

# West Lothian Council

**Annual Audit Report to Members  
and the Controller of Audit - year  
ended 31 March 2021**

28 September 2021



# Contents

Section	Auditor Responsibility	Page
Executive Summary	Summarise the key conclusions from our audit	03
Financial statements audit	Provide an opinion on audited bodies' financial statements Review and report on, as appropriate, other information such as the annual Governance Statement, management commentary and remuneration report	09
Wider scope dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited body's: <ul style="list-style-type: none"><li>• financial position and arrangements for securing financial sustainability</li><li>• suitability and effectiveness of corporate governance arrangements</li><li>• effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets</li></ul> Provide an update on the our work in respect of assessing the Council's arrangements to secure Best Value across our audit appointment period	25
Appendices	Undertake statutory duties, and comply with professional engagement and ethical standards:  Appendix A: audited body's responsibilities  Appendix B: independence and audit quality  Appendix C: required auditor communications  Appendix D: action plan  Appendix E: summary of adjusted differences identified during the audit  Appendix F: Timing and deliverables of the audit	44

## 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. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 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 2020/21

---

We have issued an unqualified audit opinion on the Council and Group 2020/21 financial statements and for the Charitable Trusts 2020/21 financial statements.

---

We continued to review and update our risk assessment throughout the audit, including the materiality level applied. No changes were required as a result of this review.

## Financial Statements

We have concluded our audit of the Council's financial statements for the year ended 31 March 2021. Six adjustments were made to the financial statements since the presentation of the unaudited accounts in June 2021; 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 high quality, in line with previous years. We worked with management to make a number of enhancements to the Management Commentary, Annual Governance Statement and notes to the financial statements, in particular to ensure the financial statements reflected recent good practice guidance from Audit Scotland around the disclosures of key estimates and judgements.

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 Trusts' financial statements for the year ended 31 March 2021. The draft financial statements and supporting working papers were provided on time and were of a high quality, in line with previous years. There are no matters to report in respect of these financial statements.

## Going Concern

In accordance with the CIPFA Code of Practice on Local Government Accounting, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

Under a revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. 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 no matters to report in respect of our work around going concern or the conclusions reached by the Council.

## 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.

We note that the Council has a number of key characteristics of Best Value in place, including effective performance monitoring and robust governance arrangements.

<p><b>Financial Sustainability</b></p> <p>The Council continues to demonstrate good practice in financial planning. Initial Officer planning has commenced around the Council's next medium term financial plan.</p> <p>Our assessment of amber reflects the ongoing challenge facing all local authorities and the significant level of risk and uncertainty outside the Council's control which could impact its ability to deliver savings, all of which has been exacerbated by the ongoing impact of Covid-19.</p>	<p><b>Governance and Transparency</b></p> <p>The key features of good governance remain in place at the Council. As noted in our prior year consideration, 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 to appropriately scrutinise matters across its Group, in particular where financial support is being provided to entities facing financial challenges arising from the pandemic.</p>
<p>AMBER</p>	<p>GREEN</p>
<p><b>Financial Management</b></p> <p>The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding the ongoing impact of Covid-19 on its financial position. Financial reporting is clear and consistent throughout the year.</p> <p>The importance of good financial control is clearly understood across the Council. We have not identified weakening financial management arrangements following the changes to the established working environment following Covid-19.</p>	<p><b>Value for Money</b></p> <p>The Council's arrangements for performance monitoring, improvement and self-assessment have continued and are back on the normal planned schedule for reporting following the impact of Covid-19.</p> <p>The Council maintains 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.</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 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 external auditor. Further information is available in Appendix B.

The ongoing disruption to the Council as a result of the impact of Covid-19 continues to have a significant impact on the financial statements and subsequent audit.

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

## 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 in March 2021.

## The impact of the Covid-19 Pandemic

In 2019/20 we were required to supplement 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. As Covid-19 was a known factor in planning the audit in 2020/21, the same approach has not been required. However, we have added to our planning and execution procedures throughout the audit to take into account various factors related to Covid-19, and have continued to reassess the risks facing the Council in this light.

- As the declaration of the global health emergency and subsequent lockdowns occurred late in the 2019/20 financial year, this was the first year where there were material transactional impacts in the Council's financial statements, in particular through the recognition of additional Covid-19 related costs and subsequent government funding support.
- While some of the uncertainty around the impact of Covid-19 on key balance sheet valuations had reduced from 31 March 2020 to the current yearend, this also remained a key area of audit focus.
- In line with prior years, we worked with management to ensure the financial statements adequately reflect the impact of Covid-19, in particular through the management commentary, Governance Statement, and accounting estimates and judgements disclosures.

In line with the 2019/20, following the outbreak of the pandemic, the audit took place remotely. Information was shared between the Council and the audit team through our secure portal, and inquiries and investigation took place through Microsoft teams meetings. In order to mitigate the risk of not being able to view key documents and information on systems in person, additional supplementary procedures were completed to verify the information provided by management.

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.

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 review and reassessment of materiality

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 2021 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 2020/21 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 2021 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 42.

# 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.

## 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 financial statements. We received the unaudited financial statements on 25 June 2021, in line with planned timescales.

The inspection notice was published by the Council on 10 June 2021, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

## Audit Outcomes

We identified six audit difference arising from the audit, which have been summarised in the relevant sections of this report, and all of which have been adjusted by management in the finalised financial statements. Our overall audit opinion is summarised on the following page.

The Regulations were amended to allow the Council to delay preparation of the financial statements. However, the draft financial statements were submitted for audit in line with planned timescales. The inspection notice was published in accordance with requirements.

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

## Preparation of the Financial Statements

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. As in 2019/20, a key area of consideration in the financial statements disclosures related to ensuring the ongoing impact of Covid-19 was appropriately discussed, including in the management commentary, Governance Statement and financial statements notes.

This year we worked with management to consider guidance from Audit Scotland issued to local government bodies, following a review of the significant accounting judgements and sources of estimation uncertainty disclosed within the 2019/20 financial statements of 30 Scottish councils. The disclosures of accounting judgements and estimation uncertainty were chosen for a good practice review because of their fundamental importance in understanding the financial statements, along with indications that the quality of the disclosures were variable. Following our review and discussions with management, a number of enhancements were made to align them with identified areas of good practice.

## Group financial statements

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

- West Lothian Leisure;
- 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 six audit differences arising from the audit, all of which were adjusted by management in the finalised financial statements. All audit adjustments relate to matters identified through the audit of the valuation of property, plant and equipment. Four of these relate to the valuation of the schools estate which was completed subsequent to the timetable for publication of unaudited financial statements in June 2021. 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 2021 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 the most significant assessed risks of material misstatement that we have identified, including our judgements 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 2020/21 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 review and challenge of 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 22, 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 and our conclusion draws upon Review of committee and board minutes and papers, regular discussions with management, our understanding of the Council and the wider sector.</p>	<p>We are satisfied that the Annual Report 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>• 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>We have no matters to report.</p>

# Significant and fraud audit risks

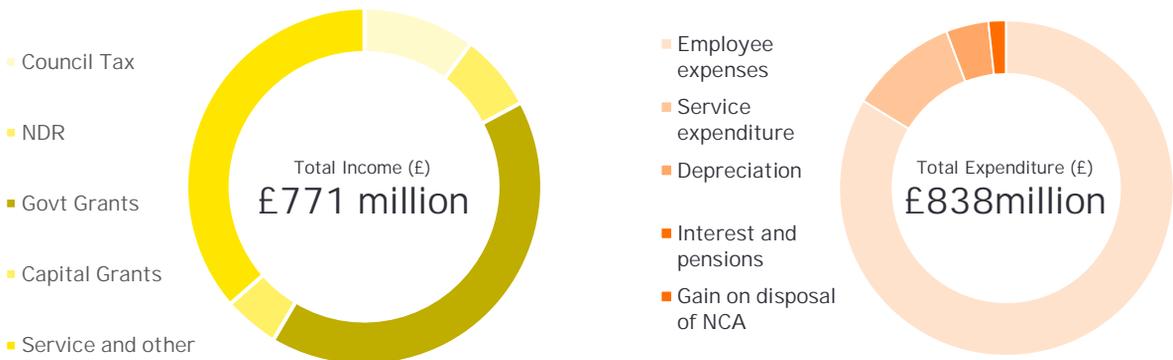
## Risk of Fraud in income and expenditure recognition

### What is the risk?

As 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: 2020/21 Financial Statements: Comprehensive Income and Expenditure Statement

### What judgements are we focused on?

For both income and expenditure we focus on the risk in relation to the occurrence, completeness and measurement of income and expenditure recognised around the financial yearend through the process of yearend accruals. For income we also focus on the recognition of grant income where there are conditions attached to the recognition, and on the treatment of capital grant income to ensure it is not accounted for as revenue.

### What did we do?

Our work included:

- Review and challenge management's accounting estimates on revenue or expenditure recognition for evidence of bias.
- Focusing our testing on income and expenditure recognised around the financial yearend through manual journals and accruals raised by management.
- 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 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:

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 20. In respect of all pension transactions impacting the CIES we agreed these journals to the underlying IAS 19 report prepared by the Council's actuary.

### Audit of Covid-19 grant income and expenditure

Due to the proximity to the 2019/20 year end of the Covid-19 pandemic and subsequent lockdown in March 2020, the related audit risk on the 2019/20 financial statements was in respect of balance sheet valuations. In 2019/20 there were minimal income and expenditure transactions impacted by the pandemic. 2020/21 was the first year where income and expenditure transactions were materially impacted by Covid-19.

The Council received £43.3 million in the year from the Scottish Government related to Covid-19 to support the Council in meeting its additional costs, local businesses and the wider public. The material nature of the additional funds created a new income stream for audit consideration. Our audit work focused on:

- Reviewing the arrangements the Council had implemented to manage the processing, monitoring and reporting of the new income, including addressing the risk of misappropriation and fraudulent claims. Our work and conclusions here are outlined in more detail in the financial management section of our wider scope reporting.
- Assessing management's accounting treatment of the income and expenditure against the requirements of IFRS, the CIPFA Code and the specific LASAAC guidance issued in the year. We particularly focused on whether income and related expenditure had been correctly categorized as the Council being a "principal" or "agent" in the transaction.
- Selecting a risk based sample of grants to agree to supporting evidence, in the form of bank receipts, grant awards and other notifications, including the details of the grant award conditions, where relevant.
- Review of the disclosures made by the Council in the financial statements to ensure they met both accounting requirements and more generally were sufficient to allow readers to understand the nature of the activity in the year given the significance to the Council.

#### 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 identified no matters to report in relation to the Council's accounting for Covid-19 grant income and related expenditure in the year.

### 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 potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions. In particular we considered:

- Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated;
- Journals transferring funds between useable reserves and restricted or separated accounts such as HRA and the STO accounts; and
- Journals adjusting between income and expenditure accounts and capital accounts.

We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

### Our conclusions

- 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.

## Judgements and Estimates

ISA (UK) 540 on accounting estimates was issued in December 2019 and is applicable to the 2020/21 audit for the first time. In particular, risk factors relevant to the public sector included the following examples for consideration by auditors:

- a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to defined benefit pension schemes (outlined on page 20 of this report); and
- areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets (such as property, plant and equipment, outlined on page 17 of this report).

Our procedures included:

- Testing management's process method, key assumptions, data;
- Testing management's process-estimation uncertainty;
- Considering evidence from events up to the report date; and
- Developing our own point estimate of the appropriate valuation.

We reviewed each significant accounting estimate for evidence of management bias as outlined above, including retrospective consideration of management's prior year estimates.

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements. We worked with management to enhance these as outlined earlier in this report.

## 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 the Code.

### Our conclusions

- 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.
- There were no significant accounting practices which materially depart from what is acceptable under the Code.

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

The Council's property, plant and equipment (PPE) portfolio totals over £1.9 billion of assets (2020: £1.6 billion). The valuation of these assets requires expertise and significant estimation. In 2020 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.

To meet the requirements of the CIPFA Code of Practice the Council values its property, plant and equipment on a 5 year cycle. Due to the timing of the Council's valuation cycle a significant amount of the Council's estate was subject to revaluation in 2020/21 (£1,995 million). This included the Council's social housing assets (£473.1 million) and its schools (£816 million). Schools were due for revaluation in 2021/22, however following early indication of the movement in their valuation and the materiality of the impact on the Council's balance sheet, management opted to bring the valuation into the 2020/21 financial statements.

While (RICS) withdrew its guidance which caused valuers to conclude that there is a material uncertainty in the valuation of assets for 31 March 2021, we assigned a significant audit risk to the valuation the Council's PPE, specifically to the valuation of the Council's social housing under its EUV-social housing valuation methodology. All other assets valued were subject to a higher inherent risk audit designation.

To address the increased risk, we used our internal specialists to examine the work performed by Council valuers, specifically on the valuation methodology around the social housing assets, and the valuation of the Civic Centre and industrial units.

Our work focused on the following key areas:

- Considering 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 testing key asset information used by the valuers in performing their valuation based on both size of asset value and our consideration of risk assigned to each valuation (e.g. floor plans to support valuations based on price per square metre).
- Auditing management's assessment of assets not subject to valuation in the year to confirm that there were no indicators that earlier revaluation was required to prevent material misstatement of each class of asset.
- Completion of procedures designed to address the requirements of the revised ISA 540 as outlined earlier.

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

- We identified no audit differences through the course of our work around the valuation of the Council's social housing assets, and identified no assets which had not been revalued which demonstrated indicators they should be revalued in the year.
- We identified one minor audit difference, outlined in Appendix E of this report, in relation to the valuation of industrial units where an incorrect figure had been used in the calculation. While immaterial, management has corrected the figure in the finalised financial statements.
- The Council's schools were not initially due for revaluation in 2020/21 but at 1 April 2021 and as such were not included in the unaudited financial statements. However, given the materiality of the asset value and time since the last revaluation, management sought to obtain early sight of the valuation report to consider if it should be accounted for in 2020/21. On identifying the movement management concluded it was appropriate to bring the valuation into 2020/21 financial statements. We discussed the planned approach with management through the audit process and concurred with the conclusion reached.
- We identified six audit differences in relation to the valuation of schools in 2020/21, outlined in Appendix E, including the initial recognition of the valuation subsequent to the publication of the unaudited financial statements. The remaining differences related to various corrections to the application of underlying data used in the asset valuation calculations. All differences have been corrected by management in the final financial statements.

The Council holds PFI liabilities and assets amounting to £221 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. No matters were identified.

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

Our observations of the Council's overarching process for valuation of its property, plant and equipment, consistent with previous audits, continues to be positive. The finance team invests significant resources in monitoring its estate and considering the accounting implications of any significant changes and ensuring there is proactive discussions with its auditor around the most appropriate way to account for matters identified. With the exception of one minor adjustment made to the Council's industrial units, the audit differences identified this year were ultimately, in our view, the result of the timing of the information around the schools' valuations becoming available to management. This information was available only subsequent to the finalisation of the unaudited financial statements and without sufficient time to complete a more detailed internal review of the valuation reports and underlying working before submission to audit.

The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty, and the material size of the assets continues to increase the risk of major movements in asset values following formal revaluation. While the Code requires that assets must be revalued at least every five years it is becoming more common that this period of time between valuations results in significant movements. Equally there is a challenge for management to balance the requirement to ensure asset valuations are not materially misstated at each balance sheet date, in accordance with International Financial Reporting Standards, while also ensuring the significant work associated with valuations can be completed in time to allow thorough internal review and confirmation.

The Council has recently upgraded its in-house fixed asset system. In our view this upgrade, combined with the completion in 2020/21 of the revaluation of the major aspects of the Council's assets, would be an opportunity for the Council to consider its future approach to this important area. This may include:

- Reducing the time between full valuations for all major individual asset classes.
- Applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations.
- Confirming how timing of the formal valuation arrangements will work going forward between 1 April and 31 March dates.

Given the ongoing focus on the valuation of fixed assets, and the materiality and estimation uncertainty associated with valuations, management should review its valuation cycle arrangements going forward.

### Our conclusions

- We identified six audit adjustments related to the Council's valuation of assets in 2020/21.
- We concluded that management has undertaken sufficient procedures to identify any further assets which should be revalued before their cycle valuation date.
- In light of the ongoing focus on the valuation of assets we have recommended the Council take this opportunity to consider its overall asset valuation arrangements.

# Other inherent audit risks

## 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's financial statements. At 31 March 2021 the net liability totalled £311 million (2020: £225 million).

Accounting for this scheme involves significant estimation 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. We have outlined on the previous page our requirement to consider this estimate in line with the requirements of ISA 540. In particular, for the valuation of pension assets and liabilities we are required to undertake procedures on the use of management experts, the assumptions underlying fair value estimates, and the valuation of the Council's share of scheme assets and liabilities at the year end.

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 various ongoing equalisation case judgements such as the GMP, McCloud and Goodwin rulings.
- Ensuring the information supplied to the actuary in relation to the Council was complete and accurate and that our own estimate of the valuation based on those inputs was materially consistent with the actuarial reports.
- 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 2021.
- The accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

### Our conclusions

- The assumptions used by the actuary have been reviewed by our EY actuarial team who concluded that the assumptions and methodology used are considered to be within a range which is appropriate.
- The auditor of the Lothian Pension Fund reported no material differences in the valuation of assets held by the Fund. The material uncertainty reported in relation to the valuation of complex investments at 31 March 2020 has been removed for the same assets at 31 March 2021.

## Financial flexibilities

In October 2020 the Cabinet Secretary wrote to COSLA to confirm three financial flexibilities for local government with further details to be brought forward in statutory guidance:

- Use of capital receipts to fund revenue Covid-19 expenditure in 2020/21 and 2021/22.
- Loans fund repayment holiday in either 2020/21 or 2021/22.
- Extension of PPP and other similar contracts debt repayment periods to reflect asset life.

The capital receipts and loans repayment holiday are only to be used for the purposes of addressing Covid-19 related costs, whereas the change to PPP accounting may provide a wider flexibility. Local authority Directors of Finance and COSLA have been liaising with the Scottish Government to clarify the practicalities of the flexibilities. The revised legislation for capital receipts and loans repayments was considered by the Local Government and Communities Committee in February 2021 where there was committee support.

The Council's approach to utilisation of these flexibilities was presented to the Council by the Head of Finance and Property Services in February 2021. It noted:

- Until the Cabinet Secretary confirms the technical methodology which should be used to reprofile PPP debt repayment periods, the Council cannot calculate the level of support and future impact on repayments that could be available.
- Given the current affordability pressures in the approved capital programme, use of capital receipts was not recommended.
- The Council is able to use the loans fund repayment holiday in 2021/22 which would release £6.6 million to the General Fund to address Covid-19 pressures, which will result in a subsequent recurring revenue budget pressure from 2022/23.

### Our conclusions

- At 31 March 2021 the Council had not applied any of the financial flexibilities initially presented by the Scottish Government.
- We will keep this under review in 2021/22 and consider the accounting treatment and impact on future financial planning accordingly.

# Going concern

Under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained.

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. In accordance with the CIPFA Code of Practice on Local Government Accounting, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity. CIPFA bulletin 05 (issued at closure of the 2019/20 financial statements) states that while there is likely to be a significant impact of Covid-19 on local authority financial sustainability, the rationale for the going concern basis of reporting had not changed.

However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. 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 its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to October 2022, including the expected impact on the Five Year Financial Plan.

Management's going concern assessment reported that 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. It reported 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, and access to other useable reserves in committed funds which could be reallocated as necessary.

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 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.

# 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.

The Council finance team has 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

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

Implementation of IFRS 16 has been delayed on a number of occasions in local government financial statements for various reasons. Most recently it was due to be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. 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 2022.

This further deferral is limited to one year only and CIPFA LASAAC note that it will not be granting any further extensions based on lack of preparedness. All finance teams are therefore urged to continue their preparations for implementation and to ensure that they are ready to adopt the standard in the 2022/23 financial year.

We have outlined previously that full compliance with the revised standard is likely to require a detailed review of existing leases 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;
- the value of the asset and liability to be recognised as at 1 April; and
- where a lease has previously been accounted for as an operating lease.

Work is 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 2022.

We have discussed progress in preparing for the implementation of IFRS 16 Leases standard with the finance team over the course of the past few audits and are 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 2021/22 financial statements.

## CIPFA/LAASAC Code for 2021/22

Local authorities are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The CIPFA/LAASAC Code on local authority accounting in the United Kingdom for 2021/22 includes a number of amendments. These changes include:

- Reframing the Code requirements in terms of UK-adopted standards rather than EU adopted standards, reflecting the United Kingdom's withdrawal from the European Union.
- Confirmation of the accounting arrangements for the Dedicated Schools Grant to reflect changes to the statutory requirements.
- Amendments to confirm the existing adaptation in the Code for standards issued but not yet adopted.
- Augmentations to the reporting of estimation uncertainty.
- Confirmation of the reporting requirements for interest rate benchmark reform.

The Code includes an appendix on the future implementation of IFRS 16 Leases standard which has been deferred for a further year, as outlined on the previous page.

It is important that management performs its own assessment of the impact in advance of preparation of the 2021/22 financial statements. We will continue to discuss relevant matters with management in advance of the financial yearend to ensure agreement is made on any amendments in the most efficient manner possible.

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.

# Best Value and Wider Scope dimensions

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.

## Introduction

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.

We apply our professional judgement to risk assess and focus our work on each of the wider scope dimensions. In doing so, we draw upon conclusions expressed by other bodies including 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, along with 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 is required for 2021/22.

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.

**Financial Sustainability:** Considers the medium and longer term outlook to determine if planning is effective to support service delivery.

**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:** Considers the effectiveness of scrutiny and governance arrangements and the transparent reporting of financial and performance information.

**Value for Money:** Considers whether value for money can be demonstrated in the use of resources and the focus on continuous improvement.

# Financial Sustainability

The Council continues to demonstrate good practice in financial planning. All savings required to balance the Council's revenue budget for the remainder of the current medium term financial plan to 2022/23 have been identified and are mostly on course for delivery. Following the decision by the Council to defer its early planning arrangements for its next medium term financial plan last year, as a result of focusing on more immediate pressures related to Covid-19, initial Officer planning has commenced in 2021 with a range of initial potential budget scenarios and risks being considered.

As in previous years, our assessment of amber reflects the ongoing challenge facing all local authorities and the significant level of risk and uncertainty outside the Council's control which could impact its ability to deliver savings, all of which has been exacerbated by the ongoing impact of Covid-19. There remains a need for continued focus in delivering challenging levels of savings as the Council moves into its next planning period.

A  
M  
B  
E  
R

## Medium Term Financial Planning – to 2023

The Council's current medium term financial plan is in its penultimate year and runs to 2022/23, in line with the Corporate Plan approved in 2018. The most recent Council budget approval, in February 2021, identified a £20.6 million revenue budget gap over the remaining two years of the plan. In conjunction with its budget approval, the Council approved savings over this period, totalling £9 million in 2021/22 and £9.9 million in 2022/23, combined with the use of one off resources of £1.7 million in 2022/23 to cover 100% of the budget gap.

The Council has continued to demonstrate a strong track record of identifying and delivering planned savings to achieve balanced budgets. The planned savings through to 2023 will bring cumulative savings required from 2007 to £151 million.

## Ongoing impact of Covid-19

The Council's most recent financial update report, prepared for the four months to July 2021 forecast a number of budgetary pressures as well as underspends in certain areas which plan to be offset against each other in a realigned budget for the remainder of the year.

Costs pressures for the financial year totalled £4.5 million. The most significant of which were:

- £1.8 million related to homeless;
- £1.2 million for early learning childcare provision; and
- £0.6 million to cover in absences in older people care homes.

Some of these negative variances were being offset by underspends in projects approved for 2021/22 to help address the Covid-19 pandemic and other Council priorities, where recruitment delays have resulted in slippage of expenditure into 2022/23.

## Focus on outcomes - delivery of savings

The Council continues to identify planned savings to address budget gaps and deliver those savings in line with agreed timetables.

In line with previous years, Council savings are agreed at a detailed service level with support provided by 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 saving plans are subject to review to ensure they support the delivery of the medium term financial plan as well as the delivery of the service specific plans and objectives.

For the savings identified for the remainder of the current medium term financial plan, the Council monitors the risks around delivery of savings on an ongoing basis throughout the financial year and reports progress to the Council Executive on a routine basis. Heads of Service assess the risk of delivery of savings on a red, amber or green basis, together with current status and possible blockers to delivery. Reporting to the Council executive includes the RAG rating, a summary of the project, an update on progress including risks and planned mitigations, and any forecast variance in the planned and approved savings amount to the Council.

The most recent update on the Council's monitoring of planned savings, reported to Council Executive in September 2021, shows that the Council continued to demonstrate good progress in delivery of savings for this financial planning period to 2023. All the Council's planned savings are currently graded as either green (which indicates that Heads of Service consider that the saving is achieved or achievable) or amber (meaning that an achievable plan is still to be agreed or existing/emerging issues require additional actions to be undertaken), and almost all (94%) of the £8.9 million planned for delivery in 2021/22 are graded green. No savings are considered unachievable.

Council Officers are beginning initial scenario planning around its medium term financial planning through to 2028. There continues to be a high level of uncertainty and risk involved in effectively budgeting through this period.

#### 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 in delivering balanced budgets and financial sustainability without compromising the priorities in its corporate plan.

Council Officers have begun initial scenario planning for its next medium term financial plan period from 2023-28 in anticipation of delivering a range of options to newly elected members following the 2022 local government elections. The latest part of this process will be a financial outlook report which is being finalised for presentation to the planning and resources PDSP in October 2021.

Scenario planning will identify the most material areas of uncertainty in financial planning and positive, central and negative scenarios and how they impact on the Council's overall financial position. This will provide a potential overall savings gap for the five year period to be addressed. The main areas of sensitivity, in line with historic plans, are expected to be:

- Impact of future pay awards to staff through the MTFP period;
- Impact of future Council tax percentage increases; and
- Impact of future local government settlements.

Additionally, there are a number of other factors currently unknown that will continue to threaten the accuracy of any financial planning. The most material of these areas is the impact of inflation on the planning period, the ongoing changes in demographics and the uncertainty around the future costs and support related to Covid-19.

We will continue to monitor the progress around planning for the next financial planning period as part of our wider scope audit work in 2021/22. This will include:

- Consideration of ongoing refinement of scenario planning;
- Understanding the engagement process with key stakeholders, in particular new members but also key delivery partners and the public; and
- Monitoring of progress in identification of savings options to be considered in meeting future budget gaps while ensuring delivery on future corporate priorities.

# Financial Management

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid-19. Financial reporting is 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 a robust financial management environment and no material financial control deficiencies. We did not identify weakening financial management arrangements following the changes to the established working arrangements following Covid-19.

## Financial control environment

While our financial statement audit work is not designed to express an opinion on the effectiveness of internal control, we consider the financial control environment through the course of our interactions and observations through the audit. Based on work undertaken, we have not noted any material 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. While there were a number of recommendations, including two high risk recommendations in the year, these did not impact our view of the overall 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.

## Ongoing impact of Covid-19

In 2019/20 we reported that we had not observed issues with the capacity or capability of the finance team following its previous restructures or following the impact to working arrangements due to Covid-19. We have not identified any significant changes to key processes and controls across the finance function through our observations in 2020/21. There continues to be additional pressure on the capacity of the finance team in the ongoing environment, however information related to the audit and financial statements continues to be provided in a timely manner and to a high overall standard. The financial management capacity of the Council, in particular related to the longer term impact of Covid-19 on working arrangements, will require to be subject to continued monitoring.

The Council's financial control environment continues to operate as we have observed in previous years despite the impact of the Covid-19 pandemic on day to day working arrangements.

## Financial monitoring and outturn

The Council's financial monitoring arrangements have been broadly consistent with previous years, however were supplemented in early 2020/21 with additional monitoring to reflect the additional risks around Covid-19. This included a period three monitoring report to better maintain an understanding of the impact of Covid-19 on the Council's arrangements and additional reporting specifically on the impact of Covid-19 through the year. The Council's reported financial position, before the application of the Barnett Consequentials and Loss income scheme funding, is outlined below. We are satisfied that movements in the forecast position throughout the year reflect the changing position at the Council, mostly in relation to the impact of Covid-19 and related additional income and expenditure and the uncertainty this created, rather than issues with forecast arrangements.

Exhibit 3: The Council has updated its forecast yearend position through the financial year

Reporting period	Period 4	Period 6	Period 9	Period 12
Surplus / (deficit) pre-Barnett / Loss income scheme	(£9.5m)	(£10.9m)	(£8.3m)	(£8.3m)
Forecast surplus / (deficit)	(£4.3m)	(£4.0m)	(£0.0m)	(£0.1m)

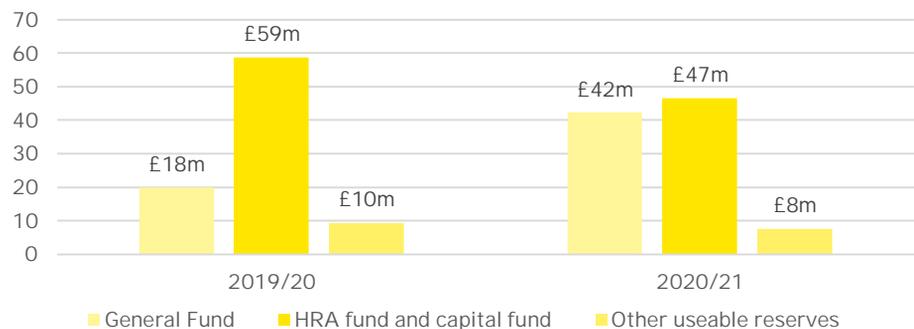
Source: West Lothian Council 2020/21 Financial monitoring reporting

The Council's uncommitted general fund reserves remains amongst the lower levels in Scotland, but is underpinned by a robust financial monitoring and planning environment.

## 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 2020/21 it was concluded that the uncommitted balance be maintained at a minimum of £2 million. At 31 March 2021 the Council's uncommitted general fund balance was £2.26 million. This continues to be one of the lower minimum reserves position across Scotland, however this level has been assessed as appropriate by the Head of Finance and Property Services. The level of uncommitted general fund reserves takes into account the Council's approved medium term financial strategy underpinned by robust financial planning arrangements and a number of other earmarked reserves which could be reallocated if necessary.

Exhibit 4: The Council's cash backed reserves increased by approximately £10 million in 2020/21



Source: West Lothian Council 2020/21 Financial Statements

## Capital programme

The Council spent £79.3 million on capital expenditure in 2020/21 (2019/20: £70.3 million), an overspend of £2.6 million against its original budget. General fund capital expenditure experienced a significant acceleration of approved activity of £8.7 million, most notably the new developer funded schools at Calderwood and Winchburgh and the phase 3 extension at Ogilvie Campus. This was offset by a £6.1 million underspend in housing programmes as work was delayed by limited access to buildings due to Covid-19 protocols.

This activity forms part of the Council's overall capital strategy to support the Council in its strategic objectives, approved through to 2027/28. The strategy is subject to annual review, update and approval by the Council to reflect actual expenditure incurred in the year and any slippage or changes in priorities, most recently being reviewed in June 2021.

## 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 regular review, update and approval by the appropriate Officers and committees.

Prior to the impact of Covid-19 Audit Scotland guidance directed that the Council's arrangements for the prevention and detection of fraud and corruption in the procurement function should be an area of focus for the 2019/20 audit. In line with last year, this focus has been postponed and will be deferred for targeted consideration to 2021/22.

## CIPFA Financial Management Code

The CIPFA Financial Management Code comes into effect for all councils in 2021/22. It is intended to support good practice in financial management, assist in demonstrating a local authority's financial sustainability, and set out standards of financial management. Management completed a self-assessment against the Code and presented this to the Council Executive in February 2021. The assessment demonstrates the Council's existing compliance with the majority of the Code and sets out proposed actions to ensure compliance with the code in 2021/22. As called for by CIPFA guidance in 2020/21, the annual Governance Statement included an assessment of the Council's readiness for its implementation. This will be subject to ongoing monitoring.

The Council has demonstrated a strong level of compliance with the CIPFA Financial Management Code on its implementation for 2021/22.

Additional controls and reporting arrangements have been implemented to address the risks around the additional funding received due to Covid-19.

### Financial control arrangements around Covid-19 income and expenditure

From March 2020, the Council received, managed and distributed significant additional funds in relation to support from the Scottish Government related to addressing the impact of the Covid-19 pandemic.

The Council has considered and monitored the potential for fraud and misuse of Covid-19 grants throughout the financial year:

- The Audit Committee considered a report on Covid-19 Business Grant Fraud and the processes involved in October 2020. This addressed the main risks around the Covid-19 business grant process.
- The Council participated in the UK Government's Counter Fraud Function's data matching exercise to identify any potential cases of fraud or error with Covid-19 financial support schemes. The exercises undertaken resulted in over 4,000 risk rated matches for investigation, with the higher risk matches investigated by the Council's counter fraud team. From these exercises a small number of investigations identified fraud in the application process, with a number of investigations ongoing.
- Throughout 2020/21 the Counter Fraud team provided support and training to those involved in the grants process to help identify potentially fraudulent claims. This supported the identification of fraudulent claims prior to payment being issued.

### 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 annual exercise produces data matches by comparing 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.

The 2020/21 NFI exercise commenced in January 2021. From 5,906 data matches identified 1,427 of the data matches were classed as being 'High Risk'. The target is for 100% of high risk matches to be fully investigated. The deadline for completion of the 2020/21 NFI exercise is 31 March 2022. The Council is continuing to make progress and demonstrating active participation in the NFI matching exercise.

# Governance and Transparency

The key features of good governance remain in place at the Council. As noted in our prior year consideration, the Council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic.

The Council has arrangements to appropriately scrutinise matters across its Group, in particular where financial support is being provided to entities facing financial challenges arising from the pandemic.

## 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. This is supplemented in 2020/21 by CIPFA's Bulletin 6 which provides guidance concerning the impact of the continuing Covid-19 pandemic on governance in local government bodies and takes into account the introduction of the CIPFA Financial Management Code.

The Governance Statement for 2020/21 concluded that "there are inevitably issues on which future work is required and the full and longer-term impact of the Covid-19 pandemic has not yet been established. However, based on the sources listed above, the council and the West Lothian community can be assured that the council's corporate governance standards have been substantially met in 2020/21."

The Annual Governance Statement includes a summary of how management has responded to the impact of Covid-19 to ensure adequate governance arrangements remained in place throughout the year. The statement reports a high level of compliance with the code, and outlines where it has updated its arrangements in response to findings in the BVAR or legislative and code changes from the prior year. It also notes the areas of non-compliance and areas for improvement with legislative requirements, including the cause of non-compliance, mitigations and future action to avoid repetition.

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

As reported in our 2020 Annual Audit Report, the Council moved to revised governance arrangements at the beginning of the UK lockdown period in March 2020. Council and committee meetings scheduled over the summer of 2020 were undertaken remotely, including the Audit and Governance and Risk Committees, and this remains the case at this time.

Risks associated with the pandemic continue to be monitored and reported by the Council Corporate Management Team and reported to the Council's Governance and Risk Committee accordingly, where concurrent risks including Covid-19 are a standing item on its agenda.

The Chief Internal Auditor has concluded that governance arrangements are sound and that improvements have been made during 2020/21.

## Internal audit work and Annual Assurance Statement

The internal audit work planned for the year 2020/21 was mostly completed in line with planned deadlines by 31 March 2021. Work remained ongoing at all times, however the nature of a number of reviews meant that they could not be completed under a lockdown environment to the same timetable as originally planned. The delayed work has been rolled into the 2021/22 work plan for internal audit.

In addition to its ongoing programme of new reviews, internal audit continues to monitor the progress against existing recommendations and report to the Audit Committee on outstanding recommendations from internal and external parties, with a focus on those recommendations which are higher priority graded. At the 31 March 2021, eight recommendations were overdue for implementation. We note that within the Internal Audit Plan for 2020/21 a follow up audit for School Medication was postponed to 2021/22 due to the impact of Covid-19 and schools not being fully operational due to the pandemic.

During the year one internal audit report concluded the arrangements were unsound, with four reviews requiring improvement. Overall the majority of reviews were concluded as either satisfactory or effective, similar to 2019/20. 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."

## Openness and transparency

The Council has clear arrangements to ensure meetings of Council and Committee meetings are open to the public in accordance with legislation, and agendas and papers are available in advance of each meeting. When meetings resumed by remote access during the pandemic that access was ensured by live audio webcasting and making recordings of meetings available after the event. Minutes of meetings, including key decisions, continued and continue to be made publicly available after the meetings. The Council now plans to move to live video webcasting and recordings of meetings in December 2021.

The Council's governance arrangements have continued to operate as planned, including evidence of scrutiny and challenge of Officers.

We have continued to observe the Audit Committee through the year through our attendance at all meetings, and Council meetings and other committee meetings through review of the agendas, supporting papers and minutes. We have observed that generally papers are comprehensive for members to understand key matters, and there is evidence of scrutiny of management at these meetings.

The Governance and Risk Committee was able to carry out its annual self-assessment in 2020 despite the pandemic. The survey in 2021 included additional new questions on governance arrangements during the pandemic period. Responses were generally positive to the questions provided, mostly agreeing or strongly agreeing to the affirmative statements made.

## EU withdrawal

The Council has continued to monitor the actual and potential implications of EU withdrawal throughout 2020/21. The EU Exit Working Group continued to meet on a routine basis during 2020/21 and maintained an overview of the EU exit risk register. The Governance and Risk Committee is updated via concurrent risks reports, most recently in August 2021.

There are three high rated risks currently identified in the council's EU Exit risks, including the risks around food supply chain matters, construction costs and the costs of other goods and services. It remains challenging for the Council to assess the longer term impact of the UK leaving the EU and the implications for the Council's public funding. Updates on how this might impact on the financial strategy will continue to be provided as part of the quarterly horizon scan update report to Partnership and Resources PDSPs.

## 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.

In line with 2019/20, the Integration Scheme which governs the working arrangements for West Lothian Integration Joint Board remains due for review by the main partners. This was delayed to allow focus on addressing the impact of Covid-19 on health and social care, as such the current scheme will continue to remain in place until this is completed and approved by Scottish Ministers. It is anticipated that the review, for which work has begun, will be finalised and reported to the Scottish Government by the end of 2021.

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

West Lothian Leisure ("WLL") continues to be significantly impacted by the pandemic with leisure centres closed for significant periods at various points of the pandemic. In recent years the Council has provided significant financial support to WLL, and continues to budget for the potential requirement to provide more given the ongoing risks facing WLL.

- Initially the Council provided support through advanced payments to support restructuring arrangements, which included a subsequent reduction in the ongoing management fee to be paid to WLL in future years.
- A reprofiling of the management fee payments was then agreed in May 2020 to support WLL's cash flow whilst facilities remained closed due to Covid-19.
- In 2020/21 the Council included a £0.5 million contingency in its outturn forecast to reflect potential additional support that may have been required. This was not required for drawn down by WLL, following approval by Council Executive on 17 November 2020.
- The 2021/22 budget approved by the Council in February 2021 included core revenue funding for WLL of £2.3 million, a one-off capital payment in 2021/22 of £0.4 million and provisional core revenue funding in 2022/23 of £2 million.
- WLL has successfully re-opened the majority of their sites and is forecasting its financial performance based on providing full service offerings during the remainder of 2021/22. However, given the ongoing uncertainty, the Council has agreed to provide confirmation that it 'will undertake cash flow management with WLL to allow them to remain in credit at all times, thus allowing them to proceed as a going concern and meet their everyday cash liabilities' over the financial year following the approval of the WLL financial statements.
- As a result of the support offered, the Council budget includes £3 million of additional funding for WLL which, retained in a reserve to be paid following approval by the Head of Finance and Property Services should the funding be required to support WLL's financial position.

The agreement of support notes WLL's requirement to approve a balanced budget each year, to reasonably progress their three year plan, to provide required financial information to the Council to demonstrate progress and to take all reasonable action to identify mitigating action to balance their budget without further funding from the Council.

WLL's financial position and impact on support required by the Council has been subject to ongoing monitoring and reported to the Council's Executive group by the Head of Finance and Property Services, most recently in August 2021. The WLL Board is attended by a representative of the Council Senior Management Team who attends in a non-voting capacity to ensure robust scrutiny of arrangements. We are satisfied there continues to be evidence to demonstrate scrutiny and governance over the support provided to WLL, including demonstrating rigour around the use of public funds for private bodies. 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.

# Value for Money

The Council's arrangements for performance monitoring, improvement and self-assessment have continued and are back on the normal planned schedule for reporting following the impact of Covid-19 in 2020.

The Council maintains 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.

The Council's performance management framework has continued to operate as planned in the year, with reporting back in line with pre-pandemic timelines.

## Performance Management framework

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 PDSs, 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.

The Council's overall performance management framework remained in place and operating despite the impact of Covid-19 and the subsequent additional urgent business requiring prioritisation. We reported in our previous annual reporting there were two changes to planned performance reporting arrangements:

- Performance reporting to policy development and scrutiny panels temporarily ceased due to urgent business for consideration over the summer of 2020; and
- The Council's self-assessment framework (adopted as part of the West Lothian Assessment Model) programme report for the period 2017/20 was not taken to Performance Committee as initially scheduled in May 2020.

In both cases arrangements have now resumed as intended with the delayed reporting presented to the relevant bodies at the next opportunity.

## Performance Reporting

The most recent performance update was submitted to the Council's PDSP's in June 2021, in relation to quarter four of the 2020/21 financial year. Of the 57 reportable performance indicators reported to the partnership and resources PDSP, 41 were green (2019/20: 40), 3 amber (2019/20: 7) and 13 were red (2019/20: 10), with 5 unknown as performance is measured more intermittently.

Of the 13 red indicators, seven relate to areas where performance has deteriorated in the year, while six are consistent with prior year findings. Four indicators previously red rated are no longer categorised as such.

The Council continues to report its performance in a timely manner with comprehensive information provided for scrutiny.

For the red rated indicators:

- 5 remain materially affected by the impact of Covid-19, specifically on the impact on staffing capacity in the year.
- A number are not directly impacted by Covid-19 on the Council's services, but by the subsequent impact of increased demand for specific services from the public as a result of the Covid-19 pandemic.
- One relates to the delays resulting from the implementation of a new system in January 2021 (related to the processing of blue badges).
- We note a number of indicators which have been red for a number of years have improved year on year while remaining in the red classification.

All red rated indicators include commentary on the latest position and relevant additional information in relation to the nature of the performance. Management also reports on the mitigating and corrective action being planned by management to address performance.

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

## 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:

- 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;
- 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 has been required to meet the requirements of the revised Statutory Performance Information Direction from 2019/20.

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. Information reported covers the quality and effectiveness of local services and progress in outcomes, as well as efficiency information.

This includes reporting of the most recently available LGBF results to the relevant committees and to the public. The 2019/20 LGBF results are due to be reported to the Partnership and Resources PDSP on 1 October 2021.

The Council's reporting relevant to the requirements of the SPI's was impacted early in the year due to the disruption noted around Covid-19. The Council is now back on its established schedule and is reporting in the same manner and timetable as pre-pandemic.

We will continue to monitor and consider the adequacy of reporting against the revised requirements in 2021/22.

The Local Development plan, and the Winchburgh Development in particular, have continued to progress through the various challenges presented by Covid-19.

### 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 employment and retail and public services.

Activity on the project is continuing, with updates being provided to the Council Executive throughout the year, most recently in June 2021. During the year the project milestones were 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 arrangements.

The most recent update reported that the construction of the area’s schools forecast to be complete by August 2022, compared to the revised milestone target of December 2022. The forecast expenditure for the project is now £62.0 million, made up of £60.9 million construction costs in line with initial approved budget, and £1.1 million fit out costs forecast.

We will continue to monitor the status of this project and the arrangements for reporting and scrutinising as it continues through to 2024.

The Council has arrangements to demonstrate its commitment to fairness and equality, including engagement with local stakeholders and robust monitoring and reporting arrangements.

## Commitment to fairness and equality

The Council's equality mainstreaming and equality outcomes set out its commitment to equalities and fairness. The equality outcomes have been developed with partners, the public and stakeholders. The outcomes are complementary to the priorities set out in the Council's Corporate Plan. They address both the Council's equalities actions as an organisation, and externally, in the services it provides and messages it promotes.

The Corporate Working Group for Equality is responsible for monitoring and implementing work towards the equality outcomes. The group is chaired by a member of the Corporate Management Team, and supported by equality champions from senior management teams across the organisation to promote equality and diversity within Council services. The Human Resources Programme Board receives regular updates on progress with equality outcomes.

The Council uses equality impact assessments to critically assess whether its policy proposals have wider impacts on different groups in its communities. New policies, plans, and service changes must be subject to an Integrated Impact Assessment (IIA) to ensure they meet relevant legal duties regarding Equality, Fairer Scotland, Human Rights and Climate Change.

During 2017–2021 the Council has sought to raise awareness of equality and diversity issues. It has completed the roll out of Corporate Equality and Diversity training to all Council employees, and it provides online training on integrated impact assessments. The Covid-19 pandemic had reduced the uptake of violence against women awareness training for Council service providers, which is being addressed through re-launching online training.

The Council's current gender pay gap for all Council employees is 1.3 per cent, significantly lower than the average rate for Scottish local authorities of 3.42 per cent for 2019/20. The Council now reports its ethnicity pay gap. This requirement is being introduced as part of the Scottish Government and the Equality and Human Rights Commission's intention to address race inequality. The Council has not stated a specific target for this indicator, but has committed to eliminate pay gaps or differences that cannot satisfactorily be explained on grounds other than those relating to a protected characteristic.

The Council actively engages with partners and the public to inform its services and equalities practice. The Council has reviewed its recruitment and selection training to incorporate best practice on equality and diversity.

The Council's 2019-21 Equality Mainstreaming Progress Report sets out nine outcome areas in relation to the Equality Act 2010. These provide good coverage across aspects of fairness and equalities, and the Council's own role as an organisation.

# 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 our 2019/20 audit we agreed to defer some of our planned work around Best Value in light of the Council's focus on responding to and recovery from the pandemic. Our work this year and in the extended year 6 of our appointment will finalise all areas of our consideration around Best Value in the appointment period.

## Forming our judgement

As appointed auditor, 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. This includes drawing 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. In particular this year we have considered:

### Looking ahead

In 2019/20 we reported that the Council had correctly focused on the immediate impact and required work resulting from the global pandemic. We noted that, 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. In particular, the extension to our appointment period as auditor of the Council will allow the opportunity to observe how the longer term impact of Covid-19, in addition to the other more established risks and challenges facing local government generally and the Council specifically, will be considered as the Council works towards developing an updated corporate plan supported by its next medium term financial plan.

### Future best value audit work

In our Annual Audit Plan for 2020/21 we reported that our Best Value work for the year was to be agreed with Audit Scotland in April. The areas of focus subsequently agreed and reported in our finalised plan are highlighted below. This included some areas which had been deferred from 2019/20 as reported last year to allow 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 outline on the previous page the sources from which our conclusion around the Best Value arrangements at the Council this year are formed. Below is an updated summary of our Best Value work delivered to date over the initial five years of our appointment.

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

Following the extension of our appointment by Audit Scotland to include the 2021/22 financial year audit, we will engage in discussions with management and Audit Scotland to agree the planned schedule of work for the 2021/22 audit, which we will report to the Council's Audit Committee in March 2022. This will be designed to ensure we complete any outstanding areas of Best Value focus not yet completed during our appointment period, including any deferred from 2019/20 and not subsequently reviewed this year. It will also be designed to address those areas of focus most relevant to the Council, particularly as it turns its attention to its new corporate and medium term financial planning arrangements.



# 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 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 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Confirmations

We are not aware of any inconsistencies between the Council's policy for the supply of non audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy.

We confirm that, in our professional judgment, Ernst & Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partners, senior managers and managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

## Audit Fees

	2020/21	2019/20
Component of fee:		
Total agreed auditor remuneration	£199,390	£193,580
Audit fee in respect of s106 Trust Fund	£9,990	£9,700
Additional audit procedures (see below)	£24,600	£24,300
Audit Scotland fixed charges:		
Pooled costs	£18,960	£18,940
Performance audit and best value	£105,190	£102,100
Audit support costs	£10,970	£11,700
Total fee	£369,100	£360,320

The expected fee for each body, set by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year.

In line with the 2019/20 audit, through the 2020/21 audit cycle we have discussed with management areas of the audit which required additional work beyond that usually expected for the Council. These areas related to the audit of valuation of property plant and equipment, the audit of the Council's Covid-19 grant income accounting arrangements, and the additional costs related to undertaking the audit fully remotely in 2020/21 due to the impact of Covid-19. For these areas we have agreed the fee noted in the table above with management and Audit Scotland, based on the additional time required at the contracted Audit Scotland rates.

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 2020 UK Transparency Report can be accessed on our website at [https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020). 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 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 Council since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

# 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>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</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>

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>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 or as occurring if material.</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.
No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty.	<p>The Council has recently upgraded its in-house fixed asset system. In our view this upgrade, combined with the completion in 2020/21 of the revaluation of the major aspects of the Council's assets, would be an opportunity for the Council to consider its approach going forward as a matter of good practice. This review may include:</p> <ul style="list-style-type: none"> <li>Reducing the time between full valuations for all major individual asset classes;</li> <li>Applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations; and</li> <li>Confirming how timing of the formal valuation arrangements will work between 1 April and 31 March dates.</li> </ul> <p style="text-align: right;">Grade 2</p>	<p>Response – The Council will undertake a review of the approach and timing of valuations to ensure compliance with the Code and best practice in respect of ensuring assets remain as appropriately valued as is practical through the valuation cycle. Suggested amendments to existing practice will be discussed with the external auditors in advance of the 2022 financial yearend.</p> <p>Responsible Officer - Paul Kettrick (Property Services Manager)</p> <p>Completion Date – 31 January 2022</p>

# Appendix E: Adjusted errors identified during the audit

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

Adjusted differences			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's
1	PPE Valuation - Industrial Units - correction of rental income data used in valuations	Cr Surplus on Revaluation of PPE 290	Dr PPE Buildings 290
2	PPE Valuation - School Valuations- recognition of Schools Valuation subsequent to unaudited accounts finalisation	Cr Surplus on Revaluation of PPE 252,134	Dr PPE Buildings 252,134
3	PPE Valuation - Schools - Correction of valuation formula used	Dr Surplus on Revaluation of PPE 1,230	Cr PPE Buildings 1,230
4	PPE Valuation - Schools - correction of floor plan data used in valuation	Dr Surplus on Revaluation of PPE 360	Cr PPE Buildings 360
5	PPE Valuation - Schools - Correction of SFT indexation Rates applied to valuation	Cr Surplus on Revaluation of PPE 38,970	Dr PPE Buildings 38,970
6	PPE Valuation - Accounting for Police Board Share of Civic Centre	Dr Surplus on Revaluation of PPE 12,177	Cr PPE Buildings 12,177

# 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 2020/21 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> </ul>	Annual Audit Plan	Finalised and submitted to Audit Scotland April 2021
MAR	<ul style="list-style-type: none"> <li>Scoping of wider scope work for year</li> </ul>		
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 fraud return submission	Quarterly throughout the audit cycle
MAY	<ul style="list-style-type: none"> <li>Education Maintenance Allowance (EMA) grant claim testing</li> </ul>	Certified EMA return	Submitted to Audit Scotland July 2021
JUN	<ul style="list-style-type: none"> <li>Submit minimum dataset return to Audit Scotland</li> </ul>	Return for financial overview	Submitted to Audit Scotland August 2021
JUL			
AUG	<ul style="list-style-type: none"> <li>Year-end substantive audit fieldwork on unaudited financial statements</li> </ul>	Whole of Government Accounts assurance statement to NAO (as required)	Financial statements audit and annual audit report on course for submission September 2021.
SEP	<ul style="list-style-type: none"> <li>Conclude on results of audit procedures</li> </ul>	Certify Annual Financial Statements Issue Annual Audit Report	
OCT	<ul style="list-style-type: none"> <li>Issue opinion on the Council's financial statements</li> </ul>	Submit minimum dataset return to Audit Scotland	WGA guidance and further minimum dataset return requests awaited.
NOV	<ul style="list-style-type: none"> <li>Completion of Non-Domestic Rates return testing</li> </ul>	Certified Non-Domestic Rates return	On course for completion October 2021
DEC	<ul style="list-style-type: none"> <li>Completion of Housing Benefits claim testing</li> </ul>	Certified Housing Benefit subsidy claim	On course for completion January 2022

## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](https://ey.com).

### Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2021 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

[ey.com](https://ey.com)