

10.00am, Monday 18th September 2023

**2022/23 Annual Audit Report to members of Lothian
Valuation Joint Board and the Controller of Audit**

1. Recommendations

The Board is recommended to note:

- 1.1 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

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2022/23 Annual Audit Report to members of Lothian Valuation Joint Board and the Controller of Audit

2. Executive Summary

- 2.1 The Annual Audit Report summarises the findings arising from the Board's 2022/23 external audit.

3. Background

- 3.1 The unaudited Annual Accounts were noted by the Board at its meeting on 12th June 2023 and submitted to Audit Scotland, the appointed external auditor, by the required date of 30th June 2022.

4. Main Report

External Audit Annual Report 2022/23

- 4.1 The Audited Annual Accounts are presented in accordance with the Local Authority Accounts (Scotland) Regulations 2014. The Regulations require local authorities to aim to approve the annual accounts for signature no later than 30 September 2023.
- 4.2 In discharging its work, the external auditor is required to comply with the Code of Audit Practice.
- 4.3 An unqualified opinion has been given on the financial statements and other prescribed matters. The Auditor's opinion states that the financial statements give a true and fair view of the state of affairs of the Board as at 31st March 2023 and its income and expenditure for the year then ended.
- 4.4 The key messages from the audit are presented on page 3 of the External Audit Annual Report. Appendix 1 presents the Action Plan arising from the audit.

5. Background reading/external references

None

6. Appendices

- 6.1 Appendix 1 - 2022/23 Annual Audit Report to members of Lothian Valuation Joint Board and the Controller of Audit

Lothian Valuation Joint Board

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Lothian Valuation Joint Board and the Controller of Audit
September 2023

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Key messages

2022/23 annual accounts

- 1 The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 2 The audited part of the remuneration report, management commentary and the annual governance statement were properly prepared in accordance with the applicable requirements
- 3 We have reported one significant finding from the audit, relating to the recognition of the pension asset

Wider scope

- 4 Lothian Valuation Joint Board has a medium-term financial plan but faces significant financial constraints in future years
- 5 Good progress is being made against a programme of continuous improvement
- 6 The joint board has arrangements to secure Best Value but could improve how it presents its performance

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Lothian Valuation Joint Board. The scope of the audit was set out in an Annual Audit Plan presented to the 24 April 2023 meeting of the joint board. This Annual Audit Report comprises:

- significant matters arising from an audit of Lothian Valuation Joint Board's annual accounts
- conclusions on wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability and Best Value

2. This report is addressed to Lothian Valuation Joint Board and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities and reporting

3. Lothian Valuation Joint Board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The joint board is also responsible for compliance with legislation putting arrangements in place for governance and propriety.

4. The responsibilities of an independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

5. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

6. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £8,800 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Part 1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework

The audited part of the remuneration report, management commentary and the annual governance statement were properly prepared in accordance with the applicable requirements

7. The board approved the annual accounts for Lothian Valuation Joint Board for the year ended 31 March 2023 on 18 September 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed as £0.145 million

8. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£0.145 million
Performance materiality	£0.102 million

Materiality level	Amount
Reporting threshold	£7,000

9. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 70% based on our understanding of the joint board, the nature and extent of misstatements identified by the previous auditor combined with our expectations in relation to misstatements in the current period.

10. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

11. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the joint board, including our view about the qualitative aspects of the body's accounting practices.

12. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

13. We have one significant finding from the audit, which is summarised in Exhibit 2.

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. Pension asset reduction</p> <p>The pension liability is an area of audit focus due to the material value and significant assumptions used within the complex calculation of this liability. In common with other local government pension scheme employers, the joint board commissions a firm of actuaries to undertake a valuation of its pension liability. The actuary reported that, as at 31 March 2023, the joint board had a funding <i>surplus</i> of £6.25 million.</p> <p>The surplus arose as a result of a significant increase to the net discount rate (discount rate net</p>	<p>The annual report and accounts presented for audit disclosed a pension asset of £6.25 million. This was reduced to zero, with a corresponding adjustment to the pension reserve, for the final version in line with the requirements of accounting standards.</p>

Issue	Resolution
<p>of CPI inflation) compared to the previous year, leading to a large gain on the statement of financial position.</p> <p>Accounting standards impose a limit on the maximum amount of surplus which can be recognised on an employer's balance sheet. Given that the joint board is to continue to participate in the LGPS, it would be expected that this surplus will lead to lower future contributions rather than a refund of surplus. When this minimum funding obligation is considered, the funding surplus was reduced to zero.</p>	

Our audit work responded to the risks of material misstatement we identified in the annual accounts

14. We have obtained audit assurances over the identified significant risks of material misstatement to the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Test journal entries with a focus on significant risk areas. • Consider any unusual material transactions identified through our audit testing for any evidence of management override of controls. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Review accounting estimates for evidence of 	<ul style="list-style-type: none"> • No issues were identified that indicate misstatements due to fraud caused by management override of controls. Testing focused on journal entries around the year-end that are open to management override of controls. • Audit testing of income and expenditure transactions confirmed they had been accounted for in the correct financial year.

Audit risk	Assurance procedure	Results and conclusions
	management bias including assessing any changes to the methods and underlying assumptions used.	<ul style="list-style-type: none"> Methodologies and assumptions employed by management in preparing account estimates did not significantly vary from the prior year and were consistently applied. Our testing of accruals and prepayments did not identify any errors and we found no significant transactions outside the normal course of business.

The unaudited annual accounts were received in line with the agreed timetable

15. The unaudited annual accounts were received in line with our agreed audit timetable and presented for audit on 28 June 2023.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term, and the arrangements for securing Best Value

Conclusion

Lothian Valuation Joint Board has a medium-term financial plan but faces significant financial constraints in future years

Good progress is being made against a programme of continuous improvement

The joint board has arrangements to secure Best Value but could improve how it presents its performance

Lothian Valuation Joint Board has a medium-term financial plan but faces significant financial constraints in future years

16. The Joint Board is mainly funded by requisitions from its constituent members, the City of Edinburgh, West Lothian, East Lothian and Midlothian councils.

17. The joint board approved its initial 2022/23 revenue budget in February 2022. This was set with a 'flat-cash' council requisition of £5.847 million for 2022/23 and a further requisition to meet additional costs for Non-Domestic Rates Reform in 2022/23 of £0.374m in line with the local government finance settlement. Net expenditure in the year was £6.376 million, primarily due to the higher than budgeted pay award, and the overspend required a drawdown from the joint board's general reserves of £0.155 million.

18. As we noted in our annual audit plan, the joint board has a significant risk around financial sustainability. Lothian VJB has a medium-term indicative financial plan which is revised annually and was last presented to the board in January 2023.

19. Funding from constituent councils has remained at the same level for several years and the financial plan indicates the joint board will continue to use reserves to meet its costs, drawing down £0.578 million in 2023/24 and £0.308 million in the subsequent year. A general reserve of £1.295 million as at 31st March 2023 is likely to be reduced significantly in coming years.

The joint board is making good progress against its programme of continuous improvement

20. In order to generate cost and operational efficiencies, the joint board agreed to adopt a continuous improvement programme. As much of the joint board's

expenditure is staff costs, the project has assessed its organisational structure and is aiming to introduce a more agile and flexible workforce.

21. In June 2023, the joint board reported that four FTE posts had been removed from its structure, with 3 staff taking voluntary early release. Other planned savings include reviewing ICT requirements and office lease costs.

Lothian Valuation Joint Board has arrangements to secure Best Value but could improve how it presents its performance

22. The joint board has a specific responsibility to ensure that arrangements have been made to secure best value. It has developed performance indicators which are reported in the annual accounts and updates are provided by the assessor before the joint board at meetings.

23. The joint board's corporate service plan 2022/23 recognised the importance of performance monitoring by setting a commitment to review the performance management and planning framework to ensure continuous improvement.

24. Presentation of key performance indicators could be enhanced by providing these in a consistent and tabular format, including targets if applicable. This should be publicly available to allow the public and members of the joint board to assess trends and performance over time, and compare them against similar bodies.

Recommendation 1

The joint board could enhance reporting of its performance by presenting key performance indicators in a consistent, accessible format to allow public and members to assess trends and compare indicators over time

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Presentation of key performance information</p> <p>The joint board has a specific responsibility to ensure that arrangements have been made to secure best value. Key performance indicators should be published in a way which can allow trends in performance to be assessed.</p>	<p>The joint board could enhance reporting of its performance by presenting key performance indicators in a consistent, accessible format to allow public and members to assess trends and compare indicators over time.</p> <p>Paragraph 24</p>	<p>Key performance indicators will be presented in the LVJB Annual Governance statement.</p> <p>B Callaghan, Head of Governance</p> <p>April 24</p>

Lothian Valuation Joint Board

2022/23 Annual Audit Report

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www.audit-scotland.gov.uk/accessibility



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