10.00am, Monday 16th September 2024

2023/24 Proposed 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 Proposed Annual Audit Report to members of Lothian Valuation Joint Board and the Controller of Audit, including the Action Plan and management responses.

Richard Lloyd-Bithell,

Treasurer

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2023/24 Proposed Annual Audit Report to members of Lothian Valuation Joint Board and the Controller of Audit

2. Executive Summary

2.1 The Proposed Annual Audit Report summarises the findings arising from the Board's 2023/24 external audit.

3. Background

3.1 The unaudited Annual Accounts were noted by the Board at its meeting on 24th June 2024 and submitted to Audit Scotland, the appointed external auditor, by the required date of 30th June 2024.

4. Main Report

Proposed External Audit Annual Report 2023/24

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 2024.

4.2 In discharging its work, the external auditor is required to comply with the Code of Audit Practice.

4.3 An Unmodified opinion has been given on the financial statements and other prescribed matters. The Auditor's opinion states that:

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

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

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 – Lothian Valuation Joint Board - Proposed 2023/24 Annual Audit Report

Lothian Valuation Joint Board

Proposed 2023/24 Annual Audit Report

AUDIT SCOTLAND

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

September 2024

Contents

Key messages

Our audit of the 2023/24 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

Wider scope considerations

3 The joint board has a medium-term financial plan, but faces significant financial constraints in future years.

4 There are appropriate arrangements in place for securing Best Value, with opportunities for improvement

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Lothian Valuation Joint Board. The scope of the audit was set out in an Annual Audit Plan presented to the 15 April 2024 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. Lothian Valuation Joint Board is also responsible for compliance with legislation putting arrangements in place for governance and propriety.

4. The responsibilities of the independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the Code of Audit Practice 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 raised and to maintain adequate systems of control.

6. This report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

7. 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 audit fee of £9,330 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Part 1. Audit of 2023/24 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

Audit opinions on the annual accounts are unmodified

8. The joint board approved the annual accounts for Lothian Valuation Joint Board for the year ended 31 March 2024 on 16 September 2024. As we report in the independent auditor's report:

- 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 was prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed on receipt of the annual accounts as £0.106 million

9. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

10. Our initial assessment of materiality was carried out during the risk assessment 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	£0.106 million
Performance materiality	£0.069 million
Reporting threshold	£5,000

11. The overall materiality threshold was set with reference to gross expenditure, which was judged as the figure most relevant to the users of the financial statements.

12. 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 65% of overall materiality, based on our understanding of the joint board, the nature and extent of misstatements identified in the prior year, combined with our expectations in relation to misstatements in the current period.

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

Significant findings and key audit matters

14. Under ISA (UK) 260, we communicate significant findings from the audit to the board, including our view about the qualitative aspects of Lothian Valuation Joint Board's accounting practices.

15. The Code of Audit Practice also requires all audits to highlight key audit matters, which are defined in ISA (UK) 701 as those matters judged to be of most significance.

16. The significant findings, including key audit matters, are summarised in Exhibit 2.

Exhibit 2
Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
1. Reduction in pension asset In common with other local government pension scheme employers, the joint board commissions a firm of actuaries to provide disclosures for IAS 19 pensions accounting. The actuary reported that, as at 31 March 2024, the joint board had a funding surplus of £20.454 million. This was reported in the draft annual accounts as £22.809m due to the use of a schedule which was produced by the actuary earlier in the process. 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.	The annual report and accounts presented for audit disclosed a pension asset of £22.809 million. This was adjusted to disclose only the unfunded liability of £1.275 million, with a corresponding adjustment to the pension reserve, for the final version in line with the requirements of accounting standards.
2. Other findings in relation to IAS 19 accounting Our audit resulted in a number of other findings relating to pensions disclosures: • The IAS 19 pensions disclosures in the unaudited accounts were produced from an earlier report produced by the actuary, when a more recent report was available. • Provisions for discretionary enhancements to retirement benefits (e.g. payments for early retirement) are referred to as unfunded liabilities, as they are paid by the body rather than the pension fund. The unfunded liability of £1.275 million was not presented separately from the net defined benefit asset at 31 March 2024. A prior year restatement was also required. • Unfunded liabilities were also included in interest on asset ceiling calculations, when they should have been excluded,.	• The disclosures in the audited accounts reflect the most recent report provided by the actuary. • The balance sheet presents the unfunded pensions obligations separately (£1.275 million), and the equivalent prior year figure is also included. • The interest on the effect of the asset ceiling (£1.083 million) increased by £0.061 million to £1.144 million.

We identified other non-material misstatements within the financial statements

17. Other than the corrected material misstatement detailed as a significant finding in Exhibit 2, the audit identified the following misstatements above the reporting threshold:

- We identified errors in the calculation of the liability for accumulated absences which decreased this liability by £0.011 million.
- Our review of the fixed asset register identified two intangible assets which should have been classed as tangible assets. This has resulted in a movement of £0.021 million from intangible assets to property, plant and equipment. We also identified differences to the gross carrying amounts and accumulated depreciation of £0.025 million in each of these categories, which had no effect on the net carrying amount.

18. Management has adjusted all identified misstatements above our reporting threshold and there are no unadjusted errors to report.

Audit work responded to the risks of material misstatement identified in the annual accounts

19. 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 identified in the 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3
Significant findings and key audit matters from the audit of the annual accounts

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (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.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	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. 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.

20. The unaudited annual accounts were received in line with the agreed audit timetable on 24 June 2024.

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

The joint board has a medium-term financial plan, but faces significant financial constraints in future years

There are appropriate arrangements in place for securing Best Value, with opportunities for improvement

The joint board has reported a small underspend against its 2023/24 budget, with a drawdown from reserves of £0.511 million

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

22. The body approved its 2023/24 revenue budget in January 2023. This was set with an unchanged council requisition of £5.847 million for 2023/24 and a further requisition to meet additional costs for Non-Domestic Rates (NDR) reform in 2023/24 of £0.374m in line with the local government finance settlement. The planned budget included assumptions of a 3% pay award and maintaining a minimum approved reserve level at £0.18 million and required a drawdown from reserves of £0.580 million in-year.

23. In its annual accounts, the joint board has reported net expenditure in-year of £6.674 million against a budget of £6.743 million (an underspend of £0.069 million), and a drawdown from the joint board's general reserves of £0.511 million was required. This drawdown was £0.069 million less than expected due to the costs to implement NDR reform being less than forecast.

24. The joint board has a general reserve of £0.783 million at the start of 2024/25, however of this £0.430 million is earmarked for NDR reform, and a further £0.200 million is retained to keep a minimum level of reserves. The budget for 2024/25 requires a drawdown of a further £0.140 million.

The joint board has a medium-term financial plan and has requested councils increase their funding contribution

25. The joint board approved its 2024/25 budget in February 2024, identifying a total of £6.273 million for core activities and £0.426 million for NDR reform. Funding from constituent councils has remained at the same level for several years and the budget included a request to increase of the core council requisition by £0.426 million (7.3%) to £6.273 million. This was in specific response to address a projected shortfall and is the first time since 2009 in which the joint board has requested an increase.

26. Lothian VJB has a medium-term indicative financial plan which is revised annually and was last presented to the board in February 2024. It includes a summary of the current year budget, financial planning assumptions, an indicative budget until 2026/27 and an analysis of financial risks. Financial planning assumptions include:

- Continual improvement programme savings of £0.292 million following release of employees and removal of one senior post
- Other employee cost reductions of £0.079 million
- Anticipated lower employer contribution rates following an actuarial review

27. The key financial risks facing the joint board in future years include an increase in future pay awards, energy costs, the costs of NDR reform and of unexpected election costs.

28. The proposed core budget for 2024/25 and indicative financial plan 2025/26 to 2026/27 identifies a funding shortfall of £0.525m for 2024/25, before drawdown of reserves of £0.099 million. Based on a continuation of 'flat cash' funding and annual pay awards of 3%, the shortfall was forecast to increase to £0.854m. For 2024/25 officers have indicated the most recent forecast is a shortfall to increase to £0.428m cumulatively by 2026/27.

29. In 2022/23, 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. The board projects that voluntary retirals will realise an overall ongoing annual saving of £292,000.

The joint board has appropriate arrangements in place for securing Best Value, with opportunities for improvement

30. 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.

31. the prior year we recommended that 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. While good levels of information continue to be included in the management commentary in relation to key performance indicators, there remains an opportunity to improve how this information is presented.

32. The joint board maintains a corporate risk register, project risk register and service risk register, which is a key part of the organisation's system of governance. However, we noted that risk registers are not specifically reviewed at board level. In our view, risk registers should be scrutinised by those charged with governance at appropriate intervals to allow for overview and focused challenge.

33. We also identified that not all registers of interests for board members were kept up to date. It is important that all registers of interest are refreshed annually to ensure transparency, and so that all related parties can be identified.

Recommendation 1

Those charged with governance should review the joint board's risk registers with sufficient regularity to allow appropriate scrutiny and challenge

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. **Review of risk registers** Risk registers are not specifically reviewed by those charged with governance at board level. There is a risk they do not adequately address the risks facing the organisation.	Those charged with governance should review the joint board's risk registers with sufficient regularity to allow appropriate scrutiny and challenge. Paragraph 32.	**Accepted** A full review of our risk registers will take place at our next Governance Strategy Group meeting. At the session we will discuss the best method of reporting and monitoring risk at Board level. Responsible officers: Assessor & ERO/Head of Governance Date: 21st October 2024

Follow-up of prior year recommendations

Issue/risk	Recommendation and agreed action	Update
4. Presentation of key performance information 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.	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. (April 2024)	**Accepted** Presentation of Key Performance Indicators in the Annual Accounts 2023/24 Management Commentary has been amended. Responsible officer: Assessor and ERO/Treasurer Revised date: 31 August 2024

Lothian Valuation Joint Board

Proposed 2023/24 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

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