

West Lothian Council

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for West Lothian Council
March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of West Lothian Council. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts and provision of an Independent Auditor's Report
- an audit opinion on statutory information published within the annual accounts including the Management Commentary, Annual Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership, and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- review the council's arrangements for preparing and publishing statutory performance information.

Audit Appointment

2. We are pleased to be appointed as the external auditor of West Lothian Council for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to West Lothian Council through our external audit work by being constructive and forward looking, by attending meetings of the Audit Committee and by recommending and encouraging good practice. In so doing, we will help West Lothian Council promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and West Lothian Council. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at West Lothian Council. In doing this, we aim to support improvement and accountability.

West Lothian Council responsibilities

9. West Lothian Council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. West Lothian Council has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Financial statements audit planning

Introduction

11. The annual accounts are an essential part of demonstrating West Lothian Council's stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

14. We assess materiality at different levels as described in [Exhibit 1](#) below. The materiality values for West Lothian Council and its group are also set out below.

Exhibit 1

2022/23 Materiality levels for West Lothian Council and its group

Materiality	Amount	Group
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of West Lothian Council's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited annual accounts for 2021/22.</p>	£17.6 million	£17.8 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement,</p>	£13.2 million	£13.4 million

Materiality	Amount	Group
we have assessed performance materiality at 75% of planning materiality.		
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. The amount was calculated at 5% of planning materiality. As this amount exceeded the maximum allowable threshold, the maximum limit of £250,000 has been applied.	£250,000	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of West Lothian Council, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK)</p>	<p>Owing to the nature of this risk, assurances from management are not</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

Significant risk of material misstatement	Sources of assurance	Planned audit response
240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	applicable in this instance.	<ul style="list-style-type: none"> • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Conduct variance analysis of balances and transactions in current and prior year accounts. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Carry out substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Conduct focussed testing of accounting accruals and prepayments. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. We have considered the risk that revenue may be misstated resulting in a material misstatement in the financial statements. We also considered the risk of fraud over expenditure, as most public bodies are net spending bodies, and the risk of external fraud (in accordance with Practice Note 10: *Audit of Financial Statements and Regularity of Public Sector Bodies in the UK*).

19. We have rebutted the presumption that a material risk exists, with the exception of management override, as noted above. This is on the basis that:

- There are generally no incentives for staff to commit fraudulent financial reporting
- A significant portion of the council's income comes from government grants and contributions that can readily be agreed to funding letters

- An effective control environment operates around income from council tax and non-domestic rates billing
- Income derived from fees and charges for the provision of services is well controlled with controls around access to financial systems, segregation of duties, and reconciliations that prevent and detect the risk of misstatement
- Most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale, with management or council approval required for material transactions
- Evidence of external fraud from counter fraud services and the National Fraud Initiative does not indicate material risk
- Experience in the sector, including a review of past misstatements, does not indicate material risk.

20. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

21. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

22. The areas of specific audit focus are:

- **Valuation of Land & Buildings:** Land and buildings are revalued on a five-year rolling basis. The council held land and buildings with a Net Book Value of £1.6 billion as at 31 March 2022. This is an area of audit focus due to the degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. In addition, the council requires to satisfy itself that the carrying amounts of those assets not revalued at 31 March 2023 are not materially different to their current value.
- **Valuation of Pension Liability:** The council is an admitted body of Lothian Pension Fund and recognised a net pension liability of £144 million as at 31 March 2022. The liability requires the use of an actuarial methodology based on a range of assumptions including financial and

demographic assumptions. These assumptions should reflect the profile of the council's employees and be based on appropriate data. This is an area of audit focus because the methodology applied could have a material impact on the net pension liability accounted for in the financial statements. The basis of the assumptions should also be derived on a consistent basis year to year.

We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions and results including comparison with other councils. We will establish officer's arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by West Lothian Council.

Group Consideration

23. As group auditors, we are required under International Standard on Auditing (ISA) (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

24. The council has a group which comprises component entities, including subsidiaries, associates, and joint ventures. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Audit of the trusts registered as Scottish charities

25. The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the Council are sole trustees, irrespective of the size of the charity.

26. Members of West Lothian Council are sole trustees for 9 trusts registered as Scottish charities, with total assets of some £0.3 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

27. Other than a risk of management override of controls which has also been identified as a risk in respect of the council's annual accounts, no specific planning risks were identified in respect of the charity's accounts.

Materiality levels for the 2022/23 audit of trusts registered as Scottish charities

28. . Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Trusts' operations. For the year ended 31 March 2023, for each Trust, we have set our materiality at 2% of the

net asset value based on the audited annual accounts for 2021/22. For each Trust, performance materiality has been set at 75% of planning materiality and the reporting threshold has been set at 5% of planning materiality.

Wider Scope and Best Value

Introduction

29. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

30. In summary, the four wider scope areas cover the following:

- **Financial management** - means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery, and corruption.
- **Financial sustainability** - means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. We will consider the extent to which audited bodies have shown regard to financial sustainability and are planning effectively. We look at planning for the medium term (two to five years) and longer term (longer than five years). The audit will include consideration of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term.
- **Vision, leadership, and governance** - audited bodies must have a clear vision, strategy, and work together with partners and communities to improve outcomes and set priorities for improvement. We will consider the arrangements in place to deliver the vision, strategy and priorities adopted by West Lothian Council. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** - audited bodies must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how West Lothian Council demonstrates economy, efficiency and effectiveness using financial and other resources.

Wider scope risks

31. We have identified a wider scope audit risk in the area set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3**2022/23 wider scope risks**

Description of risk	Sources of assurance	Planned audit response
<p>Financial Sustainability</p> <p>The council's five-year financial strategy, agreed in February 2023, highlights risks, uncertainties and potential cost pressures that could impact on the ability of the council to balance the five-year revenue strategy and three-year detailed revenue budgets.</p> <p>To meet these challenges and deliver its strategic objectives it is important that the council has strong longer-term financial plans.</p>	<ul style="list-style-type: none"> • Regular update of medium and longer-term financial plans that take account of the significant financial challenges facing the council. • Well established procedures for the monitoring and reporting of the council's financial performance. • The application of Financial Management and Control Code of Practice. 	<ul style="list-style-type: none"> • Review of the council's annual budget setting arrangements. • Assess the adequacy of the council's medium and longer-term financial plans. • Review and assessment of budget monitoring arrangements. • Assess the council's savings programme, including the reasonableness of future savings plans and the adequacy of progress reports to committee.

Source: Audit Scotland

32. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

Climate Change

33. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

34. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on West Lothian Council's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

35. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. Recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we

will consider West Lothian Council's arrangements for managing and mitigating cyber security risks.

Best Value

36. Under the 2021 [Code of Audit Practice](#), the audit of Best Value in councils is fully integrated within our annual audit work.

37. Best Value at West Lothian Council will be assessed comprehensively over the period of the audit appointment and will include an annual evaluation of West Lothian Council's approach to demonstrating improvement in its strategic priorities and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement. This work will be integrated with the wider scope audit areas discussed above.

38. In addition to our annual work on Best Value we will conduct thematic reviews as directed by the Accounts Commission. In 2022/23 the thematic review across the sector will be on the effectiveness of council leadership in developing new local strategic priorities following the elections in May 2022. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

39. At least once every five years, the Controller of Audit will report to the Accounts Commission on West Lothian Council's performance in meeting its Best Value duties. The first year of the programme will be from October 2023 to August 2024 and will cover the councils listed in [Exhibit 4](#).

Exhibit 4 Controller of Audit reports

Falkirk

Moray

Clackmannanshire

Orkney Islands

South Ayrshire

Dumfries and Galloway

West Dunbartonshire

City of Dundee

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

40. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 5](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

41. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

42. We will provide an independent auditor's report to West Lothian Council and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide West Lothian Council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

43. [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 September 2023.

Exhibit 5 2022/23 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2023	24 March 2023
Independent Auditor's Report	30 September 2023	26 September 2023
Annual Audit Report	30 September 2023	26 September 2023
Best Value Management Report	30 September 2023	6 October 2023

Source: Audit Scotland



Timetable

44. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

45. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	27 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Head of Finance and Property Services	18 August 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	12 September 2023
Agreement of audited and unsigned annual report and accounts	12 September 2023
Issue of Annual Audit Report to those charged with governance.	12 September 2023
Signed Independent Auditor's Report	By 30 September 2023
Certified Non-Domestic Rates Return	To be confirmed
Certified Housing Benefit subsidy claim	To be confirmed
Latest date for WGA assurance (if required)	To be confirmed

Source: Audit Scotland

Audit fee

46. In determining the audit fee, we have taken account of the risk exposure of West Lothian Council and the planned management assurances in place. The proposed audit fee for 2022/23 is £383,950 (2021/22: £351,450).

47. Our fees have increased in 2022/23 and this reflects the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

48. In setting the fee for 2022/23 we have assumed that West Lothian Council has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

49. It is the responsibility of West Lothian Council to establish effective internal audit arrangements. We will review the internal audit plan and the results of internal audit's work. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

50. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

51. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

52. The appointed auditor for West Lothian Council is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of West Lothian Council.

53. The appointed auditor for West Lothian Council will be changing, effective from 31 March 2023. Audit Scotland has put in place a hand over process to ensure a smooth transition. West Lothian Council will be advised of the new appointed auditor in due course.

Audit Quality

54. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives.

55. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

56. ISQC (UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM (UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

57. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality, and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

58. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the appointed auditor.

Appendix 1. Your audit team

59. The audit team involved in the audit of West Lothian Council have significant experience in public sector audit.

Gillian Woolman

Audit Director

gwoolman@audit-scotland.gov.uk

Gillian has 27 years of public sector audit experience. She has been an engagement lead since 2021 in the local government, central government and NHS sectors. She is a member of ICAEW and CIPFA UK-wide committees.

Mark Laird

Senior Audit Manager

mlaird@audit-scotland.gov.uk

Mark has 13 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Brian Battison

Audit Manager

bbattison@audit-scotland.gov.uk

Brian has considerable experience in planning and delivering audits. He will manage the team and work alongside the Senior Audit Manager to deliver the audit.

60. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

West Lothian Council

Annual Audit Plan 2022/23

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

www.audit-scotland.gov.uk/accessibility

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