



West Lothian Council

Annual Audit Plan
Year ending 31 March 2020

Audit Committee – 22 June 2020



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About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of West Lothian Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

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, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

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Executive summary

Our key contacts:

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Our independence:

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

Purpose of our plan

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of West Lothian Council (the Council) for the five year period 2016/17 to 2020/21.

This Annual Audit Plan, prepared for the benefit of Council management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 March 2020, the fourth year of our appointment. In preparing this plan, we have updated our understanding of the Council through planning discussions with management, review of relevant documentation and committee reports, and our general understanding of the environment in which the Council is currently operating.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Council employs best practice and where processes can be improved. We use these insights to form our audit recommendations to support the Council in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. These are highlighted throughout our reporting together with our judgements and conclusions regarding arrangements.

After consideration by the Council's Audit Committee, the plan is provided to Audit Scotland and published on their website.

Scope and Responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the Council and the auditor, more details of which are provided in Appendix A.

Financial statement audit

We are responsible for conducting an audit of the Council's financial statements. We provide an opinion as to:

- whether they give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the Council and its group as at 31 March 2020, and of the income and expenditure of the Council and its group for the year then ended;
- whether they have been properly prepared in accordance with the IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- whether 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.

We also review and report on the consistency of the other information prepared and published along with the financial statements.

Materiality

Materiality levels have been set at the planning stage of the audit as follows:

Planning Materiality	Tolerable Error	Nominal amount
£15.4 million	£11.5 million	£250,000
2% of the Council's net expenditure	Materiality at an individual account level	Level that we will report to committee

Based on considerations around the expectations of financial statement users and qualitative factors, we apply a lower materiality level to the audited section of the Remuneration Report. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties. See page 11 for further details.

Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider-scope public audit, as well as an assessment around the Council's arrangements for securing Best Value. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- Value for money

Our audit work over the wider scope audit dimensions complements our financial statements audit. We have updated our understanding of the risks impacting the Council through discussions with management, review of relevant committee reports, and our knowledge of the local government environment.

Audit Risk Dashboard

Key Financial Statement Risks

<p>Significant Risk: Risk of fraud in revenue and expenditure recognition</p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>
<p>Fraud Risk: Misstatement due to fraud or error</p>	<p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p>
<p>Inherent risks: Valuation of property, plant and equipment</p>	<p>The fair value of property, plant and equipment (PPE) represent significant balances in the Council's financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>
<p>Valuation of pension assets and liabilities</p>	<p>Accounting for the Local Government Pension Scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts, the assumptions underlying fair value estimates, and the valuation of the Council's share of scheme assets at the year end.</p>
<p>Accounting for Loans Fund</p>	<p>The Council approved a reprofiling of loans fund repayments in September 2019 to take effect from the 2019/20 financial statements. We will review the changes made to ensure they comply with statutory requirements and are accurately reflected in the financial statements.</p>

Wider Scope Risks

<p>Financial Sustainability: Continuing financial pressures</p>	<p>In our 2018/19 annual audit report we noted the ongoing challenge facing all local authorities, the significant level of risk and uncertainty outside the Council's control which could impact its ability to deliver savings, and the need for continued member and officer focus in delivering challenging levels of savings. There is a continuing risk around delivery of the savings required to meet revenue budget gaps, and the impact financially and operationally on the Council should it fail to deliver over the course of its MTFP.</p>
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2 Local Government developments

Introduction

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the Council operates to inform our audit approach.

Scrutiny

A National Scrutiny Plan (NSP) was published by the Accounts Commission (on behalf of the Strategic Scrutiny Group) in September 2019. The NSP summarises all planned and announced strategic scrutiny activity from September 2019 in each of Scotland's 32 councils. The plan was based on a shared risk assessment undertaken by a local area network (LAN), comprising representatives of all the scrutiny bodies who engage with the various councils.

As the appointed auditor of Council we act as the LAN-lead for the Council shared risk assessment. Following a recent meeting, the LAN has concluded that there is currently no additional planned scrutiny for 2020/21.

Political uncertainty

Continuing uncertainty exists around a number of political factors in the foreseeable future including:

- EU withdrawal: the UK formally exited the EU on 31 January 2020, and will be in a transition period until 31 December 2020. During this transition period, the UK will continue to apply EU laws but it will no longer be represented in the EU institutions. The negotiations on the future partnership between the EU and the UK commenced once the UK left the EU.
- Scotland Independence Referendum: while immediate consideration of whether a Scottish independence referendum will be held in 2020 has been put on hold due to the Covid-19 pandemic, this will continue to be a longer term area of uncertainty.
- Scottish Parliament Elections: Scottish elections are due to be held on 6 May 2021.

We noted in 2018/19 that the Council's arrangements to prepare for EU withdrawal were appropriate and informed by wider sector involvement. The Council's medium-term financial strategy seeks to support the Council's resilience and long-term financial sustainability. We will continue to review how the Council prepares for, and responds to, the implications of political factors throughout the audit year.

The 2020/21 Scrutiny Plan will be finalised by April 2020 and we will take account of any risks identified in our ongoing planning.

Covid-19 update and future plans

Coronavirus (COVID-19) is a new illness that can affect the lungs and airways. It's caused by a virus called coronavirus. The impact on local authority services, including health and social care, the changes to behaviour around public gatherings and social interaction, and the political and economic consequences of this will be significant.

The situation in respect of Covid-19 and its impact on the UK is developing on a daily basis. At the time of preparing this plan (20 March 2020) there remains a significant degree of uncertainty over the scope and scale of the ongoing impact by the Council's financial year end of 31 March 2020 and beyond. Considerations include:

- Additional pressure on Council services, in particular social care services, is likely to increase during this period at a time of correspondingly limited capacity.
- There is likely to be significant disruption to the Council's day to day operations as it faces changes to working practices and reductions in capacity as workers are required to self-isolate.
- In respect of the financial statements, there is likely to be a significant impact on the Council's share of the Lothian Pension Fund liability as its underlying asset valuations are materially impacted at 31 March 2020. There may also be a material impact on the valuation of the Council's property, plant and equipment.
- The Council has recently approved its 2020/21 budget and update to its medium term financial strategy through 2023. This may require further revision and update as the Council's financial position and commitments continue to be impacted, while it is not known the period over which the impact may be ongoing.
- In respect of the financial statements preparation and audit process:
 - While the impact is unquantifiable at this time, these processes will be subject to the same likely changes in working arrangements and possible reductions in capacity across both the Council finance team and the audit team.
 - We have outlined the planned timing for the key deliverables of the audit process in Appendix D. The current expectation is that this timetable will be impacted. While Audit Scotland does not intend to issue revised audit deadlines on the basis that circumstances will vary by audited body, they have recognised the likely impact this will have on the financial statements and audit process and encouraged ongoing dialogue.
 - Our key audit risks and other matters for consideration have been outlined in this report based on our planning work to date, mostly before the impact of Covid-19 was known. It is likely our consideration of audit risks will develop significantly in advance of the year end audit as more is understood around the impact.

We will continue to work closely with management to consider the impact as it becomes better known and provide periodic updates. We will aim to take a pragmatic and flexible approach, while also recognising that strong financial management and good governance are more important than ever at this difficult time, over the financial year-end and into 2020/21.

Accounts Commission Overview

The Accounts Commission (“the Commission”) published their Local government in Scotland: Financial overview 2018/19 report in December 2019. Part 3 of this report focused on the financial outlook facing councils.

The report notes that councils face increasing challenges in meeting changing and growing demands for their services, but income is struggling to keep pace. Although Scottish Government funding to councils has been relatively stable in recent years, since 2013/14 it has fallen in real terms. Funding is forecast to fall further in the medium-term against a backdrop of increasing volatility in public finances, and two-thirds of councils have reduced their general fund reserves over the last three years rather than maintaining or building their reserves.

After several years of tightening budgets, the Commission highlights that councils have already made savings through restructuring and efficiencies. However, transformation in terms of service redesign is required to deal with the further reductions being forecast.

Other key messages included:

- All councils have medium-term financial plans covering three years or more. Long-term financial planning had not progressed since the prior year;
- The Scottish Government has made a commitment to set out multi-year budgets which will assist councils with financial planning; and
- Councils have made preparations for EU withdrawal, but there are many potential implications that cannot be anticipated in financial planning.

The Scottish Budget 2019/20 was approved by the Scottish Parliament in February 2019 and included the following implications for councils:

- An increase in funding to local government as a result of additional commitments of 2.9% in cash terms from the prior year to £10.1 billion (0.9% increase in real terms);
- An increase in the cap on council tax increases, with twelve of the councils deciding to increase council tax by the full amount (4.8% in cash terms, 3% in real terms).
- A total funding gap of £0.5 billion (3% of income) was noted within councils’ 2019/20 financial plans. This continues the increasing pressure on councils to find further cost savings, redesign services, reduce services, increase income or use reserves. Councils have outlined plans to manage their funding gaps mainly through identified cost savings.

In March 2019, the Accounts Commission published the Local government in Scotland; challenges and performance report 2019. It commented on the increasingly complex, changing and uncertain environment facing local government which places different demands and expectations on them. It is also noted that councils are central to delivering many high-level public sector objectives, such as the integration and care services, and involving citizens more in decisions about public service. The report made recommendations around ensuring forward looking approaches are applied, review of leadership and management capacity and continuation of seeking and implementing innovative ways of working with communities.

Budget setting process 2020/21

The UK Government's budget announcement scheduled for the 6 November 2019 was cancelled due to the timing of the UK general election

As a consequence, the Scottish Government's Cabinet Secretary for Finance, Economy and Fair Work, in consultation with the Convenor of the Finance and Constitution Committee, postponed presentation of the Scottish Government's budget bill which was originally planned for 12 December 2019.

The Scottish Budget for 2020 to 2021 was published on 6 February 2020 with local government receiving a real-terms increase in resource funding, with total overall support given through the settlement of £11.3 billion. COSLA's assessment is that the budget represents a 2% or £205million cut in real terms in revenue funding for Local Government.

The Council approved its budget on 28 February 2020 with a council tax increase of 4.84%. We will consider the Council's approach to budget setting as part of our wider scope work on financial management in 2019/20.

Capital Financing

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016 and replaced the provisions in the Local Government (Scotland) Act 1975 in respect of the loans fund with a prudent approach. The Council has recently completed a review of loans fund advance, supported by external treasury advisors, to propose amendments to the repayment schedule. We will review management's proposed arrangements to ensure they are in line with the agreed legislative position.

The Council has a significant capital works programme and longer term capital plan. While the Council has secured borrowing based on historically low rates, we note that in October 2019, the Public Works Loan Board (PWLB) raised the cost of borrowing by 1% with immediate effect. We will therefore continue to review the affordability of capital plans as part of our work on financial sustainability.

Impact reporting

As part of 2019/20 wider scope audit work, we will review the Council's arrangements for considering national reports, including evaluating the findings and implementing recommendations as appropriate.

Financial statements: Our approach and significant risks identified

Introduction to section

The Annual Accounts enables the Council to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom.

Audit Opinion

We are responsible for conducting an audit of the financial statements of the Council. We will provide an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the Council and its group as at 31 March 2020, and of the income and expenditure of the Council and its group for the year then ended;
- whether they have been properly prepared in accordance with the IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- whether 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.

We also review and report on the consistency of the other information prepared and published by the Council along with its financial statements.

Other Statutory Information

The management commentary and narrative reporting continues to be an area of increased scrutiny as a result of rising stakeholder expectations, including continuing interest by the Financial Reporting Council. In February 2020, Audit Scotland published a good practice note aimed at improving the quality of management commentaries across Local Government. We will continue to work with the Council's finance team to support good practice in the presentation of and disclosures in the financial statements, in particular narrative disclosures, in 2019/20.

We will work with the Council finance team to support good practice in the quality of presentation of the financial statements.

Audit Approach

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, error or design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements.
- Reading other information contained in the financial statements, including that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- Maintaining auditor independence.
- Substantive tests of detail of transactions and amounts. For 2019/20 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Materiality

For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Materiality Level

Rationale

<p>Planning Materiality £15.4 million</p>	<p>Planning materiality (PM) – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.</p> <p>For planning purposes, materiality for 2019/20 has been set at £15.4 million (2018/19: £14.2 million). This represents 2% of the Council’s prior year gross expenditure on provision of services, excluding IJB gross-up of income and expenditure. We have derived this figure following our assessment of risk factors impacting the Council in 2019/20.</p>
<p>Tolerable Error £11.5 million</p>	<p>Tolerable error (TE) – materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £11.5 million (2018/19: £10.6 million) which represents 75% of planning materiality. This level reflects our prior year audit experience and audit adjustments arising in the 2018/19 financial statements.</p>
<p>Summary of Audit Differences £250,000</p>	<p>Summary of Audit Differences (SAD) Nominal amount – the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements.</p>

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. In determining their materiality, we consider both the quantitative and qualitative factors that could drive materiality for the users of the financial statements. Accordingly we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- Remuneration report - given the sensitivity around the disclosure of senior staff remuneration we apply a lower materiality threshold to our audit consideration around the remuneration report and related disclosures.
- Related party transactions – related party transactions are considered material when they are material to either party in the transaction. As such, we do not apply a specific materiality to related party audit work but consider each transaction individually.

Significant Risks

We set out below the significant risks identified for 2019/20, along with the rationale and expected audit approach. The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit.

1. Risk of fraud in expenditure recognition, including through management override of control

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Significant risks identified in the audit relate to the risk of fraud in income and expenditure recognition. We also perform procedures in all audits to respond to the risk of misstatement due to fraud or error caused by management override of controls.

We will report our findings in these areas within our 2019/20 Annual Audit Report.

We consider there to be a specific risk around income and expenditure recognition through:

- Incorrect income and expenditure cut-off recognition to alter the Council's financial position around the financial year end.
- Incorrect recognition applied to grant income with performance conditions.
- Incorrect capitalisation of revenue expenditure.

In line with auditing standards, we rebut the risk around income and expenditure where appropriate depending on the nature of the account. Accordingly, we have rebutted the risk of improper recognition of income in respect of core grant funding from the Scottish Government, as well as in respect of council tax and non-domestic rate income. With regards to expenditure we have rebutted the risk of improper recognition of payroll, depreciation, and financing and investment expenditure.

Work we will perform:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Review and challenge management on any accounting estimates on income or expenditure recognition for evidence of bias.
- Focused and extended substantive testing of related income and expenditure transactions where we have identified a significant risk.
- Testing of income and expenditure cut-off treatment around the year end.
- Review a sample of expenditure transactions recorded in the ledger and payments made from bank accounts post year-end and confirm that the associated expenditure has been recorded in the correct period.
- Assess and challenge manual adjustments / journal entries by management around the year end for evidence of management bias and evaluation of business rationale and supporting evidence.
- Develop a testing strategy to test material revenue and expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified.

2. Misstatement due to fraud or error

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

In prior years we have identified a number of audit adjustments which were material to the financial statements in relation to the Council's areas of estimate and judgement, relating to the accounting for the Council's pension liabilities and property, plant and equipment balances.

The nature of the adjustments means we did not identify a specific attempt to alter the financial position of the Council, and through our planning procedures we have not identified a specific account where the risk of management override is higher than generally throughout the financial statements.

Work we will perform:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Specific focus on the accounting for any identified key areas of judgement and estimates in the financial statements.

Other areas of focus: Inherent risks

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

1. Valuation of Property, Plant and Equipment

The fair value of PPE and investment properties represent a significant balance in the Council's financial statements (2018/19 PPE totalled £1,690 million) and is subject to valuation changes, impairment reviews and depreciation charges. A significant portion of the Council's assets are due for revaluation at 1 April 2020 (Council Dwellings currently valued at £378 million). The Council also has 2 PPP and 1 DBFM contract with asset and liability values amounting to £89.2 million at 31 March 2019.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year end balances recorded on the balance sheet.

Work we will perform:

- Assess the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Involve EY internal specialists to challenge the work performed by the Council's valuers, where appropriate.
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- Review the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.
- Review the initial valuations results of assets valued at 1 April 2020, after the financial statement yearend, for indicators that material valuation adjustments should be accounted for at 31 March 2020.
- Test assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.
- Examine changes to useful economic lives as a result of the most recent valuation.
- Test accounting entries have been correctly processed in the financial statements.
- Ensuring the financial statements accounting and disclosures around PPP and DPFM contracts match the requirements of the code and align with underlying financial models.

2. Valuation of pension assets and liabilities

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Lothian Pension Fund. The information disclosed is based on the IAS 19 report issued by the Council's actuary.

The Council's net pension liability, measured as the sum of the present value of the long term payments due to members as they retire against the Council's share of the Lothian Pension Fund investments, is a material balance in the Council financial statements. At 31 March 2019 the net liability totalled £279 million.

Accounting for this scheme involves significant estimation and judgement and the Council engages an actuary to undertake the calculations on their behalf.

ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Work we will perform:

- Liaise with the auditor of Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council and confirm joint assurances in respect of employer and employee contributions in the year.
- Assess the work of the actuary (Hymans), including the assumptions they have used by relying on the work of PWC, appointed to consider actuarial assumptions used at the yearend for all Local Government sector bodies, and consider any relevant reviews by the EY actuarial team.
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- Require an updated IAS19 report sufficiently after the financial yearend to ensure that there have been no material movement in the value of pension fund assets between the initial IAS19 report, and the signing of the financial statements.

3. Accounting for loans fund

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016 and replaced the provisions in the Local Government (Scotland) Act 1975 in respect of the loans fund with a prudent approach.

Guidance provided in 2018/19 by Audit Scotland set out the accounting practices for administering a loans fund based on changes to legislation. This was subsequently clarified following challenge by a number of local authority bodies to reflect legal guidance which clarifies that pre-2016 advances may be repaid under the same revised prudent approach as advances made from 1 April 2016.

In our 2018/19 annual audit report we reported that no changes to the loans fund repayments for pre-2016 loans were made in the year but that the Council planned to do so going forward. A reprofiling was subsequently approved by the Council in September 2019 to take effect from the 2019/20 financial statements.

As part of our 2018/19 financial statements audit we discussed the requirements for adjustments to repayments with management and the requirement that they comply with the Prudential Code and other statutory guidance.

Work we will perform:

- We will review the paper provided by management outlining the changes and its assessment of compliance with all statutory requirements.
- We will agree the underlying accounting transactions to the paper to ensure they reflect the principle under which the repayments have been approved.

Other areas of focus

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21 and work will therefore be necessary to prepare information required to enable the Council to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.

Full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify:

- all leases which need to be accounted for;
- the costs and lease term which apply to the lease; and
- the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease.

We will discuss progress made in preparing for the implementation of IFRS 16 – leases with the finance team over the course of our 2019/20 audit and assess its impact assessment for 2020/21 as part of the yearend audit, including the accuracy and completeness of disclosures required in the financial statements for 2019/20.

Other audit considerations

We also plan and perform certain general audit procedures on every audit which may not be directly related to financial statement account assertions. Examples of such procedures includes compliance with applicable laws and regulations, litigation and claims and related parties.

Changes to the CIPFA/LAASAC Code for 2019/20

Changes have been made to the CIPFA/LAASAC Code for 2019/20;

- There is now a revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework).
- Updated guidance has been issued around the treatment of the Apprenticeship Levy.
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs.
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

We do not currently consider that the above would result in a material impact to the Council. However, it is important that the Council ensures that it performs its own assessment of the impact in advance of preparation of the 2019/20 financial statements. We will assess management's implementation of this guidance as part of the 2019/20 audit.

Other audit responsibilities

Under the terms of our appointment, our role and responsibilities include a number of other assurance activities. These include the certification of certain grant claims and the Council's Whole of Government Accounts return, as well as provision of information to support Audit Scotland national reports and studies.

Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force on 26 June 2017 and replace The Money Laundering Regulations 2007. The regulations impose an obligation on the Auditor General to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. As appointed auditor we will consider arrangements in place for the Council to identify and report any instances of money laundering in line with Audit Scotland reporting arrangements.

Going Concern – Compliance with ISA 570 Changes

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor’s report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

We will discuss the detailed implications of the new standard with management during the 2019/20 audit ahead of its application for 2020/21.

Use of specialists

When auditing key judgements, such as the valuation of property, plant and equipment, defined benefit pension scheme assets and liabilities, or certain assets and liabilities, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. In accordance with Auditing Standards, we will evaluate each specialist’s professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council’s business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable.
- Assess the reasonableness of the assumptions and methods used.
- Consider the appropriateness of the timing of when the specialist carried out the work.
- Assess whether the substance of the specialist’s findings are properly reflected in the financial statements.

Internal audit

We will review the internal audit plan and the results of internal audit’s work, including the discussion of audit findings at the Audit Committee and management’s response to findings. We will reflect the findings from internal audit reports, together with reports from any other work completed in the year, in our plan for the audit, where they raise issues that could have an impact on the financial statements or our wider responsibilities.

Data analytics

Where possible and appropriate, we will use our bespoke data analysers to enable us to capture whole populations of your financial data, in particular covering journal entries and payroll transactions. These analysers help identify specific exceptions and anomalies within full populations of data to focus substantive audit tests more effectively than traditional audit sampling.

We have started the process of obtaining the financial data from both the general ledger and payroll system for 2019/20 as part of our interim testing arrangements. We will report the findings of our work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee through the yearend audit reporting process.

Group financial statements

The Council has a number of non-consolidated interests in other entities. For the purposes of consolidation and incorporation within the Group financial statements the Council recognises subsidiaries including trusts, bequests, common good and trust funds as well as 8 non-controlling interest entities. These entities are below the materiality threshold.

Management has assessed that it exerts significant influence but not control over Lothian Valuation Joint Board, therefore this interest is deemed to be an associate. The West Lothian Integration Joint Board (IJB) and West Lothian Recycling Ltd. are identified as joint ventures. These entities are consolidated in accordance with the requirements of the Code. We are aware that West Lothian Recycling Ltd. has been voluntarily wound up with effect 19 December 2019.

We have been appointed as auditor to the West Lothian Integration Joint Board and will report separately on our audit of that entity.

The only significant component by size is the Council, which accounts for 91% of consolidated gross expenditure. There have been no specific risks identified that may indicate a component is significant by risk, as the IJB does not affect the transactions as such, only the nominal funding agreement in and out of the IJB.

We will discuss with management their updated assessment in respect of other entities where the Council has a relationship, but it has been assessed that consolidation has not been required.

Other assurance activity

Under the terms of our appointment we are required to undertake a number of other areas of audit activity. These include certifying authorities Whole of Government Accounts returns and certifying any applicable grant claims and returns such as the non-domestic rates return and housing benefits subsidy claim.

4 Wider Scope Dimensions: Risk assessment and approach

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value.

The Code of Audit Practice sets out the four dimensions that comprise the wider scope audit for the public sector in Scotland. These are: financial sustainability, financial management, governance and transparency and value for money.

Best Value audit approach

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value. The Accounts Commission last published a full Best Value Assurance Report (BVAR) for West Lothian Council in September 2017.

In 2019/20 and beyond, our work will continue to focus on specific aspects of Best Value over our five year audit appointment to ensure we cover all areas for consideration during this period. (see Exhibit 1, below).

Exhibit 1: Our Best Value work in 2019/20 will focus on financial and service planning

Five year Best Value Audit Coverage					
	2016/17	2017/18	2018/19	2019/20	2020/21
Vision and Leadership					
Sound Governance and Accountability					
Effective Use of Resources					
Partnership and collaborative working					
Community responsiveness					
Sustainability					
Fairness and equality					
Performance outcomes and improvement					

Strategic Audit Priorities

In undertaking our work in respect of the wider scope audit dimensions, we will integrate our assessment of the Accounts Commission's five Strategic Audit Priorities. Exhibit 2 outlines how the focus areas relate, and will therefore be reported, against the four dimensions.

Exhibit 2: Coverage of the Accounts Commission's Strategic Audit Priorities

	Strategic Audit Priority	Other areas of focus
Financial sustainability	<ul style="list-style-type: none"> • Clear priorities with a focus on outcomes, supported by effective long term planning. • Effective appraisal of options for changing how services are delivered in line with their priorities. 	
Financial management	<ul style="list-style-type: none"> • Effective appraisal of options for changing how services are delivered in line with their priorities. 	
Governance and transparency	<ul style="list-style-type: none"> • Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future. • Empowering local communities and involving them in the design and delivery of local services and planning for their local area. 	<ul style="list-style-type: none"> • Fairness and equality
Value for money	<ul style="list-style-type: none"> • Reporting on performance in a way that enhances accountability to citizens and communities, helping them contribute to the delivery of improved outcomes. 	<ul style="list-style-type: none"> • Vision and leadership • Community responsiveness

Our Annual Audit Report will consider each of the Accounts Commission Strategic Audit Priorities within the relevant wider scope dimension.

Audit Scotland – National Study Programme

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission. Audit Scotland ask us to ensure that local government bodies review the national studies relevant to them, which may also include joint studies under the remit of the Auditor General for Scotland, at a committee level and act on them accordingly.

In 2020, Audit Scotland is continuing its programme of performance reports, including reporting around council's use of arm's length organisations, Children and young people's mental health and its annual local government overview report. As appointed auditor we will be required to support in the provision of information from the Council for the preparation of these reports and, where relevant, will report on the Council's performance relative to other authorities.

Financial Sustainability

Financial sustainability considers the medium and longer term outlook for the Council to determine if planning is effective to support service delivery. We focus on the arrangements to develop viable and sustainable financial plans.

In our 2018/19 annual audit report we concluded that the Council continued to demonstrate good practice in forward financial planning, with 95% of savings required in the medium term financial plan to 2022/23 identified.

Continuing financial pressures

In our 2018/19 annual audit report we noted the ongoing challenge facing all local authorities, the significant level of risk and uncertainty outside the Council's control which could impact its ability to deliver savings, and the need for continued member and officer focus in delivering challenging levels of savings. The most recent Council budget approval identified a £34.5 million revenue budget gap over the three years from 2020/21 to 2022/23. The Council has also approved savings over this period to cover the budget gap and has a strong track record of delivering planned savings, however this will bring cumulative savings required from 2007 to £153 million. There is a continuing risk therefore around delivery of these savings and the impact financially and operationally on the Council should it fail to deliver over the course of its MTFP. Our work in this area will include:

- Consideration of the Council's short and medium term financial plans, including the risk assessment of savings options;
- The effectiveness of plans to address saving shortfalls; and
- Wider progress against the medium term financial strategy.

Financial management

The financial management dimension considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively. Other financial management work in 2019/20 will encompass continuing monitoring of the Council's participation in the National Fraud Initiative, including completion of an audit questionnaire by 28 February 2020.

The consideration of financial management also includes evaluating the Council's arrangements for fraud and corruption. Audit Scotland has identified procurement fraud as a specific risk across the sector in 2019/20.

Prevention and detection of fraud and corruption in the procurement function

The effectiveness and appropriateness of the Council's arrangements for the prevention and detection of fraud and corruption in the procurement function will be an area of focus for the 2019/20 audit. Our work will include:

- The overall management of the risk of procurement fraud, including internal audit coverage;
- The appropriateness of policies and controls around the procurement process, including segregation of duties and training to identify risks; and
- Arrangements to encourage and protect whistle-blowers.

Governance and Transparency

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.

In our 2018/19 annual audit report we concluded that the key features of good governance at the Council were in place and operating effectively. No significant risks have been identified in relation to this dimension.

Our work for the year will consider:

- Progress against recommendations from both internal and external audit, including the Council's arrangements for ensuring these are monitored and reported on a routine basis;
- Internal audit arrangements during 2019/20, including significant findings identified and the work done to address issues identified;
- The quality of reporting and information provided to key decision makers, and evidence of effective challenge and scrutiny;
- Following the public pound arrangements; and
- Progress in developing a revised programme of member training and support.

Value for money

The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018, which will be implemented in 2019/20.

We consider whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement. In our 2018/19 annual audit report we concluded that the Council has a clear culture of improvement and a commitment to self-assessment of its performance to ensure that services remain focussed on improvement. Council services continue to perform well compared to other councils.

We have not identified a specific significant risk in relation to value for money but we note that the Council is required to meet the requirements of the revised Statutory Performance Information Direction. As 2019/20 will be the first year of the revised direction, we will work with the Council to evaluate the effectiveness and appropriateness of the arrangements to fulfil the requirements.

5 Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit and Risk Committee

D – Timing and deliverables of the audit

E – Audit fees

F – Additional audit information

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial Statements and related reports

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- 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.
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- maintaining proper accounting records.
- 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. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are 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 their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified
- compliance with any statutory financial requirements and achievement of financial targets
- balances and reserves, including strategies about levels and their future use
- how they plan to deal with uncertainty in the medium and longer term
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.

Appendix B: Independence Report

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

Appendix C: Required Communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	<p>Annual Audit Report</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	<p>Annual Audit Report or as occurring if material.</p>

Required communication	Our reporting to you
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	<p>No significant matters have been identified.</p> <p>Annual Audit Report or as occurring if material.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>Annual Audit Report</p>
<p>Group audits</p> <ul style="list-style-type: none"> • An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Representations</p> <p>We will request written representations from those charged with governance.</p>	<p>Annual Audit Report</p>
<p>Subsequent events</p> <p>Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>Annual Audit Report</p>
<p>Material inconsistencies</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>Annual Audit Report</p>
<p>Fee Reporting</p> <ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>

Appendix D: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the Council, in accordance with the most recent planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2019/20 audit cycle. The timetable was set and agreed in advance of the Covid-19 pandemic and will be subject to ongoing consideration as outlined on page 7 of our report.

	Audit Activity	Deliverable	Timing
JAN			
FEB	<ul style="list-style-type: none"> Onsite fieldwork, documentation and walkthrough of key accounting processes Scoping of wider scope work for year 	Annual Audit Plan	28 March 2020
MAR	<ul style="list-style-type: none"> Review progress of NFI exercise 	Submit NFI Questionnaire	28 February 2020
APR	<ul style="list-style-type: none"> Review of current issues impacting the Council Review of reported frauds 	Quarterly current issue return submission	Quarterly
MAY		Quarterly fraud return submission	Quarterly
JUN	<ul style="list-style-type: none"> Education Maintenance Allowance (EMA) grant claim testing Wider scope work underway 	Certified EMA return	31 July 2020
JUL		Liaison on Best Value Follow up Assessments	30 August 2020
AUG	<ul style="list-style-type: none"> Submit Council dataset return to Audit Scotland 	Two part return for financial overview	8 May 2020 14 August 2020
SEP	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements Conclude on results of audit procedures Issue opinion on the Council's financial statements 	Whole of Government Accounts assurance statement to NAO (as required)	28 September 2020
OCT		Certify Annual Financial Statements Issue Annual Audit Report	30 September 2020
NOV		Submit minimum dataset return to Audit Scotland	
DEC	<ul style="list-style-type: none"> Completion of Non-Domestic Rates return testing Completion of Housing Benefits claim testing 	Certified Non-Domestic Rates return	9 October 2020
		Certified Housing Benefit subsidy claim	30 November 2020

Appendix E: Audit fees

The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on 'Our Approach to setting audit fees' (http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf).

Audit Fees	2019/20	2018/19
Component of fee:		
Auditor remuneration – expected fee	£193,580	£189,170
Additional audit procedures (see note below)	£TBD	£0
Audit fee in respect of S106 Trust Fund (see note below)	£TBD	£4,120
Audit Scotland fixed charges:		
Pooled costs	£18,940	£18,340
Performance audit and best value	£102,100	£100,990
Audit support costs	£11,700	£11,880
Total fee	£TBD	£324,500

The expected fee for each body, set by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year. Fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, for example, where significant local issues require additional work to be undertaken.

We have outlined through our report areas of additional audit focus which may have an impact on the expected fee, including around the Council's review of loans fund accounting and accounting for IFRS 16. At this stage we have not been able to fully consider and quantify the potential impact of Covid-19 on the financial statements accounting requirements, key judgements made by management, and the subsequent audit consideration we are required to undertake or additional work required to address the changes in the process of the preparation of the financial statements or audit.

We are also reviewing the costs associated with providing the separate, independent opinions required for the Council's S106 Trusts and will agree the 2019/20 fee with management in advance of our yearend audit, and communicate these through our annual audit report issued in September.

All fee variations will depend on the progress made by management in providing robust impact assessments and supporting schedules in line with the underlying accounting requirements outlined by IFRS 16 and CIPFA / Audit Scotland guidance. Where further additional work is required, fee variations will be agreed with management and reported to the Audit Committee in our 2019/20 Annual Audit Report.

Factors Likely to Impact Future Audit Fees

While responsibility for setting the audit fee on an annual basis rests with the Audit Scotland, there are a number of factors that we anticipate will continue to impact audit fees that we would bring to the attention of the Audit Committee:

Regulatory Factors: Recent high profile corporate failures have weakened public trust and confidence in both the auditing profession and business at large. Multiple ongoing regulatory reviews continue to reshape the corporate reporting environment and raise fundamental questions about the purpose, product and role of an external audit, as well as the accountability of auditors and those charged with governance.

Status of sector: Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation and investments. This has also brought increasing risk about the financial sustainability of councils.

Audit of estimates: There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

Resourcing: Across the sector, auditing has become less attractive as a profession, especially due to regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and we face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. While local authorities also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities.

To respond to these factors we have to:

- Increase our sample sizes, seek higher levels of corroborative evidence and engage with our internal specialists on a wider array of matters;
- Increase our investment in data analytics and wider technology solutions to allow us to test transactions and balances to a greater level of detail and enhance audit quality; and
- Invest in our audit quality infrastructure; as a firm our compliance costs have doubled as a proportion of revenue over the past five years.

Appendix F: Additional audit information

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the going concern basis of accounting.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Read other information contained in the financial statements, the Audit & Risk Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: [www. https://www.audit-scotland.gov.uk/uploads/docs/report/2019/as_audit_quality_1819.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/as_audit_quality_1819.pdf).

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report:

https://www.ey.com/en_uk/who-we-are/transparency-report-2019

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