



# West Lothian Council

**Annual Audit Report to Members  
and the Controller of Audit - year  
ended 31 March 2019**

27 September 2019



**EY**

Building a better  
working world

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## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of West Lothian Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. 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 Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# Key Conclusions from our 2018/19 audit

<p>Financial statements: Audit Opinion</p>	<p>We have concluded our audit of the Council's financial statements for the year ended 31 March 2019. We identified no unadjusted audit differences arising from the audit. Two audit adjustments were processed as part of the audit.</p> <p>We concluded the other information subject to audit, including the audited parts of the Remuneration Report and the Annual Governance Statement, were appropriate.</p>	<p>G R E E N</p>
<p>Presentation and disclosures</p>	<p>The draft financial statements and supporting working papers were of a very good quality. Management was receptive to suggested amendments to the draft financial statements to enhance presentation.</p> <p>We were satisfied that the Annual Governance Statement reflects the requirements of the Delivering Good Governance Framework.</p>	<p>G R E E N</p>
<p>Wider Scope: Financial Sustainability</p>	<p>The Council continues to demonstrate good practice in forward financial planning. 95% of savings required in the medium term financial plan to 2022/23 have been identified. Officers have identified savings and revenue raising options in excess of the remaining required savings for consideration by members. The Council has begun its early planning for its next medium term financial plan.</p> <p>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.</p>	<p>A M B E R</p>
<p>Financial Management</p>	<p>The Council demonstrates good financial control of the in-year budget. We were satisfied that financial reporting was clear and consistent throughout the year.</p> <p>The importance of good financial control is clearly understood across the Council. Our interactions with finance through the year identified no financial control deficiencies and a robust environment with a strong understanding of the Council's position.</p>	<p>G R E E N</p>
<p>Governance and Transparency</p>	<p>The key features of good governance at the Council are in place and operating effectively.</p> <p>We have concluded that the Council's preparations for EU withdrawal throughout 2018/19 and post yearend appear appropriate.</p>	<p>G R E E N</p>
<p>Value for money</p>	<p>The Council has a clear culture of improvement and a commitment to self-assessment of its performance to ensure that services remain focussed on improvement.</p> <p>Council services continue to perform well compared to other councils.</p>	<p>G R E E N</p>

# Introduction

## Our key contacts:

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## 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") for the five year period 2016/17 to 2020/21. 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 our 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. We have identified areas which are highlighted throughout this report, together with our judgements and conclusions regarding current arrangements. Where relevant, we have drawn on the findings of previous Best Value Assurance work and our observations and recommendations agreed with management in prior years, as well as our consideration of how good practice arrangements could develop going forward.

## 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 Audit Committee on 25 March 2019.

Our Annual Audit Plan set out an overview of our audit scope and approach for the audit of the 2018/19 financial statements. We can confirm that we carried out our audit in accordance with the plan. We set our reporting threshold to communicate the details of errors identified at £0.25 million.

Overall Materiality

Tolerable Error

Nominal amount

£14.3 million

£10.7 million

£0.25 million

2% of the Council's net expenditure

Materiality at an individual account level

Level that we will report to committee

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply a lower materiality level of £1,000 to the audited section of the Remuneration Report. We also apply professional judgement to consider the materiality of Related Party Transactions to both parties.

### 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 2019 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.

### 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 against each dimension are summarised in Section 3 of this report.

# Financial Statements audit

## Introduction

The annual financial statements provide the Council with an opportunity to demonstrate accountability for the resources at its disposal, and report on its overall performance in the application of those resources during the year. We are responsible for conducting an audit of the financial statements of the Council and provide an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the Council and its group as at 31 March 2019 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.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare annual accounts, ensure their availability for public inspection and consideration by the Council or a committee with an audit or governance remit. The Council's unaudited financial statements were considered by the Audit Committee on 24 June 2019, ahead of the deadline of 31 August. The inspection notice was published on 13 June, in accordance with Regulations.

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.

Our Annual Audit Plan was considered by the Audit Committee on 25 March 2019. The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- the risk of fraud in revenue and expenditure recognition (significant risk); and
- misstatements due to fraud and error (fraud risk).

The plan also outlined a number of areas of higher inherent risk within the 2018/19 financial statements:

- Valuation of Property, Plant and Equipment;
- Pension Liability and Asset Valuation;
- Accounting for Public Private Partnerships (PPP);
- the implementation of IFRS 9 and IFRS 15; and
- National Loans Fund Accounting.

## Preparation of the Financial Statements

The format of the unaudited financial statements remained materially consistent with the prior year, the main adjustments reflecting requirements for disclosures around changes in accounting policies driven by changes in the Code.

In our view the financial statements prepared were to a good standard and materially compliant with the Code and required disclosures. As part of the audit process, we worked with the finance team to make minor improvements to the presentation, including enhancing disclosures around Brexit preparedness and explanations around the impact of accounting changes on pensions disclosures.

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.

### Audit outcomes

We identified no unadjusted audit differences arising from the audit. Two adjustments were processed as part of the audit, both relating to updates to the LGPS 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 2019 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 2018/19 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 financial forecasts are considered as part of our work on financial sustainability.</p>	<p>We have no matters to report.</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. Our conclusion draws upon:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Early work and engagement with the Council's finance team on the revised format of the financial statements and report.</li> </ul>	<p>We are satisfied that the annual report materially meets the 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 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 Delivering Good Governance Code.</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>In line with previous years, we include a statement noting that the Council has failed to achieve its statutory responsibilities to ensure that its significant trading operations achieves a break even position over a three year rolling period. We have no other matters to report.</p>



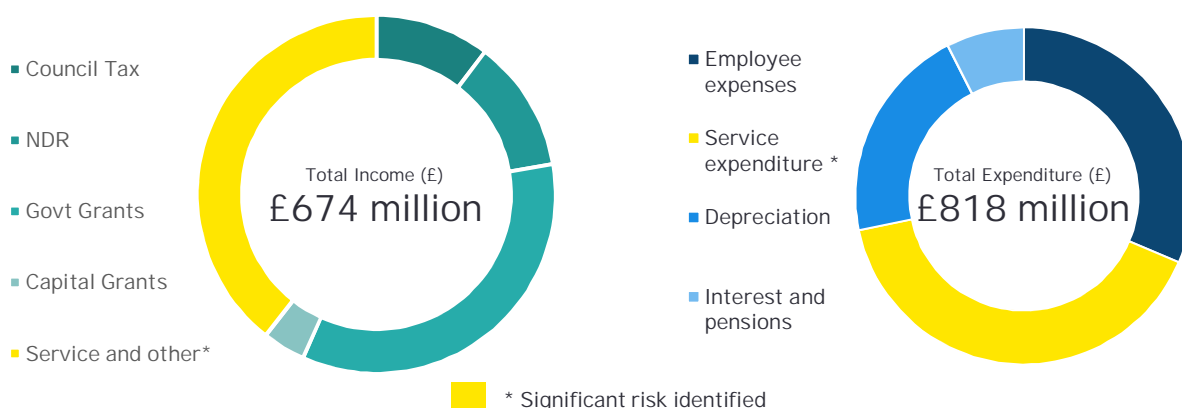
# Significant and fraud audit risks

## 1. 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

Our testing has not identified any material misstatements relating to revenue and expenditure recognition.

### Specific procedures relating to significant risks

We undertake specific, additional procedures over income and expenditure streams where we identified a significant risk, including:

- 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 testing revenue cut-off around the year end through reviewing manual journals and credit notes raised after year end.
- Performing a search for material payments and receipts received after year end and ensured these had been accounted for in the correct period.

## 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 the page 14. 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 actuaries.

## 2. Risk of Misstatement due to Fraud or Error

Our Annual Audit Plan recognises 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.

### Our audit procedures

### Our findings

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We considered the risk of fraud, inquired 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.

We have not identified any material weaknesses in controls or evidence of management override.

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 have outlined these procedures in more detail on the following page.

We identified a number of manual journals requiring further consideration using criteria we established based on our understanding of the Council. All journals that we tested were assessed as appropriate and verified to supporting documentation.

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.

We reviewed each estimate and concluded there was no evidence of material bias.

We are also content that the disclosures that management have made in the relevant section of the financial statements are appropriate.

Evaluate the business rationale for any significant unusual transactions.

No unusual transactions were identified outside the normal course of business.

Review of 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.

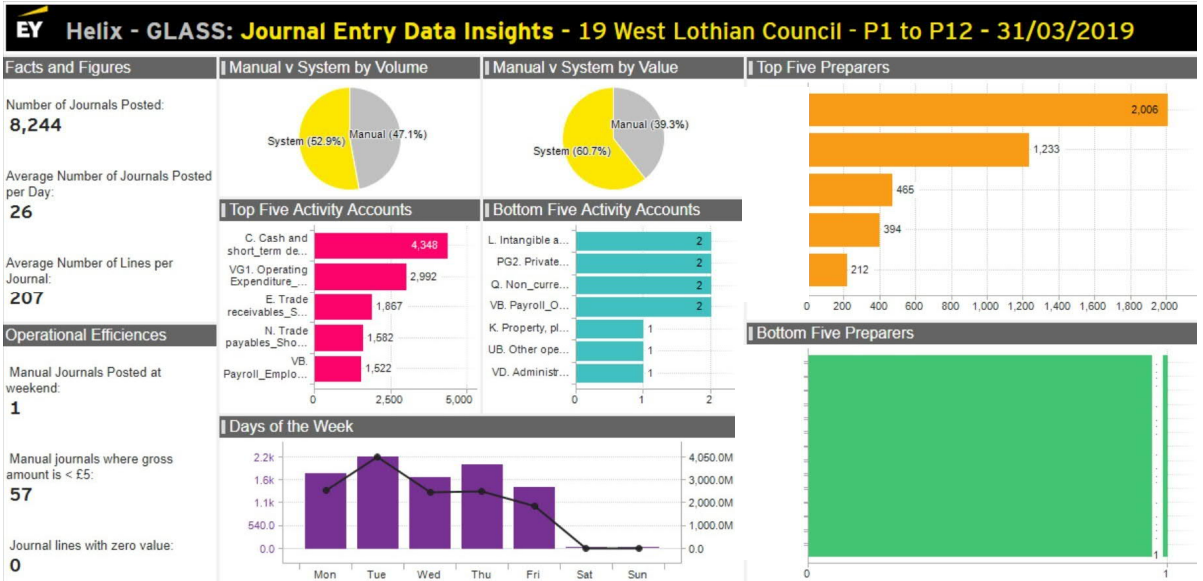
No issues were noted through testing performed.

We consider the consistency and application of accounting policies, and the overall presentation of financial information.

There are no accounting practices that materially depart from what is acceptable under the Code.

Our consideration of financial journals posted through the year

As outlined on the previous page, we recognise one way for management to manipulate the Council's financial position is through posting manual journals to bypass internal financial controls. As part of our audit procedures we obtained a full download of all journals posted to the Council's financial ledger in the year, and completed procedures to ensure their completeness in advance of our testing.



This extract shows a full summary of all journals posted in the year, and some of the key fields through which we search and analyse journals. In particular the analysis demonstrates that while journals are mostly system generated by volume, the larger individual journals tend to be manually entered by finance staff. This is in line with our expectations as many larger value journals will be posted manually as part of the yearend process:

- yearend adjustments to the Council's LGPS liability; and
- yearend valuation adjustments to fixed assets, PFI liabilities and other estimates and judgements.

We use our bespoke data analysers to scrutinise 100% of the journals posted in the year. As demonstrated above, we are able to filter the journal posting to focus on those deemed the highest risk:

- journals posted by senior management;
- journals posted at unusual times;
- journals posted around the yearend; and
- journals posted to key accounts.

We use this risk based approach to identify journals that require additional testing through discussions with management and corroboration to supporting evidence from third parties.

# Other Inherent Risk Areas

Our Annual Audit Plan highlighted three additional areas of inherent risk. We identified no further areas of risk as part of our audit procedures. The results of our procedures on inherent risk areas are summarised below.

## Our audit procedures

## Our findings

### Valuation of Property Plant and Equipment

The Council's PPE portfolio totals over £1.6bn of assets. Our work focused on judgements in relation to the revaluation of the Council's property plant and equipment in the year, as well as our wider consideration of possible triggers for revaluation outside of the five year valuation cycle.

- We reviewed the annual cycle of valuations to ensure that assets have been valued in accordance with the requirements of the Code, and whether any specific changes to asset use have been communicated.
- 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 assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated.
- Considered changes to useful economic lives as a result of the most recent valuation.
- Tested that accounting entries have been correctly processed in the financial statements.

We have not identified any material weaknesses in the valuation process or judgements used by the valuer. No audit adjustments were identified through the course of our work.

### Valuation of PFI liability

The Council holds PFI liabilities and assets amounting to £150 million. The Council has entered into a DBFM with Scottish Future's Trust in 2018/19 in respect of West Calder High School.

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.

For the new contract in place we engaged our own internal valuation expert to assess whether the accounting entries made were in line with the contract and followed best practice accounting standards in line with the requirements of the Code.

We agreed the PFI liability calculations to supporting contracts.

Our expert valuation team agreed with the approach adopted by the Council.

## Our audit procedures

### Valuation of Pension Liabilities

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £280 million (£202 million at 31 March 2018).

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 have focused on the following areas, which are consistent with those of management:

- The reasonableness of the underlying assumptions used by the Council's actuary, including those associated with recent judgements on McCloud and Guaranteed Minimum Pensions (GMP).
- Ensuring the information supplied to the actuary in relation to the Council was complete and accurate.
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

We have liaised with the appointed auditor of the Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council.

We have assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. The assumptions used by the actuary have been reviewed by both PWC 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 rulings made around the McCloud judgement and various rulings around guaranteed minimum pensions (GMP).

## Our findings

We ensured all parties were sighted to the impact of GMP and McCloud and the potential for changes to the valuation throughout the audit. On confirmation of the McCloud judgement, management obtained a revised IAS19 report and processed an adjustment of £19 million to increase the net liability reported in the financial statements, being £15.5 million for McCloud and £3.5 million for GMP.

In calculating the scheme assets as at 31 March 2019 the actuary performs a roll forward technique using investment returns and cash flow data since the last triennial valuation. In line with the approach agreed with the Council as part of the audit planning process, management requested an updated IAS 19 report in advance of publishing the unaudited financial statements to reflect the actual asset values at yearend.

Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.

## Our audit procedures

## Our findings

### Implementation of IFRS 9 and 15

The 2018/19 Accounting Code of Practice required the implementation of changes to the 2018/19 Accounting Code which affects the Council's financial statements, the most material being the accounting standards IFRS 9 (financial instruments) and IFRS 15 (revenue from contracts).

We agreed with management as part of our audit planning process that it would provide an impact assessment in relation to the implementation of IFRS 9 and 15 to identify the key changes required to the financial statements.

We considered management's impact assessment against our own understanding of the impact of IFRS 9 and 15, as well as guidance issued by Audit Scotland and CIPFA.

We reviewed the financial statements to ensure the impact of the new accounting standards was appropriately disclosed and accounting notes were updated accordingly.

We reviewed and challenged the approach taken by management in relation to key judgements, such as expected credit loss allowances and concurred with their conclusion.

We identified some minor enhancements to disclosures through review of the management completed CIPFA disclosure checklist that we highlighted to management for updating in the final version of the financial statements.

### National loans fund accounting

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

Guidance provided in 2018/19 by Audit Scotland set out the accounting practices for administering a loans fund and:

- Provided options for the repayment of loans fund advances made from 1 April 2016 under the new prudent approach.
- Reflected the current legislative position that all pre-2016 advances to continue to be repaid as if the 1975 Act had not been repealed (the statutory method).

This guidance was subsequently updated to reflect the legal guidance which clarifies that pre-2016 advances may be repaid under the same revised prudent approach as advances made from 1 April 2016.

Management has been sighted to the ongoing developments around loans fund accounting from the start of the financial year. We have discussed the updated legislation and subsequent guidance throughout the audit process.

Management has noted it will consider possible re-profiling in 2019/20. A paper outlining proposed changes was presented to Partnership and Resources Policy Development and Scrutiny Panel on 12 September 2019, and was considered by the Council at its meeting on 24 September 2019.

We have confirmed that no amendments have been made in 2018/19 to repayments for pre 2016 advances.

While adjustments to repayments for pre-2016 advances has now been confirmed, any reprofiling will still need to meet the established requirements of the prudential code for local government, and classify as a prudent repayment of borrowing.

**Recommendation 2:**  
Any proposals must comply with the Prudential Code and other statutory guidance

# Looking ahead

Recommendation 2:  
The Council must perform an impact assessment on the application of IFRS 16 during 2019/20, together with other changes to the Code.

## IFRS 16 – Leases and Other changes

IFRS 16 replaces IAS 17 Leases and its related interpretations. It will now apply to the 2020/21 financial statements. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the Council.

The Council's readiness for the implementation of IFRS 16, including a detailed analysis on the completeness of leases, will be a key consideration as part of the 2019/20 financial statements audit. The Council will be required to include disclosures in the financial statements next year detailing the potential impact of the application of the new standard.

From initial discussions with management we are aware the Council is sighted as to the possible impact of implementing IFRS 16, and the requirement to complete an impact assessment, including a detailed analysis on the completeness of leases recorded by the Council. This should be completed through 2019/20 financial year and we will consider this as part of the financial statements audit process.

## CIPFA/LAASAC Code for 2019/20

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

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

We do not currently consider that the above would result in a material impact to the Council. However, it is important that the Council ensures that it performs its own assessment of the impact in advance of preparation of the 2019/20 financial statements.





# Wider Scope Dimensions

## Introduction

Under Audit Scotland's Code of Audit Practice (May 2016), we are required to reach conclusions in relation to the effectiveness and appropriateness of the Council's arrangements for each of the four wider scope audit dimensions.

We apply our professional judgement to risk assess and focus our work on each of the dimensions. 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. As the appointed auditor, we are now the LAN Lead. The LAN has determined, in agreement with the Council, that no separate scrutiny plan has been necessary since the 2018/19 plan published in April 2018.

We also consider national reports and guidance from regulators and Audit Scotland. 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 the adequacy of financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Governance and Transparency:

- considers the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

### Value for Money

- considers whether best value can be demonstrated in the use of resources, including 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. 95% of savings required in the medium term financial plan to 2022/23 have been identified. Officers have identified savings and revenue raising options in excess of the remaining required savings for consideration by members. The Council has begun its early planning for its next medium term financial plan.

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.

## Planning to achieve financial sustainability

The Council's current Corporate Plan runs from 2018/19 through to 2022/23. It sets out the priorities for the Council and how it intends to deliver on these priorities. The Corporate Plan outlines how it is supported across the Council, including;

- Financial planning, in particular through the medium term financial plan (MTFP) which runs through the same period;
- Corporate strategies to support delivery of the plan;
- Annual management plans which each service should work to annually and;
- Key partner planning arrangements, such as for the West Lothian IJB.

## Exhibit 1: The Council's key priorities as outlined in its corporate plan

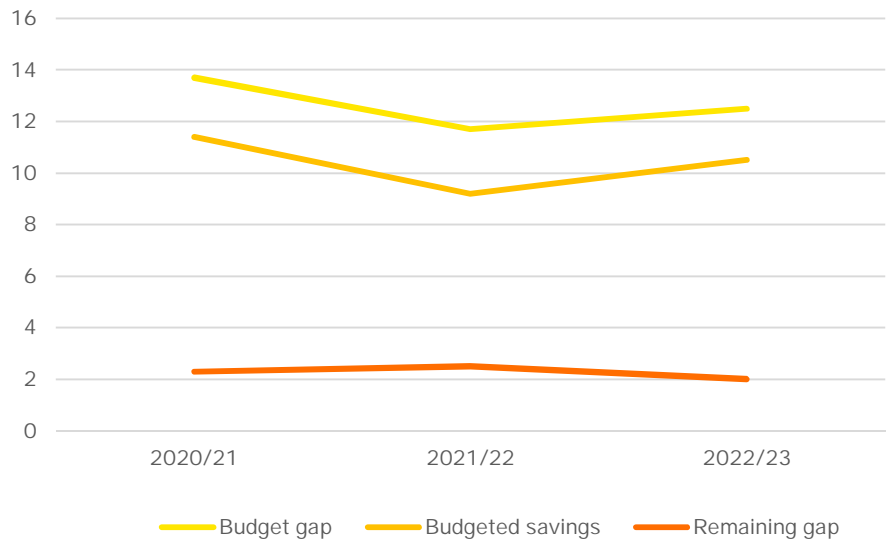


Source: West Lothian Council Corporate Plan 2018 - 2023

## Medium Term Financial Plan

The Council approved an update to its medium term financial plan in February 2019. The MTFP was developed in conjunction with the Council's Corporate plan and the underlying Service Plans, to ensure financial delivery of the plan was aligned to delivery of the required strategic and operational objectives. All savings approved as part of the plan were subject to review, including consideration of the non-financial impact of targeted savings. This continues to be the case for new savings options identified, which will be reported to the relevant Policy Development and Scrutiny Panels for consideration.

Exhibit 2: The Council's current budget planning assumptions reported to PDSP in September 2019 highlighted a cumulative budget gap of £37.8 million by 2022/23, which reduced to £6.7million after identified savings



Source: West Lothian Council Medium Term Financial Plan, February 2019

The update outlined an initial funding gap of £37.8 million from 2020/21 through to 2022/23, of which £31.1 million has been identified, leaving a balance of £6.7 million. The Council has identified potential additional saving measures of approximately £7 million, including operational efficiency savings. In addition, the Council has identified council tax scenarios and potential one off resources for savings that could be utilised. The utilisation of these options will be considered in advance of the finalisation of the budget process for 2020/21.

## Savings in 2019/20 and beyond

As outlined on the previous page, the Council has already identified the vast majority of the savings required through the course of the remainder of this MTFP period to 31 March 2023. Identified savings from 2019/20 through to 2022/23 are now being monitored for delivery and risk management through the Council's Executive team and Financial Management Unit (FMU). The savings have been split across service lines depending on the Council's priorities and each service's ability to achieve savings based on planning discussions with finance.

Work is continuing to identify potential options to balance the remaining gap to 2022/23, with scrutiny panels to consider potential additional savings measures during the remainder of 2019. Although there is currently a considerable amount of uncertainty around the economy, and public sector funding more specifically, initial work has been undertaken by officers regarding the revenue financial planning period beyond the current approved plan. Initial consideration regarding the financial context, challenges and opportunities facing services will be used to inform the Council's approach to the period beyond 2022/23, allowing work on the next MTFP to commence in advance of the next Council administration. As this planning process continues to develop through the current MTFP period, we anticipate further engagement with stakeholders on priorities and challenges, including ongoing engagement with Council members.

The Council is well prepared to deliver its current MTFP as well as beginning the process for longer term financial planning to 2028.

## Ongoing governance of savings plans

Savings are agreed at a detailed service level and support provided through the Council's finance team. Each service has a dedicated support in FMU 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 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 is 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. At the most recent assessment the Council rated all of its £46.1 million savings required through to 2022/23 as either green (£18.1 million) or amber (£28 million). 2019/20 savings rated £14.5 million green and £0.4 million amber, demonstrating again that the Council is currently on course to deliver these saving requirements.

## Future risk and uncertainties around the MTFP

While we have concluded that the Council's arrangements around medium and longer term financial planning remain robust, part of the effectiveness of the Council's controls include the identification and recognition of a significant level of risk in future delivery. There are a number of areas where the management recognises 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. In particular the Council notes the following:

- As with most longer term financial plans there are a number of assumptions in the future income and expenditure forecasts, in particular;
  - inflation assumptions;
  - salary award assumptions; and
  - demographic drivers of income and expenditure.
- In addition there are a number of risks both specific to local government financial planning in 2019 and beyond, and which currently hold significant uncertainty given the current economic and political underlying factors:
  - There is significant uncertainty around the potential impact in both nature and quantum of the UK's planned withdrawal from the EU on 31 October 2019. This could have a significant impact on the Council's resources, change priorities as it seeks to support local communities and businesses, as well as a wider financial impact on a number of income streams.
  - Future government funding continues to be a significant source of uncertainty that impacts a large part of the Council's income. It now appears less likely the Council will receive any future certainty in the form of a multi-year settlement for 2020 and beyond, and management will continue to need to estimate the level of funding.
  - Generally, given the level of savings delivered to date by the Council (£121 million since 2007/08), and planned in the remaining years of the current MTFP (£31 million over three years), the risk of non-delivery impacting future savings requirements and delivery continues to be significant, as the impact of not delivering planned savings in any specific year has a knock on impact on the quantum and preparedness of delivery of future savings requirements.

The Council is well prepared to deliver its current MTFP as well as beginning the process for longer term financial planning out to 2028.

While the Council continues to make good progress in longer term financial planning, significant risks and uncertainties, largely outside its control, continue to impact the overall risk profile for financial sustainability.

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.

# Financial Management

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The Council demonstrates good financial control of the in-year budget. We were satisfied that financial reporting was clear and consistent throughout the year.

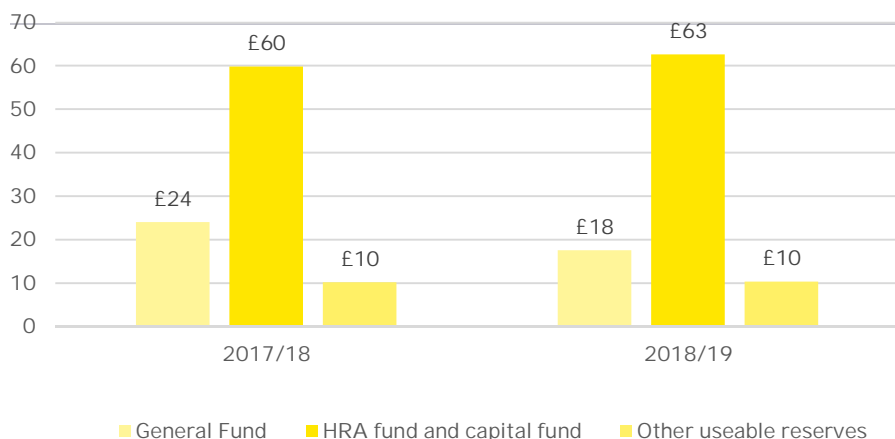
The importance of good financial control is clearly understood across the Council. Our interactions with finance through the year identified no financial control deficiencies and a robust environment with a strong understanding of the Council's position.

## Financial Outturn

The Council spent £483.2 million on the provision of services in 2018/19 against an approved budget of £484.3 million. The Comprehensive Income and Expenditure Statement records a deficit for the year of £163.6 million, principally as a result of the impact of accounting transactions relating to the Council's property plant and equipment, and movements in the pension liability.

The key measure of the Council's financial performance in the year is the movement in the general fund balance. Following the application of accounting adjustments, the net impact on the general fund was a decrease of £6.2 million to £17.6 million (2017/18: £23.9 million). Total useable reserves reduced by £3.3 million to £90.6 million (2017/18: £93.9 million). The reductions reflect planned expenditure by the Council through its modernisation fund, time limited projects and funding for West Lothian Leisure. The uncommitted reserves balance has been retained at £2 million at the yearend in line with the Council's existing policy.

Exhibit 3: The Council's cash backed reserves reduced by £3.2 million in 2018/19



Source: West Lothian Council 2018/19 Financial Statements

## Delivery of Savings

As part of the 2018/19 outturn the Council delivered savings of £12.3 million, in line with the target set in its approved 2018/19 budget. These were approved by the Council through its MTFP and monitored in the year by the Council Executive and Financial Management Unit ("FMU"). The most material areas of savings achieved related to:

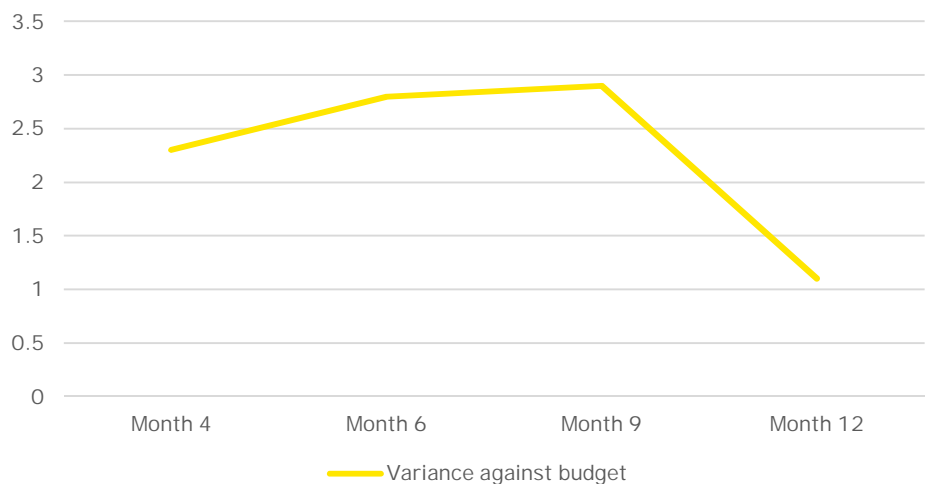
- £1 million savings through corporate services efficiency saving programme;
- £2.5 million savings in social policy services delegated to IJB - mainly due to changes in eligibility criteria; and
- £3.7 million savings identified in education services.

## Financial Monitoring during 2018/19

The Council's Executive receives quarterly updates on financial projections for the financial year. During the year there were a number of projected variances against budget across services lines, however overall variances did not exceed 1% of total budgeted expenditure. At the yearend variances totalled £1.1 million (0.2% of expenditure).

Exhibit 4: There was a significant improvement in the level of projected overspend for services as a result of recovery actions

The Council's budget monitoring reports through the year demonstrated effective monitoring of all expenditure and management of variances against budgets.



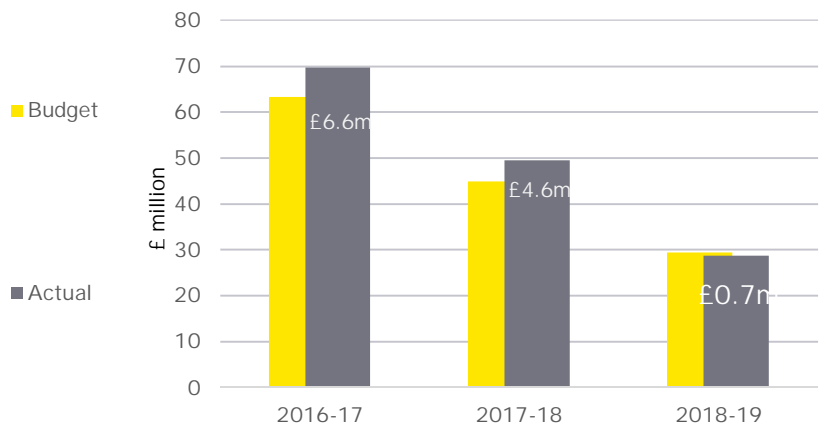
Source: West Lothian Council 2018/19 Financial Monitoring Reports

## Capital Programme

The Council spent £28.7 million on General Fund capital expenditure in 2018/19, against a budget of £29.4 million. As outlined below, this represents a materially reduced variance from previous years. The Council also spent £40.4 million on the housing capital programme against a £42 million budget.

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.

Exhibit 5: The Council has continued to make progress in delivering its General Fund Capital Plan in 2018/19



Source: West Lothian Council Financial Statements 2018/19

## Reserves Strategy

The Council has set a target level for uncommitted general reserves of £2 million. This is set to address the risk surrounding uncertainty of future events that could impact the Council's financial position and its ability to delivery its medium term financial plan. The Council's reserves fell in 2018/19 due to planned use for transformation and other programmes, as outlined on page 22 of this report, however the Council has maintained uncommitted reserves in line with its target level.

In our view the Council's arrangements and targets in respect of its reserves are appropriate considering its wider financial position.

While there is no specific level required for uncommitted reserves, this should be sufficient to reasonably mitigate the risks around delivery of the Council's MTFP. It is our observation that the Council's target reserves level is towards the lower end of target reserves across local authorities in Scotland. However, the Council has also identified a greater percentage of required savings than many local authorities, as well as options for the required remaining savings. The Council also has a track record of delivering savings and addresses budget gaps in year to minimise overspends.



## Financial 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 updated most recently in June 2018 to reflect decisions taken by the Council Executive.

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. We have 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 management and team capacity

The Council's section 95 officer is the Head of Finance and Property Services. We considered the role and status of the section 95 officer and 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.

From our discussions with senior management, attendance at meetings, and review of papers and minutes, in our view there is evidence that the Council currently has sufficient financial skills, capacity and capability.

In 2018/19 the Council implemented a Financial Management Unit restructure, reducing the FTE numbers in finance from 42.6 FTE to 35.4 FTE by 31 March 2019. This was a planned restructure in line with the Council's MTFP and was approved by the Council and Executive following scrutiny over finance's ability to manage its responsibilities.

The Council's overall financial control environment remains robust and is operating effectively.

Our experience through the 2018/19 audit has not indicated any reduction in the capacity or capability of the finance team following the restructure. While the preservation of front-line services is understandably of prime concern to members and officers, maintenance of strong financial control to support service transformation necessitates the retention of suitable financial and other corporate support services. Maintaining this balance will continue to be a challenge for all local authorities in the current environment, but the importance of doing so should not be understated.

# Governance and Transparency

The key features of good governance at the Council are in place and operating effectively.

We have concluded that the Council's preparations for EU withdrawal throughout 2018/19 and post yearend appear appropriate.

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## Audit Committee

The Audit Committee continues to operate effectively from our observations and interactions in 2018/19. We observed effective scrutiny of management through our attendance at committee and review of minutes. The committee is sufficiently knowledgeable of key issues and trained, as appropriate. In our view the committee receives the correct information through its papers, and while this continues to be a large volume of information the Council attempts to keep information relating to lower risk areas as concise as possible to allow a more risk based focus from members.

We have sufficient access to the committee as required, and in 2018/19 received formal correspondence from the chair, in line with our required audit procedures, confirming a number of the key arrangements to secure robust governance. We have discussed with management a number of areas which will further support the committee in its delivery of effective governance and scrutiny and intend to take this forward through 2019/20 as agreed with the committee and management:

There are a number of areas of ongoing development of good governance where we will continue to support management and the Audit Committee.

- As the Governance and Risk Committee continues to consider risk management, we would be pleased to support this through sharing our experience and understanding of what good practice risk management looks like elsewhere.
- Following Audit Scotland's fraud report published in June 2019, as the committee considers the findings and learnings from this, we would be pleased to support this through our dedicated forensic team attending a future meeting and sharing insights.

## Risk management

The Council has continued to progress its approach to risk management through 2018/19. Risk management is overseen by the Audit, Risk and Counter Fraud team. The Council has approved a new corporate risk management strategy, which is subject to scrutiny by the Governance and Risk Committee. The 2019/20 internal audit plan presented to the Audit Committee included information setting out the priority of audit reviews included in the plan against the area of risk they were designed to consider and address.

Current high risks include:

- failure to achieve the Council's financial plan;
- insufficient funding to deliver services and outcomes; and
- uncertainties surrounding Brexit.

## EU withdrawal

As in 2017/18, Audit Scotland has maintained an interest in public bodies' preparedness for EU withdrawal. We assessed the Council's arrangements against three key factors, relating to the workforce, funding and regulations.

The Council has monitored potential scenarios for 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. Higher risk areas identified include supply chain disruptions and the impact on recruitment, in particular around social care staff. 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. An internal audit of the Council's approach to preparing for Brexit during the year concluded that the level of control was effective.

As the revised 31 October 2019 deadline approaches, it is expected that increasing focus is given to implementing plans to help mitigate identified risks. The Council also continues to liaise with the Scottish Resilience Partnership and community planning partners, such as NHS Lothian.

While risks remain for all public sector bodies, we are satisfied that the Council's arrangements to prepare for EU withdrawal at both the original 29 March date and in advance of 31 October are appropriate and informed by wider sector involvement.

## Openness and transparency

One of the risk areas that we identified as part of our planning process was the increasing focus on how public money is used and what is achieved. Guidance from Audit Scotland has underlined the expectation that councils should be open and transparent to support public understanding and scrutiny.

The Council has clear arrangements to ensure that members of the public can attend council and committee meetings as observers, and that agendas were available in advance of each meeting. Minutes of meetings, including key decisions, are publicly available as well after the meetings. In our experience the level of papers considered in private sessions is low in volume and appropriate to the individual circumstances.

## Implementation of recommendations from audit

In line with previous years, the Council records and monitors the status and implementation of all recommendations from internal and external audit through the Pentana system. Progress is reported on a routine basis to the Council Executive and the Council's Audit Committee.

We followed up the implementation of outstanding recommendations from 2017/18 and those made in 2018/19, and have noted ongoing good progress in clearing recommendations in a timely manner, and mostly in line with agreed deadlines.

## National Fraud Initiative (NFI)

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.

We submitted an assessment of the Council's participation in the exercise to Audit Scotland in June 2019. We concluded that the Council has actively participated in the NFI exercise and that it is well embedded within the Council's proactive counter fraud workstream.

## Following the Public Pound

In May 2018, Audit Scotland published its national performance report on Arm's Length External Organisations (ALEOs) across Scottish Local Government. The report found that ALEOs can bring both financial and operational benefits and that councils have generally improved and strengthened their oversight of ALEOs.

The report made a number of recommendations for councils, including the need to set clear criteria for how councillors and officers are involved with ALEOs, and take steps to demonstrate more clearly how ALEOs secure Best Value.

West Lothian Leisure Ltd (WLL) is a company limited by guarantee, but is consolidated into the Council's financial statements on the basis of the Council exerting significant influence and control over the company. The Council provides funding to WLL through an annual management fee, which is subject to approval by the Council Executive on an annual basis. The Council scrutinises WLL's functions through attendance at its Board meetings by two non-voting members, including the section 95 officer when there are key discussions around WLL's financial position and planning, and routine review of the financial position and plans by the WLL Review Group and the WLL Advisory Committee.

On 20 August 2019 the Council Executive approved a restructuring of the upcoming management fee to support costs associated with a planned WLL restructuring to address financial risks. The Council's internal auditor reviewed the financial plan and its delivery in 2019 and concluded the controls surrounding financial planning and monitoring were effective. In 2018/19 WLL accrued a payment to its outgoing Chief Executive of £85,000, approved by the WLL Board in line with its remit. This is included in the Council's financial statements along with the Chief Executive's total remuneration for the year in line with the requirements of the CIPFA Code.

# Value for Money

The Council has a clear culture of improvement and a commitment to self-assessment of its performance to ensure that services remain focussed on improvement.

Council services continue to perform well compared to other councils.

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## Performance Management Framework

In the previous year, 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. At the most recent performance update, of 64 indicators in total, 39 were green and 7 amber, with 5 unknown as performance is measured more intermittently. For the red rated performance indicators, additional information is provided in relation to the nature of the performance and the corrective action being planned by management to address performance. We note most of the red rated PI's relate to the following areas:

- Sickness absence;
- Addressing customer service inquiries; and
- Addressing complaints

In all cases we could see evidence of 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's arrangements for performance management continue to appear robust against the requirements of its Corporate Plan.

## Statutory Performance Indicators

The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2015 Direction, which applies until 31st March 2019, reinforced the Accounts Commission's focus on public performance reporting (PPR) and prescribed two Statutory Performance Indicators (SPIs):

SPI 1: Each council will report a range of information setting out:

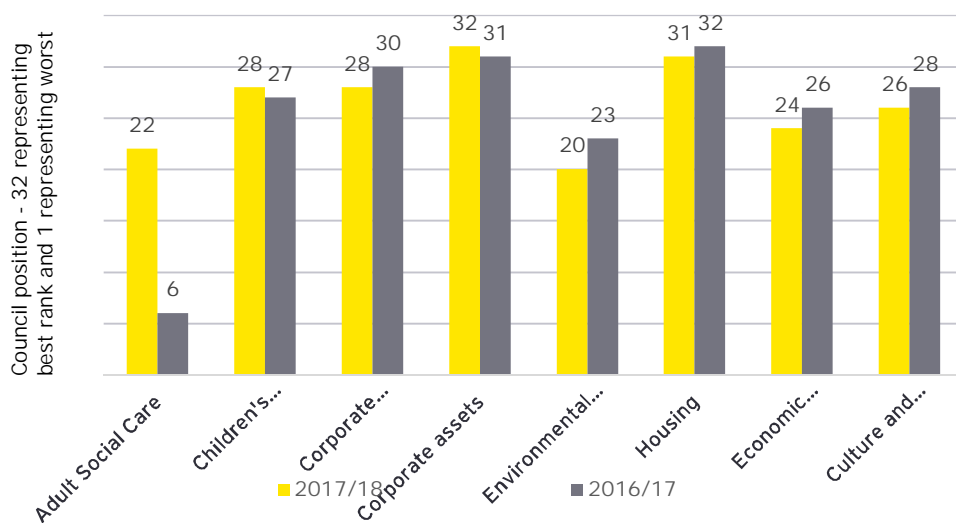
- Its performance in improving local public services (including with partners);
- Its performance in improving local outcomes (including with partners);
- Its performance in engaging with communities and service users; and responding to their views and concerns Best Value
- Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources.

SPI 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework (LGBF).

The Council PDSP considered its performance against the LGBF for 2017/18 in June 2019, has published information in relation to the LGPF on its website and referred to it in the financial statements. The Council continues to perform well against peers for a number of core services.

The Council continues to perform very strongly against its SPI's and when benchmarked against other local government bodies.

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



Source: West Lothian Council Analysis of LGBF results 2017/18

The Council also prepares an annual performance report which is published on its website. In addition to information on benchmarking performance this includes a full report on the Council's performance against SPI's, complaints, and a wider range of management themes, such as child protection and community care.

## Looking ahead

### Local development plan 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”. The LDP vision expressed is informed by that of the Strategic Development Plan (SDP1) and it sets the land use related aspirations for the plan area to 2024 and beyond.

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.

Following revisions to the funding and financing arrangements in 2018, activity is continuing to increase through to 2024 and will be of ongoing interest to wider stakeholders and funders. As outlined in our previous Annual Audit Report, given the significance of this investment and development plan to the Council, this will remain an area of audit focus to ensure that the Council is securing the funding required to underpin its investment plans.

### 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.

As 2019/20 will be the first year of the revised direction, we will work with the Council to evaluate the effectiveness and appropriateness of the arrangements in place to fulfil the requirements. Our 2019/20 Annual Audit Report will include a conclusion on the effectiveness and appropriateness of the arrangements for complying with the direction, along with any recommendations for improvement.





# 4 Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit Committee

D – Action plan

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

### Corporate Governance

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

### Financial Statements and related reports

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

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- maintaining proper accounting records.
- preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

### Standards of conduct / prevention and detection of fraud and error

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

### Standards of conduct / prevention and detection of fraud and error

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

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

### Best Value

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

# Appendix B: Independence 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 Council.

## 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 2018 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 25 March 2019.

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 Council consider the facts known collectively to you and come to a view.

## Audit Fees

	2018/19	2017/18
Component of fee:		
Total agreed auditor remuneration	£189,170	£184,860
Audit fee in respect of S106 Trust Funds	£4,120	£4,000
Audit Scotland fixed charges:		
Pooled costs	£18,340	£16,430
Performance audit and best value	£100,990	£101,690
Audit support costs	£11,880	£11,740
Total fee	£324,500	£318,720

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 2018 UK Transparency Report, can be accessed on our website at [https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/\\$File/ey-uk-2018-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/$File/ey-uk-2018-transparency-report.pdf). The report explains 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 Council since appointment can be found at: [www.audit-scotland.gov.uk/uploads/docs/report/2018/as\\_audit\\_quality\\_1718.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf).

# Appendix C: Required Communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> <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 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 Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</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>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>
<p>Subsequent events</p> <p>Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>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>

# Appendix D: Action Plan

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded 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.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	<p>Loans fund accounting</p> <p>While the approach to adjustments to repayments for pre-2016 advances has now been agreed across the sector, any proposals for changes for the Council to adjustment pre-2016 advances are required to comply with the Prudential Code and other statutory guidance.</p>	<p>Management has shared a paper outlining its approach for audit in advance of processing any changes in 2019/20.</p> <p style="text-align: right;">Grade 3</p>	<p>Any proposals will take account of the relevant legislation and will be designed to comply with the legislation.</p> <p>Responsible Officer : Donald Forrest</p> <p>Implementation date: 30 September 2019</p>
2	<p>IFRS 16 implementation</p> <p>IFRS 16 will become effective for councils in 2020/21. An impact assessment, including an analysis of the leases held and recorded by the Council, is required in 2019/20 to ensure readiness for this change in accounting.</p>	<p>The Council must perform an impact assessment on the application of IFRS 16 during 2019/20, together with other changes to the Code.</p> <p style="text-align: right;">Grade 3</p>	<p>A review of the impact of IFR16 will be undertaken including identification of leases held.</p> <p>Responsible Officer : Donald Forrest</p> <p>Implementation date: 31 March 2020</p>

# Appendix E: Adjusted errors identified during the audit

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

Adjusted differences			
No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	Impact of McCloud judgement on the Council's LGPS liability valuation at 31 March 2019	Dr Actuarial (gains)/losses on pension assets & liabilities £15,500,000	Cr Pension Liability £15,500,000
2	Impact of GMP rulings on the Council's LGPS liability valuation at 31 March 2019	Dr Actuarial (gains)/losses on pension assets & liabilities £3,500,000	Cr Pension Liability £3,500,000



# Appendix F: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the Council, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2018/19 audit cycle.

	Audit Activity	Deliverable	Timing
JAN			
FEB			
MAR	➤ Onsite fieldwork, documentation and walkthrough of key accounting processes	Annual Audit Plan	25 March 2019
APR	➤ Review of frauds reported to the Audit Committee.	Fraud Return Submission	Submitted - in line with frauds reported to Audit Committee
MAY			
JUN	➤ Education Maintenance Allowance (EMA) grant claim testing	Certified EMA return	Issued 11 July 2019 - no matters to report
JUL	➤ Year-end substantive audit fieldwork on unaudited financial statements	Whole of Government Accounts assurance statement to NAO	27 September 2019
AUG	➤ Conclude on results of audit procedures ➤ Issue opinion on the Council's financial statements	Certify Annual Financial Statements Issue Annual Audit Report	27 September 2019
SEP			
OCT	➤ Completion of Non-Domestic Rates return testing	Certified Non-Domestic Rates return	27 September 2019
NOV	➤ Completion of Housing Benefits claim testing	Certified Housing Benefit subsidy claim	On track for 30 November 2019
DEC			

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