



# West Lothian Council

**Annual Audit Report to Members  
and the Controller of Audit - year  
ended 31 March 2020**

29 September 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 2021/22. 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. This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. 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 Hywel Ball, 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.

# Executive Summary: Key Conclusions from our 2019/20 audit

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We have issued an unqualified audit opinion on the Council and Group 2019/20 financial statements and for the Charitable Trusts 2019/20 financial statements.

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We have continued to update our risk assessment in response to the global pandemic, and as a result placed additional focus on:

- the adequacy of the Council's disclosures in relation to the pandemic; and
- management's assessment of going concern and the financial impact of Covid-19 on its future financial position.

## Financial Statements

We have concluded our audit of the Council's financial statements for the year ended 31 March 2020. Two adjustments were required to be made and there are no unadjusted differences that we are required to communicate. The draft financial statements and supporting working papers were provided in time and were of a good quality, in line with previous years. We worked with management to update and make enhancements to the Management Commentary, Annual Governance Statement and notes to the financial statements, in particular to reflect the implications of the Covid-19 global pandemic on the financial statements, the Council's governance arrangements and future plans.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were satisfied that the Annual Governance Statement reflects the requirements of the *Delivering Good Governance Framework*, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

We have concluded our audit of the Charitable Trust's financial statements for the year ended 31 March 2020. The draft financial statements and supporting working papers were provided on time and were of a good quality, in line with previous years. There are no matters to report in respect of these financial statements.

## Going Concern

Management is required to conclude on the going concern basis of preparation of the financial statements. As a result of the financial and operational pressures faced by the Council to respond to Covid-19, we placed additional emphasis on management's assessment of going concern, and particularly the need to report on the impact of financial pressures on the Council and its future financial sustainability.

The Council has concluded that there are no material uncertainties around its going concern status, however it has enhanced the disclosures around its future financial position in the financial statements to reflect the impact of Covid-19. We have included an emphasis of matter in our audit opinion to draw the readers' attention to these disclosures. Our audit opinion is not modified in respect of going concern.

## Wider Scope and Best Value

We summarise the conclusions we reached in response to our work on the wider scope dimensions below.

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. Our work will continue to focus on specific aspects of Best Value over our audit appointment period to ensure we cover all required areas.

In light of the Council's focus on responding to and recovery from the pandemic, we have agreed to defer some of our initially planned work in this area until 2020/21.

<p><b>Financial Sustainability</b></p> <p>The Council continues to demonstrate good practice in forward financial planning. All savings required in the medium term financial plan to 2022/23 have been identified.</p> <p>As in previous years, our assessment of amber reflects 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, which has been significantly exacerbated by Covid-19, including a currently estimated £4.3 million shortfall in the Council's 2021 budget forecast.</p>	<p><b>Governance and Transparency</b></p> <p>The key features of good governance are in place and operating effectively. The Council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic.</p> <p>The Council has arrangements in place to appropriately scrutinise activities across its Group, in particular where financial support is being provided to entities in financial difficulty.</p>
<p>AMBER</p>	<p>GREEN</p>
<p><b>Financial Management</b></p> <p>The Council continues to demonstrate good financial control of the in-year budget, including understanding the impact of Covid-19 in early 2020/21.</p> <p>Our interactions with the finance team through the year identified no material financial control deficiencies and a robust environment. We did not identify any weakening of the financial management arrangements subsequent to the yearend.</p>	<p><b>Value for Money</b></p> <p>The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. The Council has a culture of improvement and a commitment to self-assessment of its performance to ensure that services remain focussed on improvement.</p> <p>Council services continue to perform well compared to other councils.</p>
<p>GREEN</p>	<p>GREEN</p>

# Introduction

As a result of the impact of Covid-19, Audit Scotland and the Accounts Commission agreed to extend our appointment as external auditor of the Council by at least 12 months, to 2021/22.

## Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of West Lothian Council ("the Council"). Our appointment term has been extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise the key findings and conclusions from our audit work. It is addressed to both members of the Council and the Controller of Audit, and presented to those charged with governance. This report is provided to Audit Scotland and will be published on their website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Council. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our Annual Audit Plan.

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 practices 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. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations.

## 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.

## Scope and Responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Council's Audit Committee on 22 June 2020.

The ongoing disruption to the delivery of health and social care as a result of the Covid-19 has a pervasive impact upon the financial statements.

The financial statements have been updated to reflect the impact of Covid-19 on the Council's financial position and performance.

### The impact of the Covid-19 Pandemic

We conducted our planning in accordance with Audit Scotland's Code of Audit Practice in February 2020, and were due to present our Annual Audit Plan to the Council's audit committee in March 2020, before its cancellation as a result of the declaration of the global Covid-19 pandemic and the resulting lockdown arrangements. We supplemented our Annual Audit Plan, presented to the Audit Committee in June 2020, with an addendum outlining the main anticipated areas of impact on the audit following our reassessment of all audit planning and risk assessments.

The impact occurred late in the financial year, and as a result there were minimal changes in the anticipated financial results for 2019/20. There were no material additional transaction streams before 31 March 2020 which required new accounting policies or treatments.

Our Annual Audit Report - addendum summarised the key changes to our audit risk assessment, mainly being the increased risk around the valuation of property, plant and equipment and our subsequent classification of this as a significant risk to the financial statements. We also outlined a number of areas of the financial statements impacted by Covid-19, including:

- **Management Commentary**  
The Scottish Government revised some of the content requirements of the management commentary to ensure that it can be streamlined to focus on the headline financial results for the year, financial position and risks. There is an expectation that future risks will include those arising from Covid-19.
- **Governance Statement**  
The Governance Statement requirement to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This required to include how key governance functions continued to operate, such as key committee meetings and the delivery of internal audit's programme of work.
- **Accounting estimates and judgements**  
Additional disclosures required throughout the financial statements to reflect the additional risks facing the Council and how these have impacted the key judgements and estimates made in preparation of the financial statements.
- **Events after the balance sheet date**  
Significant events after the balance sheet date require to be disclosed within the financial statements.



## Adaption to remote working

As we outlined in the Annual Audit Plan addendum, shared with the audit committee in June 2020, our audit fieldwork was completed remotely as a result of the Scottish Government's lockdown restrictions. The key impacts included:

- In some areas of the audit additional work was required to assess the format of evidence provided and, where necessary, supplementary procedures were performed to validate the authenticity of evidence.
- All contact with the Chief Finance Officer and Council finance team was conducted via virtual meetings, with screen sharing as required. The majority of audit information required was already established for electronic sharing through existing arrangements.

Both the audit team and Council finance team worked in conjunction to ensure the additional impact of these working arrangements were minimised as far as possible. We would take this opportunity to thank the full team for their co-operation and support throughout this period.

## Our review and reassessment of materiality

We remain satisfied that the values reported to you in our Annual Audit Plan for planning materiality, performance materiality and our audit threshold for reporting differences remain appropriate.

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £15.3 million. We considered whether any change to our materiality was required in light of Covid-19 and we remained satisfied that the materiality values reported within our Annual Audit Plan were appropriate.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. 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.

Overall Materiality

Tolerable Error

Level that we will report to committee

**£15.3 million**

2% of the Council's net expenditure

**£11.5 million**

Materiality at an individual account level

**£250,000**

Nominal amount

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the Remuneration Report and Related Party Transactions.

### 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 of the financial position of the Council as at 31 March 2020 and its expenditure and income for the year then ended; and
- whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published along with the financial statements. Our findings are summarised in Section 2 of this report.

We have also undertaken the audit of the West Lothian Charitable Trusts financial statements. We provide an opinion as to:

- whether they give a true and fair view of the financial position of the Trusts as at 31 March 2020 and its expenditure and income for the year then ended; and
- whether they have been properly prepared in accordance with the Charities and Trustees Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

### 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:

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

Our findings are summarised in Section 3 of this report.

### Best Value

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. We outline our findings and assessment for 2020/21 on page 35.

In light of the Council's focus on responding to and recovery from the pandemic, we have agreed to defer some of our work in this area until 2020/21. This supports our focus on the audit of the financial statements and most immediately impacted aspects of the wider scope audit in 2019/20.





# Financial Statements audit

## Introduction

The annual financial statements provide the Council with an opportunity to demonstrate accountability for the resources that it has the power to direct, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

The plan highlighted one area that we identified as a fraud risk relating to the risk of fraud in revenue and expenditure recognition, including through management override of controls. This assessment was not changed as a result of the impact of Covid-19.

## Compliance with Regulation

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare financial statements, ensure their availability for public inspection and consideration by the Council or a committee with an audit or governance remit. Despite the pandemic, the Council complied with the regulations and the normal timescale concerning preparation, publication and approval of its annual accounts. We received the unaudited financial statements on 25 June 2020, in line with planned timescales.

The inspection notice was published by the Council on 11 June 2020, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

The Regulations were amended to allow the Council to delay preparation of the financial statements.

The draft financial statements were submitted for audit in line with planned timescales. The inspection notice was published in accordance with requirements.

## Preparation of the Financial Statements

As we outline on page 6, the main areas of the financial statements impacted by disclosure requirements related to Covid-19. Otherwise the format of the unaudited financial statements remained materially consistent with the prior year, the main adjustments reflecting the impact of Covid-19 and the related utilisation of Scottish Government revised requirements for disclosures, in particular in the Management Commentary.

The unaudited financial statements prepared by management were to a good standard and were materially compliant with the Code and required disclosures. As part of the audit process, we worked with management and the finance team to make amendments and enhancements to the presentation. Compared to previous years there were more extensive changes made to the financial statements before their finalisation. This reflects the continuing change to circumstances driving disclosure, such as developing risks and arrangements around Covid-19, additional information becoming available in respect of the valuation of key judgements and estimates in the financial statements, and agreement between management and the audit team on key disclosure requirements around areas of specific focus in 2019/20.

The financial statements continue to be prepared with a robust internal process, including quality assurance checks prior to being submitted for audit.

## Group financial statements

The Council has identified and accounted for the following interests in other entities within its group financial statements:

- West Lothian Leisure;
- West Lothian Recycling Ltd;
- Lothian Valuation Joint Board; and
- West Lothian Integration Joint Board.

No matters were identified as a result of our review of the group consolidation arrangements within the financial statements. West Lothian Integration Joint Board is the only entity in scope for our group audit arrangements. All required audit work was provided by the IJB audit team to the Council audit team in line with timeframes agreed and with no exceptions or reportable matters noted.

## Audit outcomes

We identified no unadjusted audit differences arising from the audit. Three adjustments were processed as part of the audit, all relating to updates to the Local Government Pension Scheme net liability valuation following updated information being made available after the unaudited financial statements were published. These are outlined in Appendix E.

Our overall audit opinion is summarised on the following page.

# Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
<p>Financial statements</p> <ul style="list-style-type: none"> <li>• Truth and fairness of the state of affairs of the Council at 31 March 2020 and its expenditure and income for the year then ended</li> <li>• Financial statements in accordance with the relevant financial reporting framework</li> </ul>	<p>We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report. We did not identify any areas of material misstatement.</p> <p>We are satisfied that accounting policies are appropriate and estimates are reasonable</p> <p>We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.</p>	<p>We have issued an unqualified audit opinion on the 2019/20 financial statements for:</p> <ul style="list-style-type: none"> <li>• The Council and its Group; and</li> <li>• the Trust Funds.</li> </ul>
<p>Going concern</p> <ul style="list-style-type: none"> <li>• We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting</li> </ul>	<p>We conduct core financial statements audit work, including management's assessment of the appropriateness of the going concern basis</p> <p>Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.</p>	<p>In accordance with the work reported on page 17, our audit opinion is unqualified in this respect.</p>
<p>Other information</p> <ul style="list-style-type: none"> <li>• We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit</li> </ul>	<p>We conduct a range of substantive procedures on the financial statements.</p> <p>Our conclusion draws upon review of committee minutes and papers, regular discussions with management, our understanding of the Council and the sector and our participation in the Local Area Network with other scrutiny bodies.</p>	<p>We are satisfied that the other information in the accounts meets the core requirements set out in the Code of Practice on Local Authority Accounting.</p>
<p>Matters prescribed by the Accounts Commission</p> <ul style="list-style-type: none"> <li>• Audited part of Remuneration Report has been properly prepared.</li> <li>• Management Commentary / Annual Governance Statement are consistent with the financial statements and have been properly prepared.</li> </ul>	<p>Our procedures include:</p> <ul style="list-style-type: none"> <li>• Agreeing the format of the reports to regulations and agreeing the disclosures to underlying accounting records, including to the underlying partner's accounting records.</li> <li>• Reviewing the content of narrative disclosures to information known to us.</li> <li>• Our assessment of the Annual Governance Statement against the <i>Delivering Good Governance Code</i>.</li> </ul>	<p>We have issued an unqualified opinion.</p>
<p>Matters on which we are required to report by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>• there has been a failure to achieve a prescribed financial objective,</li> <li>• adequate accounting records have been kept,</li> <li>• financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or</li> <li>• we have not received the information we require.</li> </ul>	<p>We have no matters to report.</p>

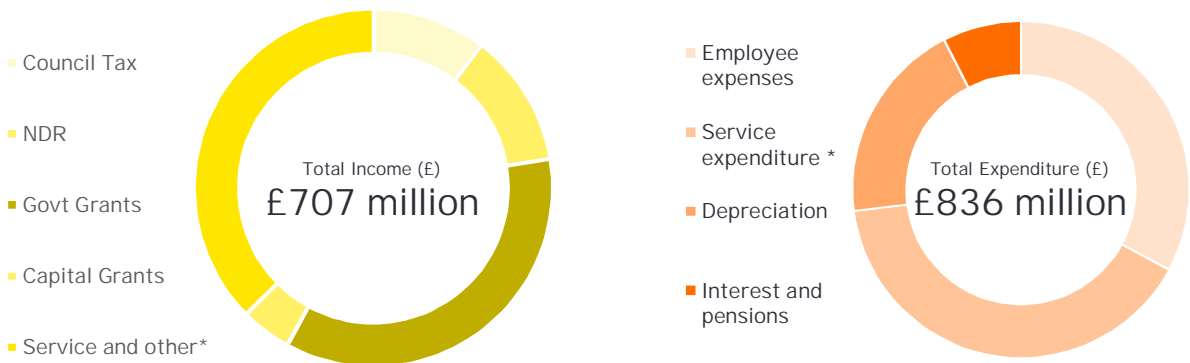
# Significant and fraud audit risks

## Risk of Fraud in income and expenditure recognition

As we outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

In our audit planning, we rebutted the risk of improper recognition of core grant funding income from the Scottish Government, as well as in respect of council tax and non-domestic rate income because there is no judgement in respect of these income streams. We also rebut the risk around payroll expenditure recognition. We have outlined below how our assessment impacts our testing strategy on the Council's financial statements.

Exhibit 1: Key components of the Council's income and expenditure



Source: 2018/19 Financial Statements: Comprehensive Income and Expenditure Statement

We undertake specific, additional procedures for income and expenditure streams where we identified a fraud risk. For 2019/20 our work included:

- Review and challenge management's accounting estimates on revenue or expenditure recognition for evidence of bias.
- Review transaction listings for individually material transactions as well as unusual items to agree to supporting documentation and third party evidence. Test a representative sample of transactions across the remaining income and expenditure population to ensure coverage of testing across all balances.
- Review and test revenue recognised around the financial yearend through manual journals and credit notes raised after yearend.
- Search for material payments and receipts received after year end and ensured these had been accounted for in the correct period.
- Review of additional revenue streams and cut off testing for additional income received as a result of the Covid-19 pandemic.

## Our Audit of Other Income and Expenditure

We undertook walkthroughs in respect of the processes management has established to account for material income and expenditure streams. We obtained data downloads from the Council's financial ledger to allow us to trace key transactions from initiation to recording in the financial statements.

Other audit procedures: non-significant risk areas:

Our audit work on other non-significant accounts identified no audit misstatements. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.

**Council tax income:** We established detailed expectations of income based on properties and rates and compared to actual income in the year. We audited the reconciliation between the financial statements and the relevant feeder system.

**Non Domestic Rates:** We established expectations of income to be collected by the billing authority and agreed the reconciliation between the general ledger and the feeder system. We also audit the Council's NDR grant return to the Scottish Government to ensure that reliefs have been applied appropriately.

**Non ring-fenced grant income:** We substantively tested these balances to grant confirmation letters from third parties.

**Interest income:** We agreed balances to bank statements and other third party reports.

**Employee expenses:** We establish expectations of payroll costs in the year based on staff numbers and salary movements, and compared our expectations to actual results and investigated variances. Our bespoke data analysers provided analysis of all payroll transactions in the year, from which we investigated and corroborated material and unusual transactions.

**Depreciation, amortisation & impairment:** We undertook testing of these balances in conjunction with our work on property, plant and equipment. We considered the appropriateness of useful lives of assets and recalculated depreciation charged in the year.

**Pension costs:** We have outlined our consideration of the valuation of pension assets and liabilities held by the Council on page 16. In respect of all pension transactions impacting the CIES we have agreed these journals to the underlying IAS 19 report prepared by the Council's actuary.

## Risk of Misstatement due to Fraud or Error

Our Annual Audit Plan recognised that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

## Risk of Fraud

We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

## Testing on Journal Entries

We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions.

In particular, we reviewed property, plant and equipment expenditure to ensure it fulfils the accounting requirements to be capitalised. We also tested Housing Revenue Account expenditure to ensure funds were not being used to meet General Fund expenditure.

## Judgements and Estimates

Management disclose their assessment of the critical accounting judgements and key estimates in the financial statements. We reviewed each significant accounting estimate for evidence of management bias, including retrospective consideration of management's prior year estimates.

We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias.

## Accounting Policies

We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the Council to be appropriate. There were no significant accounting practices which materially depart from what is acceptable under IFRS or the Code.

## Our conclusions

- Our testing has not identified any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.



## Valuation of Property, Plant and Equipment and related PPP / PFI contracts

The Council's property, plant and equipment (PPE) portfolio totals over £1.6bn of assets. The valuation of these assets requires expertise and judgement. In our Annual Audit Plan - addendum we reported that the Royal Institute of Chartered Surveyors (RICS) issued guidance highlighting that the uncertain impact of Covid-19 on markets may cause valuers to conclude that there is a material uncertainty in the valuation of assets at 31 March 2020.

As a result we increased our risk assessment around the valuation of property, plant and equipment from inherent to significant. To address the increased risk, we used our internal specialists to examine the work performed by Council valuers, including the assessment of assets not subject to valuation in 2019/20.

Our work focused on the following key areas of judgement:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- Reviewed management's assessment of assets not subject to valuation in 2019/20 to confirm that no indicators that earlier revaluation was required to prevent material misstatement of each class of asset.

The Council holds PFI liabilities and assets amounting to £150 million. For all existing PFI schemes we reviewed the existing contracts and inquired with management outside the finance team to ensure there were no material changes to the arrangements that should be accounted for. We tested the accounting entries made in the year to supporting schedules and contracts.

### Our conclusions

- We have not identified any material weaknesses in the valuation process or judgements used by the Council's valuer in the assets re-valued in 2019/20. No audit adjustments were identified through the course of our work by our specialist valuers.
- As anticipated, the valuations completed in 2019/20 were subject to material uncertainties in line with RICS guidance. While this does not mean the valuation cannot be relied upon, the Council has included the uncertainty in its disclosures around key estimates and judgements in the financial statements. We are satisfied that the disclosures made in the financial statements are appropriate and sufficient to explain the uncertainty to the reader of the financial statements.
- We concluded that management has undertaken sufficient procedures to identify any assets which should be revalued before their cycle valuation date.

## Valuation of pension liabilities

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 2020 the net liability totalled £234 million.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. We highlighted in our Audit Plan Report - addendum the increased likelihood of significant movements in both the valuations of the pension assets and liabilities due to the impact of Covid-19 on investment assets and actuarial assumptions.

Our audit work focused on the following areas of judgement within these balances:

- The reasonableness of the underlying assumptions used by the Council's actuary, including those associated with recent developments in relation to the equalisation case judgements known as the McCloud and Goodwin rulings.
- Ensuring the information supplied to the actuary in relation to the Council was complete and accurate and that the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.
- The findings of the appointed auditor of the Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council, in particular in relation to the valuation of the Pension Fund assets at 31 March 2020.

### Our conclusions

- The assumptions used by the actuary have been reviewed by both PWC, through its nationally contracted role to consider the outputs of actuaries provided to local government bodies, and our EY actuarial team who have both concluded that the assumptions and methodology used are considered to be appropriate.
- We have assessed the approach taken by the actuaries to account for the estimated impact of the recent consultation around the McCloud judgement and Goodwin ruling. Due to the timing of information provided these were not accounted for in the unaudited financial statements and, as such, have been included in the schedule of adjusted differences at Appendix E.
- The auditor of the Lothian Pension Fund reported no material differences in the valuation of assets held by the Fund. However, it reported a material uncertainty in relation to the valuation of complex investments at 31 March 2020, specifically investment properties. As a result the Council has reported the same uncertainty its own financial statements for its share of the Fund's assets.

### National loans fund accounting

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 2019/20.

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. As part of our 2019/20 audit we:

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

#### Our conclusions

- We agreed the financial statement transactions posted in the financial year in relation to Loans Fund accounting to the proposed approach presented by management and approved by the Council in September 2019.
- We confirmed that the proposed reprofiling met the established requirements of the Prudential Code for local government as a prudent repayment of borrowing.

# Going concern

The rationale for going concern remains the same, but we placed increased focus on management's assertion of going concern and disclosures relating to financial sustainability as a result of the uncertainty and unprecedented budget pressures caused by Covid-19.

Our audit opinion includes an emphasis of matter to draw attention to the Council's disclosures in relation to the impact of Covid-19 on its future financial position.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

We are required to review and challenge management's assessment of going concern, including testing of the adequacy of the supporting evidence and the appropriateness of related disclosures. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and Group, and its financial sustainability.

Management's going concern assessment reported that:

- In accordance with the CIPFA Code of Local Government Accounting, the Council shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity.
- The Council has significant access to cash to support the cost of delivering services, with balances more than sufficient to cover a plausible downturn in Council income from variable sources.
- Management noted the Council had £2.9 million in its general reserve, above the £2 million minimum required by its reserves policy. The Council also had other useable reserves in committed funds which could be reallocated as necessary. Additionally, management was continuing to review other mitigating actions to address the forecast budget deficit in 2020/21.

On this basis the Council concluded that there are no material uncertainties around its going concern status.

## Our conclusions

- We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key Council reports and finance treasury management forecasts of future cash balances. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Council, or of the wider Group where they are material to the consolidated financial statements.
- We worked with management to enhance the disclosures in the financial statements in relation to the impact of Covid-19 on the Council's future financial performance.
- Given the significance of the impact of Covid-19 to the Council both in 2019/20 and going forward, we included an emphasis of matter in our audit opinion to draw the reader's attention to the relevant disclosures. Our opinion is not modified in this respect.

# Looking ahead

The implementation of IFRS 16 has been delayed until 1 April 2022 following the impact of Covid-19 on local government and to ensure other areas of financial management are prioritised.

Prior to this management had demonstrated progress in undertaking work to understand and disclose the impact of the change on the Council's financial statements.

## IFRS 16 – Leases and Other changes

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.

As we outlined in our 2019/20 Annual Audit Plan, implementation of IFRS 16 was due to be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21 and work was therefore 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.

As part of the consideration of the impact of Covid-19 on local government, CIPFA confirmed the implementation of the standard was to be delayed to 1 April 2021.

As outlined in our 2019 Annual Audit Report, full compliance with the revised standard is likely to require a detailed review of existing lease and other contract documentation prior to the implementation date 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
- where a lease has previously been accounted for as an operating lease.

Before the delay in implementation was confirmed we discussed progress made in preparing for the implementation of *IFRS 16 Leases* standard with the finance team over the course of our 2019/20 audit and were satisfied robust arrangements were being established to assess the impact of the changes for inclusion in the financial statements.

We will continue to assess the Council's progress, including the results of its impact assessment, including the accuracy and completeness of disclosures required in the 2020/21 financial statements.

## CIPFA/LAASAC Code for 2020/21

Changes have been made to the CIPFA/LAASAC Code on local authority accounting in the United Kingdom for 2020/21. These changes include:

We will continue to work with management to proactively agree any material changes to financial statement accounting and related disclosures following amendments to the underlying CIPFA code.

- Implementation and emphasis of IFRS amendments relating to the application of materiality, and the requirement to avoid obscuring material information;
- Implementation of Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement; with guidance on initial proxy assessment of quantitative materiality;
- Reflection of legislative amendments for England, Wales and Scotland;
- Amendments to reporting by pension funds to align with presentation practices under the Pensions SORP; and
- Amendments relating to financial instruments.

The 2020/21 Code also includes agreed reporting text for the implementation of the deferred *IFRS 16 Leases* standard. This appendix will apply from 1 April 2021 and it will allow local authority financial statement preparers to make effective preparations for the implementation of the standard in the 2021/22 financial year.

It is important that management performs its own assessment of the impact in advance of preparation of the 2020/21 financial statements.



# Best Value and Wider Scope dimensions

## Introduction

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.

We are required to reach conclusions in relation to the effectiveness and appropriateness of the Council's arrangements for the four wider scope audit dimensions. We also draw upon these assessments and other work to form conclusions on the Council's ability to demonstrate Best Value in its activities. In undertaking our work in respect of the wider scope audit dimensions, we also integrate our assessment of the Accounts Commission's five Strategic Audit Priorities.

In doing so, we draw upon conclusions expressed by the Council's internal auditors, and the other scrutiny bodies that we work with on the Local Area Network including Education Scotland and the Care Inspectorate. We also consider national reports and guidance from regulators and Audit Scotland. As the appointed auditor, we are the LAN Lead. The LAN has determined, in agreement with the Council, that no separate scrutiny plan has been necessary since the 2019/20 plan published in September 2019.

We particularly considered if any action was required subsequent to the development of Covid-19. LAN members agreed it was most appropriate to continue to hold the next LAN meeting in line with the usual cycle. This would allow for fuller consideration of the impact on the Council.

For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the Council's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

## The wider scope dimensions

**Financial Sustainability:** Considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.

**Financial Management:** 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.

**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.

**Value for Money:** Considers 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.

# Financial Sustainability

The Council continues to demonstrate good practice in forward financial planning. All savings required in the medium term financial plan to 2022/23 have been identified. The Council's early planning arrangements for its next medium term financial plan have been deferred to 2021/22 as management focuses on the more immediate impact and actions arising from the impact of Covid-19.

As in previous years, our assessment of amber reflects 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. These factors have been significantly exacerbated by Covid-19, including a currently estimated £4.3 million shortfall in the Council's 2021 budget forecast. Financial pressures of this scale will require ongoing monitoring and reassessment of possible required mitigating actions for the foreseeable future.

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## Medium Term Financial Planning

The Council's Medium Term Financial Plan currently runs through to 2022/23, in line with its Corporate Plan approved in 2018. The most recent Council budget approval, in February 2020 and prior to the impact of Covid-19 on the Council's financial performance, identified a £31.7 million revenue budget gap over the three years from 2020/21 to 2022/23. As part of its financial planning the Council approved savings over this period to cover 100% of the budget gap, including the £12.4 million savings required in 2020/21.

The Council has a strong track record of delivering planned savings to achieve balanced budgets. However, the planned savings through to 2023 will bring cumulative savings required from 2007 to £151 million.

## Impact of Covid-19

The Council's most recent financial update report, prepared for the four months to July 2020/21, forecast a net overspend of £4.3 million for the financial year. This is made up of a £9.6 million budget variance, the largest items being:

- £3 million overspend in education;
- £1.5 million overspend in IJB social policy;
- £1.5 million overspend in operational services; and
- £1.1 million reduction in forecast Council tax income.

These negative variances, all largely attributable to additional costs and reduced income related to Covid-19, have been partially offset by additional resources from the Council's share of 'Barnett consequentials' (£5.2 million) and the earmarking of £0.9 million from the Council's general reserves.

### Appraisal of options - 2020/21 financial plans and mitigations

In its most recent budget update, management reported that officers are liaising with COSLA and will continue to lobby the Scottish Government to provide additional resources to the Council to fully fund the financial implications of Covid-19. In conjunction with these efforts, officers have undertaken work to identify options available to manage the remaining net cost pressures. The potential options identified include:

- potential national flexibilities;
- further use of Council reserves and otherwise allocated balances;
- restrictions on planned expenditure, including recruitment; and
- revisions to service delivery and additional savings.

Management has committed to provide further updates on the financial position and range of options to Council Executive in October 2020.

### Focus on outcomes - delivery of savings

Savings are agreed at a detailed service level and support provided through the Council's finance team. Each service has dedicated support from the Financial Management Unit to consider the financial impact of planned actions and ensure financial planning is robust. All savings plans are subject to review to ensure they support the delivery of the Medium Term Financial Plan (MTFP) as well as the delivery of the service specific plans and objectives.

Throughout the year the Council monitors the risks around delivery of savings, which are in turn reported to Council Executive on a routine basis. Heads of Service are required to assess the risk of delivery of savings on a red, amber or green basis, together with current status and possible blockers to delivery. The Council's most up to date assessment of savings planned through the remainder of the MTFP period identified savings categorised 42% green and 58% amber, with no red rated savings. 2020/21 savings are categorised as 86% (£10.4 million) green, and 14% (£1.7 million) amber.

## Longer term planning, risks and uncertainties around the MTFP

As in previous years, while we have concluded that the Council's arrangements around medium and longer term financial planning remain robust, our assessment of amber reflects the scale of ongoing challenge facing the Council.

There are a number of areas, before the impact of Covid-19, where management has recognised significant uncertainties in areas largely outside of its control that could materially impact its delivery of financial plans, balanced budgets and the underlying required savings. These include the risks around accuracy of assumptions in existing financial plans, such as around inflation, pay awards and demographic drivers of income and expenditure. There also remains significant uncertainty around the potential impact of the end of the EU withdrawal transition phase on 31 December 2020. Future government funding continues to be a significant source of uncertainty that impacts a large part of the Council's income.

There also remains significant risk around the assumptions in relation to the Council's financial position in terms of Covid-19, including a high risk that further currently unidentified costs will continue to be incurred during financial year 2020/21. There will be a substantial increase in the cost of service delivery, particularly where social distancing measures have to be implemented. In particular management has identified the learning estate remobilisation plan, social care provision and homelessness as areas with significant risk of additional required expenditure.

In this context, rigorous, timely and accurate financial monitoring, reporting and options appraisal has never been more important to the Council. While our view is that the Council continues to implement robust processes, controls and governance around financial planning, the significance and materiality of these identified risks and uncertainties continue to drive our risk assessment for the Council around financial sustainability.

In 2018/19 we reported that despite the uncertainty around the economy, and public sector funding more specifically, initial work had been undertaken by officers regarding the revenue financial planning period beyond the current approved MTFP. Further development of the next MTFP through to 2028 was planned in 2020, however given the pressure on resource and increased financial planning uncertainty around Covid-19 this has been deferred to 2021/22. The next MTFP will be prepared under unprecedented circumstances as immediate financial pressures collide with transformational changes to the way of life for service users and the corresponding impact on how the Council needs to operate. As this planning process develops, there will be a need for widespread engagement with stakeholders and comprehensive reassessment of plans and priorities.

# Financial Management

The Council continues to demonstrate good financial control of the in-year budget, including understanding the impact of Covid-19 in early 2020/21. Financial reporting was clear and consistent throughout the year and subsequent to the financial yearend.

The importance of good financial control is clearly understood across the Council. Our interactions with finance through the year identified no material financial control deficiencies and a robust environment. We did not identify any weakening of the financial management arrangements subsequent to the yearend as the established control environment evolved to reflect the remote working requirements.

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## Financial control environment

Although our audit was not designed to express an opinion on the effectiveness of internal control, we consider the environment through the course of the audit and have not noted, based on the audit work undertaken, any significant deficiencies in internal control. As part of our audit risk assessment we considered internal audit's review of finance and related functions in the Council through the year and noted no significant matters impacting our view of the control environment.

Financial regulations are comprehensive, covering financial management and planning; risk management and control of resources; and systems and procedures. They are available publicly on the Council's website and subject to routine periodic review and updating.

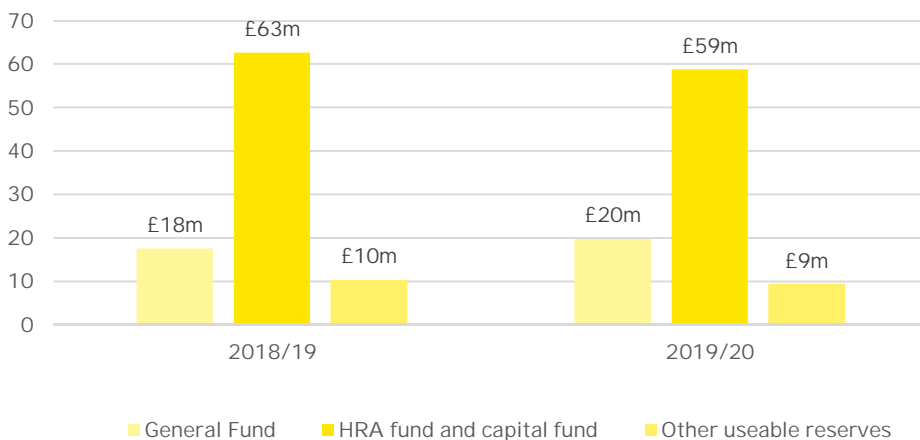
The Council's section 95 officer is the Head of Finance and Property Services. We are satisfied that the Council adheres to the principles laid out within CIPFA's Statement on the role of the Chief Financial Officer in Local Government. In our view there is evidence that the Council continues to have sufficient financial skills, capacity and capability.

Our experience through the 2019/20 audit has not indicated any issues with the capacity or capability of the finance team following its previous restructures. While the impact of Covid-19 was minimal on the 2019/20 financial management arrangements due to the timing of the lockdown, we considered the impact on the finance team throughout our yearend audit. We did not identify any significant changes to the key processes and controls in place across the finance function, with all controls evolving to support remote working without being altered in their purpose or robustness. While there were significant additional pressures on the finance team after the yearend, information related to the audit and financial statements was provided in a timely manner. We will continue to monitor the financial management arrangements and the impact on the finance team going forward, particularly in 2020/21 as the impact of changes due to Covid-19 continues to evolve.

## Financial monitoring and outturn

The Council's financial monitoring arrangements in 2019/20 were consistent with previous years, however have been supplemented in early 2020/21 with additional monitoring. This included a period three monitoring report to better maintain an understanding of the impact of Covid-19 on the Council's arrangements. The key measure of the Council's financial performance in the year is the movement in the Council's usable reserves, which reduced by £2.6 million in 2019/20, mainly due to a £3.8 million reduction in the capital fund to support planned capital expenditure.

Exhibit 3: The Council's cash backed reserves reduced by £2.6 million in 2019/20



Source: West Lothian Council 2019/20 Financial Statements

## Council reserve levels and strategy

As part of the annual revenue budget setting process, the Council approves the minimum reserves to be held as uncommitted general funds. For 2019/20 it was concluded that the uncommitted balance be maintained at a minimum of £2 million. While we understand this to be one of the lower minimum reserves across Scotland, we recognise this level has been assessed as appropriate by the Head of Finance and Property Services given the Council has an approved medium term financial strategy underpinned by clear financial planning arrangements and a number of other earmarked reserves which could be reallocated if necessary.

We note that the additional £0.9 million held at 31 March 2020 above the minimum reserve has now been allocated to cover potential overspends in 2020/21 related to the impact of Covid-19, as outlined in the financial sustainability section of our report.



### Capital programme

The Council spent £70.3 million on capital expenditure in 2019/20, a slight overspend of £0.5 million against a budget of £69.8 million. Acceleration of planned expenditure from the general fund of £6.5 million was mostly offset by slippage in the planned HRA activity in the year.

This activity forms part of the Council's overall capital strategy approved through to 2027/28. The strategy is subject to annual review, update and re-approval by the Council to reflect actual expenditure incurred in the year and any slippage or changes in priorities. The plan is designed to support the Council in its overall strategic objectives.

### Arrangements to prevent fraud and corruption

The consideration of financial management also includes evaluating the Council's arrangements for fraud and corruption. CIPFA's *Code of Practice on Fraud and Corruption* notes that leaders of public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisations. The Council has a counter-fraud team as part of its Audit, Risk and Counter Fraud Unit. The Council draws upon national publications to highlight fraud risks, including both the Audit Committee and Governance and Risk Committee's consideration in 2019 of Audit Scotland's publication *Safeguarding Public Money: are you getting it right?* The Council's policies and procedures are in relation to fraud and corruption are subject to routine review, update and approval by the appropriate officers and committees.

We reported in our Annual Audit Plan that 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. Given the circumstances around the impact of Covid-19 we agreed, in conjunction with management, to defer our targeted consideration to 2020/21.

### Audit Scotland National Fraud Initiative (NFI) programme

NFI is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The NFI exercise produces data matches by comparing a range of information held on public bodies' systems to identify potential fraud or error. In June 2019 we submitted an assessment of the Council's participation in the exercise to Audit Scotland, concluding that the Council has actively participated in the NFI exercise and that it is well embedded within the Council's proactive counter fraud workstream. A follow up review was completed in February 2020, with no further matters to report.

### CIPFA financial management code

Throughout the year we have discussed with management the planned implementation of the CIPFA Financial Management Code, published in October 2019 and designed to support good practice in financial management and assist in demonstrating the local authority's financial sustainability. There is a requirement of full compliance with the code by financial year 2021/22.

Management has conducted a preliminary assessment of its forecast compliance and concluded that the existing processes at the Council meets the requirements. A full assessment is due to be completed in 2020/21, which we will review as part of our financial management audit arrangements.

# Governance and Transparency

The key features of good governance at the Council are in place and operating effectively. The Council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic. We were satisfied that Council members continued to have access to sufficient information as a result of the implementation of virtual meetings, and regular briefings to all members.

The Council has arrangements to appropriately scrutinise arrangements across its Group, in particular where financial support is being provided to entities in financial difficulty.

## Local Code of Corporate Governance

Under the CIPFA framework for *Delivering Good Governance in Local Government*, the Council uses the Annual Governance Statement to report on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement for 2019/20. The governance statement for 2019/20 concluded that "Although there are areas where improvement can be made, based on the governance framework, arrangements and review already described, the council and the West Lothian community can be assured that the council's corporate governance standards have been substantially met in 2019/20."

The Annual Governance Statement included a detailed summary of the impact of Covid-19 on governance arrangements and how management has responded to ensure adequate governance arrangements remained in place, particularly through the initial lockdown period. This included reference to the statutory mechanisms available to the Council, both through new and existing legislation, and where the Council took advantage of these mechanisms. In the main the Council continued under existing arrangements with minimal utilisation of extraordinary measures.

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity. As part of the audit process we worked with management to further enhance the disclosures, in particular in relation to how governance arrangements were maintained during the revised operating period as a result of Covid-19 and the scrutiny arrangements around other bodies within the Council's wider Group.

Arrangements were quickly developed to ensure that the Council was kept informed of the impact of Covid-19, and that key governance arrangements could continue during the lockdown.

## Covid-19 Governance arrangements

Like all other public bodies in Scotland, the Council moved to revised governance arrangements at the beginning of the UK lockdown period. Council and committee meetings scheduled from the end of March through July 2020 were initially cancelled as a result of the pandemic, however a number then went ahead remotely, including the Audit and Governance and Risk Committees. Risks associated with the pandemic were considered by the Council Corporate Management Team and reported to the Council's Governance and Risk Committee accordingly during the lockdown period. There are both new risks relating to Covid-19 (related to the delivery of critical services) and existing risks which are now considered higher risks.

The Chief Internal Auditor has concluded that governance arrangements are adequate and that improvements have been made during 2019/20.

Current high risks include:

- Council tax – failure to achieve budgeted income
- West Lothian Leisure failure to achieve financial plan
- Pandemic – failure to maintain critical services

## Assurance Statement

Based on the work completed in the year, the Council's Audit, Risk and Counter Fraud manager concluded that "the framework of governance, risk management and control is sound." The internal audit work planned for the year 2019/20 was completed in line with planned deadlines with no delay resulting from the impact of Covid-19.

## Openness and transparency

The Council has clear arrangements to ensure that members of the public can attend council and committee meetings as observers in usual circumstances, and agendas and papers are available in advance of each meeting. While these arrangements were temporarily removed as a result of meetings being held remotely due to the pandemic, minutes of meetings, including key decisions, are publicly available as well after the meetings. Public access to meetings via audio broadcasting has been secured from 26 May 2020.

## EU withdrawal

Throughout 2019/20 the Council has continued to monitor potential scenarios of EU withdrawal and the possible impact on the Council through its Brexit Working Group, established in 2018. The Council is maintaining a Brexit risks log, including a risk rating for all risks identified. Updates have been provided through the quarterly horizon scan update report to the Partnership and Resources PDSP and to the Governance and Risk Committee throughout the year.

As the 31 December 2020 deadline for the end of the transition period approaches, it is expected that increasing focus is given to implementing plans to mitigate identified risks. The Council also continues to liaise with the Scottish Resilience Partnership and community planning partners, such as NHS Lothian. Our reporting mirrors the position in last year's audit where the deadline for the UK's withdrawal was approaching. We will continue to monitor how the Council monitors and responds to developments while focus is also required on matters related to the pandemic.

The Council's governance arrangements include scrutiny of arrangements within its consolidated group.

## Group Governance arrangements

In our role as auditor for the Council we consider the governance arrangements at the Council to monitor and scrutinise the wider group as appropriate, in particular where there is the possibility for a financial or operational impact on the Council's services.

The Integration Scheme which governs the working arrangements for the West Lothian Integration Joint Board was due to be updated in 2019/20 by the Board's partners, the Council and NHS Lothian. The Council has reported in its Governance Statement that work was started on this but had to be delayed due to the impact of Covid-19 and prioritisation on immediate delivery of services. Management has confirmed that both partners approved the delay with no impact on the IJB, and will update the scheme in 2020/21 for submission to the Scottish Ministers for approval.

West Lothian Leisure has been significantly impacted by the pandemic with leisure centres closed through the start of 2020/21, with a corresponding financial impact. A reprofiling of the West Lothian Leisure (WLL) management fee payments from the Council was agreed by management and reported to Council Executive in May 2020 to support WLL's cash flow whilst facilities remained closed. In addition, the Council has included £500,000 contingency in its 2020/21 outturn forecast to reflect additional anticipated support that may be required in the year. As a result of its financial difficulty WLL has disclosed in its 2019/20 financial statements that financial support has been confirmed by the Council to 31 March 2021. As outlined on page 5 of our report, WLL is immaterial to the consolidation of the Council's Group financial statements, and as such its financial position does not impact the going concern conclusions around the Group financial statements.

The financial position and possible impact on support required by the Council has been reported to the Council's Executive group by the Head of Finance and Property Services, most recently in August 2020. We are satisfied that the Council is demonstrating the required level of scrutiny and governance over entities within the Council's Group, including demonstrating rigour around the use of public funds for private bodies.

# Value for Money

The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. The Council has a 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.

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## Performance Management framework

In previous years we have reported that the Council approved its Corporate Plan through to 2022/23, and its underlying corporate strategies and service management plans. To more effectively monitor performance, the Council also agreed targeted outcomes and target performance levels through to 2022/23 as the main KPIs to support its vision.

The Council monitors its performance against its plans and performance indicators throughout the year. Quarterly updates are provided by management to PDSP, and are made available for public information as part of the committee papers on the Council's website. These reports outline the full set of performance indicators included by the Council in its corporate plan, and the current performance of each indicator against target summarised through a 'RAG' rating system.

## Impact of Covid-19

The Council's overall performance management framework remains in place and operating despite the impact of Covid-19 on the management priorities and additional urgent business requiring prioritisation at committees. There were two minor changes to planned performance reporting arrangements with management implementing alternate arrangements to mitigate the impact:

- Performance reporting to policy development and scrutiny panels temporarily ceased due to urgent business for consideration over the summer but has now resumed, with the most recent performance reporting being presented to Partnership and Resources PDSP on 18 September 2020.
- The Council adopted a new self-assessment framework in 2017/18, as part of the new three year West Lothian Assessment Model (WLAM) cycle covering 2017-20. All services complete a WLAM and attend an officer-led scrutiny panel at least once during a three-year improvement cycle. The WLAM programme report 2017/20 was not taken to Performance Committee on 25 May as scheduled due to the meeting's cancellation due to Covid-19. It will be presented to the next meeting of the committee when it is arranged.



## Accountability and delivery of improved outcomes - Performance Reporting

The most recent performance update was submitted to Partnership and Resources PDSP in September 2020 in relation to quarter one of the 2020/21 financial year. Out of 62 indicators reported, 40 were green (2018/19: 39), 7 amber (2018/19: 7) and 10 were red (2018/19: 13), with 5 unknown as performance is measured more intermittently. For the red rated performance indicators, 7 were materially affected by the impact of Covid-19 specifically. All red rated PI's included additional information in relation to the nature of the performance and the corrective action being planned by management to address performance.

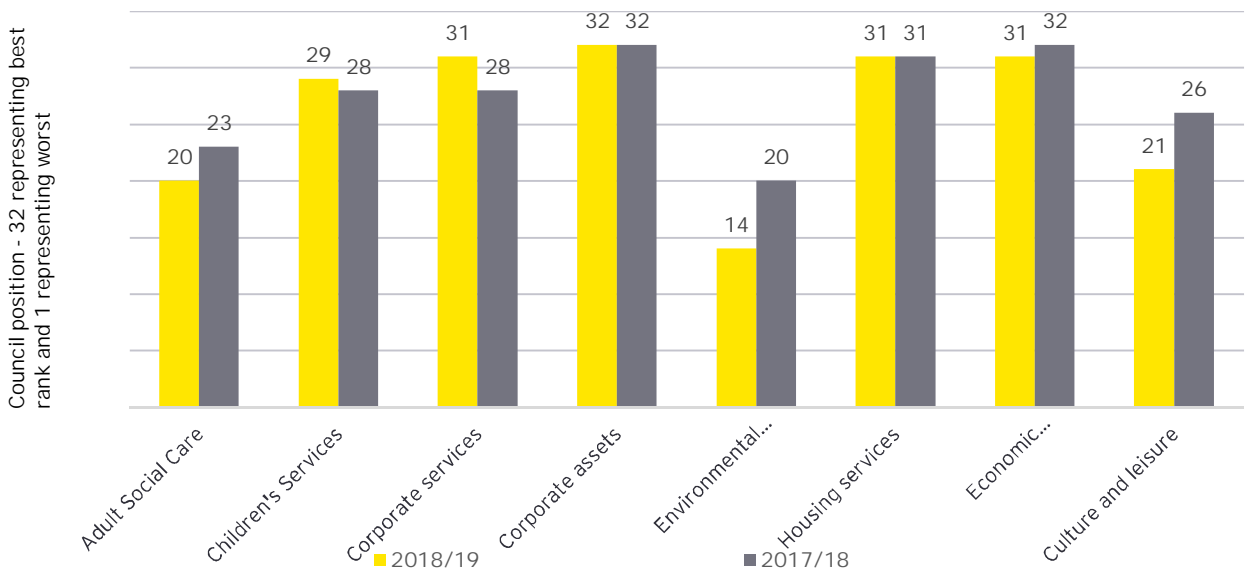
We reported in 2018/19 that most of the red rated PI's relate to the following areas:

- Sickness absence; overall this has moved to green, with varied performance across services.
- Addressing customer service inquiries; this has been impacted in 2020/21 quarter one by the Council only addressing urgent queries due to the impact of Covid-19.
- Addressing complaints; a number of these have moved to amber or green however performance remains mixed by service.

In all cases we continue to observe mitigating action being taken, or where direct and immediate action was less achievable, how the Council manages the process and underlying risk through its existing policies and procedures.

The Council Partnership and Resources PDSP considered the Council's performance against the LGBF for 2018/19 in September 2020. Information in relation to the LGPF is published on the Council website and progress against corporate strategies will continue to be monitored by Partnership and Resources PDSP in December. The Council continues to perform well against peers for a number of core services.

Exhibit 6: Council services generally perform well against other councils in Scotland



Source: West Lothian Council Analysis of LGBF results 2018/19

## Statutory Performance Indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. The Council has a responsibility, under the duty of Best Value, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which recognises the role and effectiveness of the LGBF, but continues to require councils to report its:

- performance in improving local public services provided by the Council (on its own and with its partners and communities), and progress against agreed desired outcomes;
- own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments; and
- how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

The Council is required to meet the requirements of the revised Statutory Performance Information Direction, for which 2019/20 is the first year. The Council continues to report a range of performance information to stakeholders and the public to demonstrate the relative value and effectiveness of Council services. This includes reporting of the most recently available LGBF results to the relevant committees and to the public. Information reported covers the quality and effectiveness of local services and progress in outcomes, as well as efficiency information. Due to the timing of much of the relevant reporting, most of the reporting on the period impacted by the revised Statutory Performance Information is yet to be concluded. We will continue to monitor and consider the adequacy of reporting against the revised requirements in 2020/21.

## Local Development Plan (LDP) and the Winchburgh development

The Council approved its local development plan in September 2018. The LDP “builds on the spatial strategy set out in previous local plans for West Lothian and comprises a written statement setting out planning policies and proposals and proposal maps”. A key part of the Council’s strategic development and local development plan is the development of the Winchburgh project, which is one of several core development areas and has received government funding. The LDP outlines the key areas of development required in Winchburgh, including significant additional planned housing, improved employed and retail and public services.

Activity on the project is continuing, with updates being provided to the Council Executive, most recently in June 2020. The forecast project cost of £60.7 million remains slightly under the approved budget. The project milestones have been updated to take account of advice on the likely timescales indicated on easing of lockdown procedures, and socially distancing measures required on construction sites, which have increased the programme to compensate for the alterations in working processes. The key assumption included in the report was the ability to restart work in July 2020. We will continue to monitor the status of this project and the arrangements for reporting and scrutinising as it continues through to 2024.

# Best Value

We have drawn upon our wider scope and other work to conclude on the Council's approach to Best Value. We note through work undertaken in the year that the Council has a number of key characteristics of Best Value in place, including effective performance monitoring and robust governance arrangements.

In light of the Council's focus on responding to and recovery from the pandemic, we have agreed to defer some of our work in this area until 2020/21, to ensure focus on the financial statements and most immediately impacted aspects of the wider scope audit in 2019/20.

## Forming our judgement

As auditor to the Council, we are required to comment on how effectively, in our view, the Council demonstrates that it meets its Best Value responsibilities. In forming this judgement, we draw upon the work conducted in response to our wider scope responsibilities as outlined in this report. We also draw upon the work we complete around the Best Value coverage areas outlined on the following page of this report, and our wider understanding of the Council's arrangements through the year.

## Looking ahead

The Council has correctly focused on the immediate impact and required work resulting from the global pandemic, and we have concluded that, where we have considered through our work carried in the year, its arrangements around Best Value remain appropriate through the financial year.

As the immediate impact of Covid-19 transitions to assessing its longer term impact on the Council, its service users and wider public as well as other public bodies, it is important that the Council continues to reassess its own arrangements for Best Value in this changing environment. This should include both the Council's delivery of Best Value as services and priorities evolve and its own internal arrangements for ensuring its priorities are focused correctly and monitored and reported. Our Best Value work planned for the remainder of our appointment period, as outlined on the following page, will be undertaken through this lens.

## Future best value audit work

In our Annual Audit Plan presented to the Council's Audit Committee in June 2020, we outlined our planned areas of focus for our Best Value audit work in 2019/20. Following the impact of Covid-19 on the Council and the subsequent pressures it has placed on management, the finance team and wider officers across the Council, we agreed with management and Audit Scotland to defer our work in these areas until future years. This allowed management to focus on key operational priorities during the lockdown and recovery period, and allowed our audit to prioritise the financial statements audit requirements to ensure we were flexible and pragmatic in the current circumstances.

We outlined on the previous page the sources from which our conclusion around the Best Value arrangements at the Council this year were formed. Below is a summary of our planned Best Value work over our initial five year appointment period with the Council. Following the deferral of planned work this year and the extension of our appointment by Audit Scotland to include the 2021/22 financial year audit at least, we will engage in discussions with management and Audit Scotland to agree a re-profiled schedule of work for the next two years, which we will report to the Council's Audit Committee in March 2021.

Five year Best Value Audit Coverage						
	16/17	17/18	18/19	19/20	20/21	21/22
Vision and Leadership		1		2		
Sound Governance and Accountability	1	1			3	
Effective Use of Resources		1	1			
Partnership and collaborative working	1				3	
Community responsiveness	1			2	3	
Sustainability					3	
Fairness and equality				2		
Performance outcomes and improvement	1	1	1			

1 - Best Value work completed in first three years of our audit appointment.

2 - Best value work planned in 2019/20 and subsequently deferred.

3 - Best value work indicatively planned in 2020/21 to be re-profiled across next two financial years in conjunction with delayed 2019/20 audit work.

# 4 Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit Committee

D – Action plan, including follow up of prior year recommendations

E – Adjusted errors identified during the audit

F – Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

<p>Corporate Governance</p>	<p>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, risk and governance committees or equivalent) in monitoring these arrangements.</p>
<p>Financial Statements and related reports</p>	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.</li> <li>• maintaining proper accounting records.</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.</li> <li>• 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.</li> </ul> <p>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.</p>
<p>Standards of conduct / prevention and detection of fraud and error</p>	<p>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.</p>
<p>Standards of conduct / prevention and detection of fraud and error</p>	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• such financial monitoring and reporting arrangements as may be specified</li> <li>• compliance with any statutory financial requirements and achievement of financial targets</li> <li>• balances and reserves, including strategies about levels and their future use</li> <li>• how they plan to deal with uncertainty in the medium and longer term</li> <li>• the impact of planned future policies and foreseeable developments on their financial position.</li> </ul>
<p>Best Value</p>	<p>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.</p>

# Appendix B: Independence and audit quality

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the IJB.

## Matters that we are required to communicate

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated March 2020.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the IJB consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Council on 29 September 2020.

## Audit Fees

	2019/20	2018/19
Component of fee:		
Total agreed auditor remuneration *	£193,580	£189,170
Audit fee in respect of s106 Trust Fund	£9,700	£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	£336,020	£324,500

\* The expected fee for each body, which for 2019/20 has been set centrally 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 supporting schedules, 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 and an unqualified audit opinion resulting from the audit.

This year, material additional audit work was required to address the risks related to Covid-19. In particular there was a significant impact on the financial statement disclosures, the risk around valuation of property plant and equipment and the valuation of the Council's share of assets and liabilities in the Lothian Pension Fund. We are discussing the final fee for the 2019/20 audit with management and will report this to the Audit Committee and Council when finalised in our 2020/21 Annual Audit Plan.



Matters that we are required to communicate

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

The EY 2019 UK Transparency Report can be accessed on our website at [https://www.ey.com/en\\_uk/who-we-are/transparency-report-2019](https://www.ey.com/en_uk/who-we-are/transparency-report-2019). This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our inaugural Audit Quality Report.

The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

Our Audit Quality Board (AOB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AOB meets monthly and also holds an annual strategy session. The AOB reports to the EY UK Board. The AOB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures.

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland.

The most recent audit quality report which covers our work at the IJB since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201920>.

# Appendix C: Required communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the audit, risk and governance 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"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<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"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> <li>• Enquiries of the audit, risk and governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>	<p>Annual Audit Report</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Enquiry of the audit, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	<p>Annual Audit Report (to be issued on completion of audit work) 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"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>No significant matters have been identified.</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"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report – Appendix B</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report – no significant deficiencies reported</p>
<p>Subsequent events</p> <p>Where appropriate, asking the audit, risk and governance committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>We have asked management and those charged with governance. We have no matters to 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>This Annual Audit Report</p>
<p>Group audits</p> <ul style="list-style-type: none"> <li>• An overview of the type of work to be performed on the financial information of the components</li> <li>• 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</li> <li>• 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</li> <li>• Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>• 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</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report</p>

# Appendix D: Action Plan

We include an action plan to summarise specific recommendations included elsewhere within this Annual Audit Report. We grade these findings according to our consideration of their priority for the Council or management to action.

## Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

We have no specific recommendations identified through the course of our work in 2019/20 requiring inclusion in our action plan. We have outlined through this report where previous recommendations have been addressed by management, and where we will continue to monitor areas of focus going forward in 2020/21.

# Appendix E: Adjusted errors identified during the audit

This appendix sets out the significant adjustments processed in the financial statements finalisation. There were no unadjusted audit differences identified above our reporting threshold.

Adjusted differences			
No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	<i>Impact of consultation on addressing costs of McCloud judgement on the Council's LGPS liability valuation at 31 March 2020</i>	Cr Other (gains)/losses on pension assets & liabilities £(9,588,000)	Dr Pension Liability £9,588,000
2	<i>Impact of Goodwin judgement on the Council's LGPS liability valuation at 31 March 2020</i>	Dr Actuarial (gains)/losses on pension assets & liabilities £871,000	Cr Pension Liability £(871,000)
3	<i>Impact of updating PFI liabilities to reflect most recent indexation levels</i>	Cr Expenditure £(553,000)	Dr Financial Liabilities - PPP & DBFM Schools £553,000

# Appendix F: Timing and deliverables of the audit

We delivered our audit in accordance with the timeline set by the Council, in accordance with the annual audit 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, including the remaining areas of work with completion deadlines subsequent to this report.

JAN	Audit Activity	Deliverable	Timing
FEB	<ul style="list-style-type: none"> <li>Onsite fieldwork, documentation and walkthrough of key accounting processes</li> <li>Scoping of wider scope work for year</li> </ul>	Annual Audit Plan	28 March 2020
MAR	<ul style="list-style-type: none"> <li>Review progress of NFI exercise</li> </ul>	Submit NFI Questionnaire	28 February 2020
APR	<ul style="list-style-type: none"> <li>Review of current issues impacting the Council</li> <li>Review of reported frauds</li> </ul>	Quarterly current issue return submission	Quarterly
MAY		Quarterly fraud return submission	Quarterly
JUN	<ul style="list-style-type: none"> <li>Reassessment of audit planning and risks due to Covid-19</li> </ul>	Annual Audit Plan - addendum	22 June 2020
JUL	<ul style="list-style-type: none"> <li>Education Maintenance Allowance (EMA) grant claim testing</li> <li>Wider scope work underway</li> </ul>	Certified EMA return	31 July 2020
AUG		Liaison on Best Value Follow up Assessments	30 August 2020
SEP	<ul style="list-style-type: none"> <li>Submit Council dataset return to Audit Scotland</li> </ul>	Return for financial overview	18 May 2020
OCT	<ul style="list-style-type: none"> <li>Year-end substantive audit fieldwork on unaudited financial statements</li> <li>Conclude on results of audit procedures</li> <li>Issue opinion on the Council's financial statements</li> </ul>	Whole of Government Accounts assurance statement to NAO (as required)	TBD - due 30 September 2020
NOV		Certify Annual Financial Statements	29 September 2020
DEC		Issue Annual Audit Report	
	<ul style="list-style-type: none"> <li>Completion of Non-Domestic Rates return testing</li> </ul>	Certified Non-Domestic Rates return	TBD - due for submission 9 October 2020
	<ul style="list-style-type: none"> <li>Completion of Housing Benefits claim testing</li> </ul>	Certified Housing Benefit subsidy claim	TBD - Audit Scotland deadline 28 February 2021

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