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

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

### Financial sustainability



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

## Our approach to the wider scope audit

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

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

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

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



## Annual Governance Statement

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

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

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

## Impact of COVID-19

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



## Financial sustainability

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

## Significant audit risk

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

### Financial sustainability

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

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

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

*As noted in the 2019/20 External Audit Plan*

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

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

**Source:** Revenue Budget 2020/21 Board 3 February 2020

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

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

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

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

Action plan point 1

## Impact of COVID-19 in 2020/21

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



## The Board's performance in 2019/20

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

# Appendices



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## Appendix 1: Respective responsibilities of the Board and the Auditor

### Responsibility for the preparation of the annual accounts

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

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

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

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

#### **The Treasurer is also responsible for:**

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

## Auditor responsibilities

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

- they give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of the affairs of the body as at 31 March 2020 and of its income and expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the use of the going concern basis of accounting in the preparation of the financial statements is appropriate or the Treasurer has disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

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

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

## Wider scope of audit

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

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

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

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

## Best Value

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

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

## Independence

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

### Confirmation of independence

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

## Appendix 2: Action plan

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

### Action plan grading structure

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

The rating structure is summarised as follows:

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

## Current year action plan

### Financial forecasts

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

## Follow up of prior year recommendation

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

### Related parties

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





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