West Lothian Council

Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2018

28 September 2018

Building a better working world

Contents

About this report

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

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

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

Complaints

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

1. Executive Summary

Executive Summary – purpose and scope

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of West Lothian Council (the Council) for the five year period 2016/17 to 2020/21. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both members of the Council and the Controller of Audit, and presented to both Council management and those charged with governance. After consideration by the Council, this report is provided to Audit Scotland and 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 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 processes can be improved. We use these insights to form our audit recommendations to support the Council in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. These are highlighted throughout the report together with our judgements and conclusions regarding arrangements.

Scope and responsibilities

The Code sets out the responsibilities of both the Council and the auditor. We provided details of these in our Annual Audit Plan, which was presented to the Audit Committee on 19 March 2018. We summarise these responsibilities of the Council in Appendix A.

Our Annual Audit Plan set out an overview of our audit scope and approach for the audit of the 2017/18 financial statements. We carried out our audit in accordance with the plan. We applied the following level of materiality to our audit.

Materiality for our audit – no change to that reported in our Annual Audit Plan	£13.0 million
Tolerable Error is our materiality applied at an individual account balance – no change	£6.5 million
Reporting threshold, set in line with the requirements of the Code – no change	£0.25 million

Financial statement audit

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

- whether they give a true and fair view of the financial position of the Council and its group as at 31 March 2018 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 2017/18 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 by the Council along with its financial statements.

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. Our audit work over the wider scope audit dimensions compliments our financial statements audit.

Key contacts

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Executive summary – key messages

Independence

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

Financial statements audit - key messages

We have issued unqualified audit opinions on the Council and group financial statements as well as in respect of the Council's various trusts. We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in our Annual Audit Plan.

The annual accounts, statement of responsibilities, governance statement and remuneration report were received at the start of the audit fieldwork. The annual accounts were of consistent high quality, as were supporting working papers. No audit adjustments were required to the unaudited annual accounts which impacted on the reported surplus/deficit on provision of services in the year.

Management responded positively to audit comments to enhance the narrative and presentational aspects of reporting, with constructive relationships between senior management, finance and the audit team.

Progress against recommendations in the BVAR - key messages

During 2016/17, the Council was selected to receive a BVAR. The report was considered and published by the Accounts Commission in November 2017. In its findings the Accounts Commission reported positively on the performance of the Council, acknowledging that its services continue to perform well and delivering positive outcomes for the people of West Lothian.

As part of the 2017/18 external audit we considered both the Council's approach to tracking progress against the recommendations and the extent of completion of the required actions. In line with good practice, the Council had a structured approach to tracking and reporting progress to those charged with governance. By June 2018 essentially all actions had been completed. Elements of the recommendations will of course require ongoing work to deliver, but the key actions required to respond had been identified.

Wider scope audit - key messages

We set out below our key messages in respect of each of the dimensions of public sector audit, along with our overall assessment of each of these in terms of red / amber / green.

Financial management	• The Council demonstrates good financial control of the in-year budget • Budget monitoring reporting is clear and accurately forecasts the out-turn position • The importance of good financial control is clearly understood across the Council	Green
Financial sustainability	• The Council demonstrates good practice in forward financial planning. The five year revenue budget strategy approved in February 2018 covered 92% of the budget reduction measures required to meet its £65.3 million budget gap to 2022/23. • Members and officers have responded to findings in the BVAR and prior year annual audit report • Our assessment of amber reflects the challenge facing all local authorities and the need for continued member and officer focus in delivering challenging levels of savings	Amber
Governance & transparency	• The Council has an effective governance structure through committee meetings, the scheme of delegation and standing orders. • The Council has responded to findings through the BVAR to enhance its arrangements for effective scrutiny, challenge and transparency on decision making	Green
Value for money	• The Council has a clear culture of improvement and a commitment to self-assessment of its performance to ensure that services remain focussed on improvement • There is a clear alignment from the Corporate Plan to the supporting corporate strategies which underpin delivery of the Council's objectives • Council services continue to perform well compared to other councils	Green

2. 2017/18 financial statements audit

2. Summary of 2017/18 audit opinion

The detailed form and content of our audit report, and the requirements underpinning the report, are set out in guidance issued by Audit Scotland. This covers our reporting requirements in accordance with International Standards on Auditing (UK), plus those matters prescribed by the Accounts Commission.

Element of Audit opinion	Nature of opinion and basis for that
Opinion on financial statements	**Unqualified opinion**
▶ Truth and fairness of the state of affairs of the Council and its group at 31 March 2018 and of the income and expenditure for the year then ended ▶ Preparation of the financial statements in accordance with the relevant financial reporting framework	▶ Performance of audit procedures to respond to our assessed risk of misstatement, including significant risks ▶ Accounting policies are appropriate and estimates are reasonable ▶ Completion of financial statement disclosure checklists / consideration of relevant guidance issued by CIPFA / Audit Scotland
Conclusions relating to the going concern basis of accounting	**No matters to report**
▶ The use of the going concern basis of accounting used in the preparation of the financial statements is not appropriate	▶ Supported by our core financial statements audit work, supplemented by our wider scope audit procedures in respect of financial sustainability
Other information in the annual accounts	**No matters to report**
▶ We are required to consider whether the other information in the annual accounts is materially inconsistent with the financial statements or our knowledge obtained in the audit.	▶ Review of committee minutes and papers / discussions with management / understanding of the business / participation in shared risk assessment
Opinions on matters prescribed by the Accounts Commission	**Unqualified opinions**
▶ The audited part of the Remuneration Report has been properly prepared in accordance with applicable regulations ▶ Information in the Management Commentary / Annual Governance Statement is consistent with the financial statements, and prepared in accordance with the relevant guidance	▶ We agreed the form of the report to the regulations and agreed the disclosures to underlying accounting records and supporting schedules ▶ We reviewed the content of the narrative statements to the information known to us in the audit, and against the requirements of the guidance
Matters on which we are required to report by exception	**One matter to report by exception:**
▶ Whether there has been a failure to achieve a prescribed financial objective ▶ Whether adequate accounting records have been kept ▶ Whether financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records ▶ Whether we have not received the information we require for our audit	▶ We include a statement noting that the Council has failed to achieve its statutory responsibilities to ensure that its significant trading operations achieves a break even position over a three year rolling period ▶ In respect of the other areas, we obtained the Council's accounting records by data download and agreed the financial statements and the audited part of the Remuneration Report to these. ▶ We were provided with all the information we required

The Council's Annual Accounts enables the Council to demonstrate its accountability for the resources at its disposal, and its overall performance in the application of those resources during the year.

Financial Statements Preparation 2017/18

Compliance with requirements

The Local Authority Accounts (Scotland) Regulations 2014 (the Regulations) set out the statutory requirements on the Council in respect to the annual accounts, their availability for public inspection and the consideration and signing by the Council or a committee with an audit or governance remit.

The Council has complied with the relevant requirements.

In particular, the unaudited annual accounts were considered by the Audit Committee on 25 June, prior to their submission to us and well in advance of the deadline of 31 August. This demonstrates good practice.

Management ownership of recommendations for improvement

We made three recommendations in our prior year annual audit report in respect of financial statements preparation. These covered:

- documentation and approval of key judgements made in the financial statements;
- review of the process to ensure that property, plant and equipment valuations undertaken at 1 April still remain valid as at the year end; and
- review of the group boundary, specifically in respect of the accounting for West Lothian Leisure.

Management took these into account and tracked progress against them, ensuring they were actioned for the 2017/18 audit process.

Audit logistics

We held a debrief with the finance team to learn lessons from the first year audit and to support efficiencies in the second year of audit. We advanced key elements of audit testing to earlier in the year, to reduce the burden of the audit on the finance and audit team over the summer period.

Overall, in our view, the annual financial statements are prepared in a timely and efficient manner and there has been good cooperation provided across the finance team to support our audit work.

Other matters

We have not identified any circumstances to notify the Controller of Audit that a statutory report may be required under the Local Government (Scotland) Act 1973.

We did not receive any objections to the 2017/18 annual accounts from members of the public.

Audit differences

There are no unadjusted audit differences arising from our audit.

We discussed the Council's presentation of internal recharges and their interpretation of recent advisory guidance issued by LASAAC. As a result management revised the presentation of items in the comprehensive income and expenditure account. There was no impact on the reported deficit on provision of services as a result of the revisions.

One minor adjustment was required to the balance sheet in respect of an arithmetical error within an asset valuation calculation.

An adjustment was made to the Council's share of the Lothian pension scheme's net liability, as determined by IAS19 accounting requirements, as a result of a material difference between the Lothian Pension Scheme actuary's estimation of the value of the Scheme's assets at 31 March 2018 and the actual outturn.

Significant risk - risk of fraud in income and expenditure recognition: ISA (UK) 240 requires us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. In the public sector, we extend that to consider the risk of material misstatements by manipulation of expenditure.

Our overall approach

We rebutted the risk of improper recognition of income in respect of core grant funding from the Scottish Government, as well as in respect of council tax and non-domestic rate income. This was because we considered that there is no judgement in respect of the recognition of these income streams.

We undertook walkthroughs in respect of the processes management has established to account for key income and expenditure streams. We obtained data downloads of the Council's financial ledger in order that we could trace the key transactions through initiation to recording in the financial statements.

Key components of the Council's income	Significant risk	2017/18 (£m)
Council tax income	×	65.6
Non domestic rates distribution	×	90.0
Non ring-fenced government grants	×	221.0
Capital grants and contributions	✓	28.8
Service income	✓	235.8
Interest and investment income	×	26.1
Total income		**667.3**

Key components of the Council's expenditure	Significant risk	2017/18 (£m)
Employee Expenses	×	240.7
Other services expenditure	✓	313.6
Depreciation, amortisation & impairment	×	146.3
Support services	×	18.2
Interest payments	×	61.0
Gain on disposal of assets	×	(2.4)
Total Expenditure		**777.4**

What did we do in response to the significant risk over income and expenditure streams?

- Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- Reviewed transaction listings for individually material transactions as well as unusual items (eg. debits to income, credits to expenditure) to agree to supporting documentation and third party evidence.
- Tested a representative sample of transactions across the remaining untested income and expenditure population to ensure coverage of testing across all balances.
- Reviewed and tested revenue cut-off around the year end through reviewing manual journals posted to revenue and reviewing material credit notes raised after year end.
- Performed a search for material receipts received after year end and ensured these had been accounted for in the correct period.

All audit procedures to address significant risks to the financial statements are performed at a lower materiality level than for other accounts.

Other audit procedures – non-significant risk areas:

Council tax / Non-domestic rates income: We established detailed expectations of income and expenditure and checked the reconciliation to the relevant feeder system.

Non ring-fenced grant income: Substantively tested these balances to grant confirmation letters.

Employee expenses: Bespoke data analysers provided an understanding of all payroll transactions in the year, which were reconciled to payroll system.

Depreciation, amortisation & impairment: We undertook testing of these balances in conjunction with our work on property, plant and equipment.

Interest income / payments: We agreed balances to bank and other loan confirmations.

What are 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.

Revenue recognition – looking ahead
IFRS 15 – Revenue From Contracts With Customers The applicable accounting framework is CIPFA's annual Code of Practice on Local Authority Accounting in the United Kingdom (which is IFRS based as adapted for Local Authorities). The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018. The 2018/19 Code will determine how IFRS 15 *Revenue from Customers with Contracts* will be adopted by local government bodies. It is our view, that IFRS 15 will not have a material impact on this Council's financial statements. The vast majority of the Council's income streams are taxation or grant based. The following income streams are within the scope of IFRS 15, but are not expected to result in major adjustments to the accounting treatment: ▸ fees and charges for services under statutory requirements; ▸ sale of goods provided by the authority; and ▸ charges for services provided by a local authority. We look forward to working with management to ensure any relevant changes in requirements are considered and dealt with effectively.

Significant risk – misstatement due to fraud or error: As identified in ISA 240, management is in a unique position to perpetrate fraud in its 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	
Audit procedures performed	**What did we find?**
We gave consideration to the risk of fraud, inquiring of management about their assessment of the risks of fraud and the controls put in place to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.	We have not identified any material weaknesses in controls or evidence of material management override.
Test the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements	We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We then tested a sample of these journals, understood their purpose and agreed and corroborated them to supporting documentation.
Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates.	We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias. Management have disclosed their consideration of the critical accounting judgements and key estimates in the financial statements. We have reviewed these and agree with the detail of the assessment performed.
Evaluate the business rationale for any significant unusual transactions	We did not identify any significant unusual transactions outside the normal course of business.
Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.	We reviewed expenditure on property, plant and equipment to ensure that expenditure items were not being inappropriately capitalised to defer costs to future years. Likewise we performed analytical procedures and transaction testing of HRA expenditure to ensure HRA funds were not being utilised to meet general fund expenditure. No issues were noted through our testing performed.
Consistency and application of accounting policies / overall presentation of financial information	We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which materially depart from what is acceptable under IFRS or the Code. Following discussion with management on their interpretation of the LASAAC Advisory Guidance in respect of internal recharges. management revised the presentation in the Comprehensive Income and Expenditure Statement (CIES). The presentation is now compliant with the 2018/19 Code. Appropriate segmental reporting information has also been reported. There was no impact on the surplus/deficit position as a result of the adjustment.

What are our conclusions

- We are 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.

2. Other inherent audit risk areas

EY

Higher inherent risk – valuation of property, plant and equipment: The fair value of PPE represent significant balances in the Council's financial statements and are subject to valuation changes, impairment reviews and depreciation charges.

What judgements are we focused on?

The Council's property, plant and equipment portfolio is significant, totalling £1.7 billion of assets at the year end. In terms of the focus of our work, the main judgements are in respect of:

- Council dwellings – due to the materiality of the balance and the judgements in the methodology for social housing valuation
- Other land and buildings – this is the most material grouping of assets, covering most of the Council's operational assets. Asset categories included here which were valued in 2017/18 included development land, car parks and depots.
- Infrastructure assets, assets under construction and vehicles, plant, furniture and equipment categories of assets are valued at historical cost. As such, we consider these as having a lower inherent risk as there is no material valuation judgement required.

Category of Property, Plant & Equipment	2017/18 (£m)	2016/17 (£m)
Council Dwellings	375.0	383.0
Other Land and Buildings	1,034.3	1,055.3
Vehicles, Plant, Furniture and Equipment	17.7	19.3
Infrastructure Assets	219.0	211.2
Community Assets	0.6	0.6
Assets under construction	66.0	72.1
Surplus assets, not yet held for disposal	19.2	23.2
Total Property, Plant & Equipment	**1,731.8**	**1,764.6**
Heritage assets	0.8	0.8

Source: West Lothian Audited Accounts 2017/18

What did we do?

- We have considered the action taken by management to address the prior year recommendation.
- We reviewed the annual cycle of valuations to ensure that assets have been valued in accordance with the requirements of the Code, and whether any specific changes to asset use have been communicated to the valuer.
- We met with the valuer and challenged key assumptions and inputs used in asset valuations.
- We obtained representations from the valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- We sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre), including consideration of changes to useful economic lives
- We reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.
- We confirmed that accounting entries have been correctly processed in the financial statements.

What did we find

We identified one minor error resulting from an arithmetical error within an asset valuation calculation. This had a total impact on the asset valuation of £776,656. As a result, we extended our sample and did not identify any further errors. This error does not indicate any errors in judgement or estimation techniques used by the valuer.

Other than the error noted above, we did not identify any material misstatements in relation to the valuation of land and buildings.

We also considered a selection of other property valuations and noted that there were no material changes in value from 2016/17. The audit team has considered the analysis performed by management to determine that there was no material change in carrying value. We are content that these valuations are not materially misstated.

What are our conclusions

- We have not identified any material weaknesses in the valuation process or judgements used by the valuer. An audit adjustment was made as a result of an isolated arithmetical error identified through our sample testing.

Higher inherent risk – accounting for retirement benefits: extensive disclosures are required in respect of the Council's participation in the Local Government Pension Scheme (LGPS). Management involves specialists in the preparation of this material accounting estimate.

Accounting for retirement benefits

In line with accounting standards, the Council recognises the cost of retirement benefits provided to its staff in the reported cost of service when they are earned by the employee and not when the pension benefits are actually paid.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

- We obtained responses to our enquiries of the auditor of Lothian Pension Fund, thus obtaining appropriate assurance over the information supplied to the actuary in relation to the Council's participation in the Fund.
- We have assessed the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- We have reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What did we find

We concluded that we were able to rely on the work of management's specialists – the pension fund actuaries – and were satisfied that the actuarial assumptions used in the preparation of the IAS 19 report were appropriate.

We obtained relevant assurances from the pension fund auditor to support our conclusions.

The timing of production of actuarial reports means that actuaries produce their IAS 19 reports using estimated data for the final part of the year. As estimates require to reflect the latest available, reliable information, we identified a potential material adjustment due to the estimated returns on investment assets which only impacts on the employer assets. We requested management obtain an update from the actuaries.

As a result, a revised IAS 19 report was produced by the actuaries based on actual outturn to 31 March 2018. This showed a £16.2 million increase in actuarial gains, compared to that previously reported. The impact of this is a decrease in the pension liability from £218.6 million to £202.4 million as at 31 March 2018.

What are our conclusions

- We identified a material adjustment in the actuarial assumptions due to the timing of the IAS 19 report. The total impact of this resulted in a reduction of the pension liability by £16.2 million.

Statutory Trading Operations

Under the Local Government in Scotland Act 2003, the Council has to maintain statutory trading accounts for any 'significant trading operations' (STOs). The 2003 Act also prescribes that STOs have to break even over a three year rolling period.

The Council reports one significant trading operation, Economic Development Properties. The cumulative three-year result is a deficit of £6.07 million, resulting in a failure to achieve the statutory financial requirement. The reason for the failure to achieve the statutory financial requirement is due to impairment charges in each of the three years from 2015/16 to 2017/18. Excluding these impairment charges, a cumulative surplus of £1.2 million would have been reported.

Impact on audit opinion: as the Council has failed to comply with a statutory financial objective, in line with prior year, we report a matter by exception within our audit opinion.

With local authorities in general developing new and different ways of working in partnership with other entities in delivering services, the accounting code of practice requires the Council to prepare group financial statements setting out its interests in other entities and the impact these have on the Council.

Group financial statements

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

West Lothian Leisure Ltd - subsidiary

We reported in 2016/17 that the Council's interest in the company had been accounted for as an associate when, in our view, changes to the articles of association had given the Council control during that year. We reported an unadjusted audit difference in 2016/17 on this basis.

Management agreed that from 1 April 2017 the company would be treated as a subsidiary. This reflects the correct accounting treatment and so there is no reoccurrence of the unadjusted audit difference in 2017/18.

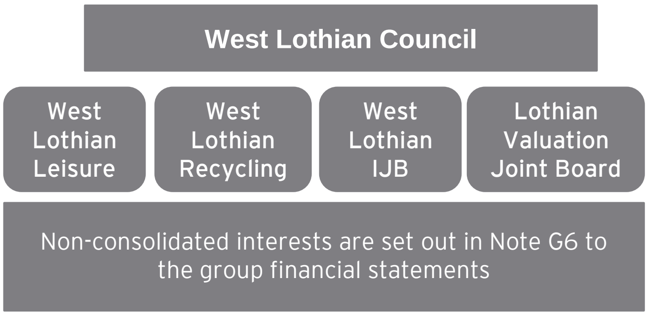
Lothian Valuation Joint Board - associate

Management has assessed that it exerts significant influence, but not control, over Lothian Valuation Joint Board. We have agreed with the assessment and the treatment therefore as an associate entity.

West Lothian Integration Joint Board (IJB) / West Lothian Recycling Ltd – joint ventures

We agree with management's assessment of these entities as joint ventures.

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



The only significant component by size is the Council, which accounts for 88% of consolidated gross expenditure. While the IJB accounts for 7.6% of total expenditure, the joint venture accounting essentially leads to a gross-up of income and expenditure relating to the IJB, without additional third party spend outside of the Council/IJB relationship being incurred.

We did not identify any specific risks that may indicate a component is significant by risk, as the IJB does not affect the transactions as such, only the nominal funding agreement in and out of the IJB.

We are satisfied that management have conducted a suitable updated assessment in respect of other entities where the Council has a relationship, but it has been assessed that consolidation has not been required.

Impact on audit opinion: we are able to issue an unqualified opinion in respect of the Council's group financial statements

Trust funds

The Council acts as sole trustee for 40 trusts and mortifications, nine of which are registered charities. The Council's charitable trust funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.

We encountered no significant difficulties in undertaking our work and have no significant matters to report to you. There were no audit adjustments impacting on the net assets or income and expenditure reported for the year, with no reportable presentational adjustments required to the draft financial statements. We considered and confirmed our independence to act as auditors of the charitable trust funds, in line with the procedures set out in Appendix C for the Council audit.

- We have provided an unqualified audit opinion on the charitable trust funds financial statements, in accordance with applicable law and the relevant financial reporting framework.

Our overall audit approach is based upon developing a detailed understanding of your significant classes of transactions and account balances, and the internal controls established by the Council. We use our data analysers to understand and visualise the interaction of these transactions within your financial ledger.

Overall audit approach

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operating effectiveness of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Use of data analytics in our audit procedures

As the technology supporting audit develops, we increasingly utilise data analytics to support our audit conclusions over traditional sample testing arrangements. This is designed to provide a more thorough audit approach while simultaneously reducing the comparative burden of audit compliance on management.

We use our bespoke data analysers to enable us to capture entire populations of your financial data. We capture the data through our formal data requests and the data transfer takes place through secured EY sites. These are in line with our data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

In 2017/18, our analysers were used in the Council's audit to analyse and test journal entries, employee expenses and other income and expenditure.

Journal entry analysis

We obtained downloads of all financial ledger transactions posted in the year. We performed completeness analysis over the data, reconciling the sum of transactions to the movement from the opening to closing trial balances and financial statements to ensure we captured all data. Our analysers complete integrity checks over the data received, to identify possible indicators of incomplete or incorrect data, such as journals which do not balance to nil. Our analysers then review and sort transactions based on our identified risks, allowing us to more effectively identify and focus on journals that we consider to be higher risk, as identified in our audit planning report.

Payroll analysis

We also use our analysers for testing payroll expenditure. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the general ledger trial balance. We then analyse the data against a number of specifically designed procedures to address risks of misstatement in payroll. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation, such as where new employees appear to have been paid before their start date.

Through our procedures, we identified two employees whose monthly salary continued to be paid after their termination date. These findings were communicated to management, who confirmed it had already identified these processing errors through internal controls and confirmed that all monies had been recovered. As a result, no audit recommendation were raised as a result of our findings.

2. Other audit areas (cont.)

The narrative elements of a local authority's annual accounts form a key part of explaining the performance of the Council during the year. They also enable the local authority to demonstrate openness and transparency in governance and remuneration provided to members and key officers.

Other reporting requirements
Management Commentary
Requirement: Regulation 8(2)(a) of the Local Authority Accounts (Scotland) Regulations 2014 **Relevant statutory guidance:** Scottish Government Local Government Finance Circular 5/2015 **Audit responsibility:** Audit Scotland requires us to read the management commentary and express an opinion on whether the information given is consistent with the financial statements and whether it has been prepared in accordance with the statutory guidance. We read the management commentary and compared the content against the information in the financial statements and against the statutory requirements. We concluded that the content provided: ▸ a fair and balanced review ▸ is easy to follow ▸ covers risks and uncertainties facing the council ▸ provided a good understanding of the financial performance of the business to be obtained. We suggested to management that there was scope to enhance certain aspects, in particular around the explanation of key financial performance measures and the linkages to the expenditure and funding analysis, as well as to set out further key elements of the steps the Council is taking to respond to the challenging environment it faces. Management updated the commentary appropriately to reflect key elements of our review.
Impact on audit opinion – unqualified opinion on management commentary
Remuneration Report
Requirement: Regulation 8(2)(d) of the Local Authority Accounts (Scotland) Regulations 2014 **Audit responsibility:** Auditors are required by the Code to audit the disclosures of remuneration and pension benefit, pay bands, and exit packages and express a separate opinion within their independent auditor's report on whether they have been properly prepared in accordance with the Regulations. No amendments were required to the draft remuneration report to ensure its consistency with underlying records and presentation in accordance with the statutory requirements. The Council has disclosed appropriately exit packages provided to 31 staff totalling £0.66 million (*2016/17: 42 staff totalling £0.95 million*).
Impact on audit opinion – unqualified opinion on remuneration report
Annual Governance Statement
Requirement: Regulation 8(2)(c) of the Local Authority Accounts (Scotland) Regulations 2014 **Audit responsibility:** Auditors are required by the Code to report as to whether the statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016) We set out our detailed findings as part of our wider scope audit work on governance and transparency in section 3.3 of this report.
Impact on audit opinion – unqualified opinion on annual governance statement

3. Wider scope audit & Best Value

Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code which comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money.

Wider scope audit

The Accounts Commission agreed the overall framework to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as an integral part of the wider scope annual audit process. Every council will have a Best Value Assurance Report (BVAR) considered by the Accounts Commission in every 5-year cycle.

Our wider scope audit work, and the judgements and conclusions reached in these areas, therefore contribute to the overall assessment and assurance on the achievement of Best Value. We participate in the Local Area Network (LAN) for the Council, comprising representatives from different scrutiny bodies to agree the Council's local scrutiny plan (LSP).

The 2017/18 LSP was set in the context of the BVAR scheduled for the Council. No specific scrutiny risks were highlighted. The 2018/19 LSP was published in April 2018 and confirmed no scrutiny risks for 2018/19, consistent with the prior year. The LSPs formed the context for our audit and risk assessment.

Accounts Commission Strategic Audit Priorities

The Accounts Commission has set the following strategic audit priorities, which reflects their interest in:

A. The clarity of council priorities and quality of long-term planning to achieve these.

B. How effectively councils evaluate and implement options for significant changes in delivering services.

C. How councils are ensuring members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.

D. How well councils are involving citizens in decisions about services and empowering local communities to identify and help deliver services they need.

E. The quality of councils' reporting of their performance to enhance accountability to citizens and communities.

The table below sets out our plan for our five year audit appointment, including coverage of the elements of Best Value statutory guidance as well as the Commission's strategic priorities, and how we will report these in accordance with the wider scope dimensions of public audit.

High level five year Best Value plan / audit coverage			
Element of Best Value, in accordance with the statutory guidance	**Reported under wider scope audit dimension**	**Linked to Strategic Audit Priority**	**Audit year**
Performance and outcomes	Value for money	B	Year 2
Improvement	Value for money	-	Year 2
Leadership, Governance and Scrutiny	Governance & transparency	A, C	Year 3
Equal Opportunities	Value for money	E	Year 3
Partnership Working and Empowering Communities	Governance & transparency	D	Year 4
Financial and service planning	Financial sustainability	A, C	Year 5
Financial governance and resource management	Financial management	-	Year 4
BVAR	All	All	Year 1
Follow up of BVAR	All	All	Year 2

Year 1 = 2016/17 Year 2 = 2017/18 (this year) Year 3 = 2018/19 Year 4 = 2019/20 Year 5 = 2020/21

Auditor considerations of the Council's arrangements to secure Best Value
The Council was selected as one of the councils to receive a BVAR in the first year of the new arrangements, with the report considered and published by the Accounts Commission in November 2017. In its findings the Accounts Commission reported positively on the performance of the Council, acknowledging that its services continue to perform well and delivering positive outcomes for the people of West Lothian. The Commission also endorsed the recommendations set out by the Controller of Audit in the report, expecting the Council to act on these. At a meeting between members of the Commission and officers and members of the Council in January 2018, the Council set out how it intended to respond to those recommendations. The main focus of our work in 2017/18 has therefore been on the follow up on the Controller of Audit recommendations within the BVAR, as well as the Accounts Commission's findings. This has been undertaken in cooperation with the Audit Scotland team involved in the original Council BVAR work. We have considered how the Council has proposed and progressed actions to address the findings and recommendations. *Tracking and self-assessment of progress against audit recommendations* In line with good practice, the Council included all relevant recommendations from both the BVAR and the prior year annual audit report in Pentana, to ensure that progress against the agreed actions were tracked and progress reported to those charged with governance. Management provided us with their assessment of progress against these actions, which showed that by June 2018 essentially all actions had been completed. Elements of the recommendations will of course require ongoing work to deliver, but essentially the Council had identified the key actions required to respond accordingly. This self-assessment formed the basis of our work.

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	
Green	- The Council demonstrates good financial control of the in-year budget - Budget monitoring reporting is clear and accurately forecasts the out-turn position - The importance of good financial control is clearly understood across the Council

2017/18 financial statements

The Council incurred gross expenditure on the provision of services of £777.4 million (*2016/17: £754.2 million*), and incurred an accounting deficit of £110.1 million (*2016/17: £95.2 million*) on those services.

This is shown in the surplus / deficit on provision of services line within the Comprehensive Income and Expenditure Statement (CIES) which sets out the cost of providing Council services in accordance with generally accepted accounting practices.

The Expenditure and Funding Analysis (EFA) note to the financial statements provides an explanation of how this expenditure is used and funded by the Council. This is different from the accounting position shown in the CIES in accordance with the Code and, together with the Movement in Reserves Statement, demonstrates how the Council's statutory reserves, including the General Fund, have changed in the year.

As shown in the EFA, the outturn for the financial year against the Council's general fund was a deficit of £1.4 million (*2016/17: deficit of £0.35 million*). This was consistent with the in-year reported position, after certain year-end accounting adjustments are made.

Focus on financial statements results	2017/18 £000	2016/17 £000	Commentary	RAG rating
(Surplus) / deficit on provision of services	**110,081**	95,215	The accounting deficit includes capital and pension fund accounting items which are less directly controllable. While large deficits are not desirable the key focus is correctly on the movement in revenue funds (below).	G
(Surplus) / deficit on General Fund and HRA	**1,356**	347	No significant change. In general this result reflects on good in-year financial management and budgetary control	G
Uncommitted general fund	**2,101**	2,075	This equates to 0.5% of budgeted net expenditure and is one of the lowest levels held of any local authority in Scotland. We highlighted this in prior year - management keep this under review in conjunction with the level of earmarked reserves held.	A
Earmarked reserves	**21,805**	23,187	Earmarked reserves have broadly been maintained at the same level and provide the Council with flexibility around key initiatives.	G
Net current liabilities	**(53,495)**	(245)	The year has seen an increase in net current liabilities. This can reflect a potential inability to meet liabilities as they fall due. In practice, good cash flow management will ensure that this risk does not materialise.	A
Total Usable Reserves	**93,920**	103,550	Most of the reduction is due to utilisation of the capital fund in supporting the Council's investment in assets. However there are significant usable reserves available.	G
Total Unusable Reserves	**833,244**	803,687	The increase in unusable reserves has primarily arisen due to the reduction in the net pension liability from the prior year, following the recent triennial valuation of the local government pension scheme.	G
Net increase / (decrease) in cash	**15,863**	(12,718)	The increase in cash is primarily a result of a reduction in investments held as these are translated back into cash for use in the Council's activities.	G

Elements of financial management, and our assessment of the Council's arrangements
1. Is it clear why budgets have changed during the year, including how income and expenditure have changed since the budget was set at the beginning of the year? 2. Is financial forecasting an embedded part of financial management and reporting arrangements? 3. How accurate is financial forecasting? 4. How effectively is the Council managing its capital programme?
1. From review of budget monitoring reports, we observed that there were no major (> 0.5%) amendments made to overall service expenditure budget during the year – see table 1. 2. The budget monitoring reports include both the full-year commitments entered into by the reporting period plus the forecast outturn position. Similar budget monitoring reports are presented to the Council Executive covering the Housing Revenue Account. In line with prior year, the HRA achieved a break-even result for the financial year. 3. There were no major fluctuations in the outturn projections provided to members during the year, demonstrating good financial control and an understanding of the budget and in-year management of financial pressures. 4. Table 2 sets out the capital programme for 2017/18 and delivery against budget, along with comparative information. As in prior year, slippage was experienced in the 1,000 Houses New Build programme due mainly to timescales to obtain statutory consents. Nevertheless, significant investment of £48.59 million was made. The Council has also been able to respond to this by accelerating aspects of the general fund capital programme, over-delivering against budget by £4.57 million. In the general services programme, the Whitehill Service Centre and Linlithgow Partnership Centre were completed while spend was accelerated on the Whitburn and Armadale Partnership Centres.

Table 1 - Analysis of budget monitoring reports presented to the Council Executive during 2017/18	Variance v budget on monthly monitoring				Actual spend £000
Service area	Month 4 £000	Month 6 £000	Month 9 £000	Outturn £000	
Schools, Education Support	-	-	(150)	(527)	225,567
Planning, Economic Development and Regeneration	-	-	-	-	10,423
Operational Services	450	450	450	841	70,728
Housing, Customer and Building	270	269	269	269	12,607
Corporate Services	-	(35)	(185)	(185)	18,283
IJB – Adults and Elderly Services	-	-	-	-	64,457
Non-IJB – Children's Services	-	-	-	-	34,556
Chief Executive, Finance and Property	(339)	(368)	(518)	(170)	32,660
Joint Boards	(34)	(34)	(34)	(34)	1,179
Service expenditure	**347**	**282**	**(168)**	**194**	**470,460**
Non-service expenditure	(347)	(1,332)	(1,532)	(2,261)	8,764
Total expenditure	**-**	**(1,050)**	**(1,700)**	**(2,067)**	**479,224**

Table 2 - capital programme	2017/18 budget- £000	2017/18 actual - £000	Variance -£000
General Services	44.85	49.42	4.57
HRA	57.45	48.59	(8.86)

Elements of financial management

- Can the body demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance?
- Do finance reports support effective scrutiny and challenge?

Budget monitoring reports provide updates to elected members on action being taken to address service pressures - this enables members to exercise appropriate oversight.

Monitoring reports also included in-year analysis against the budget reduction measures. For 2017/18, these totalled £8.8 million and reports included red, amber, green assessment of their achievement. As the budget approved in February 2016 had also included the indicative figures for the 2017/18 budget, measures to achieve the majority of savings had already been put in place at the start of the financial year.

The £8.8 million of efficiency savings were included in the Council's Efficiency Statement submission to CoSLA. Included in these were £2.78 million due to shared services, £1.19 million on asset management and £0.52 million on procurement.

- Are standing financial regulations comprehensive, current and promoted within the body?
- Does the body have arrangements to ensure systems of internal control are operating effectively?

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 website and updated most recently in June 2018 to reflect decisions taken by the Council Executive.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control which we identify. We have not identified any such matters to report to you.

- Are there suitably qualified and experienced officials leading the body's finance team?
- Is there sufficient financial skills, capacity and capability in the body?

The Council's section 95 officer is the Head of Finance and Property Services. We considered the role and status of the section 95 officer and are satisfied that the Council adheres to the principles laid out within CIPFA's Statement on the role of the Chief Financial Officer in Local Government.

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

While the preservation of front-line services is understandably of prime concern to members and officers, maintenance of strong financial control to support service transformation necessitates the retention of suitable financial and other corporate support services. Keeping this balance will be a challenge for all local authorities in the current environment but the importance of doing so cannot be understated.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.	
Amber	▸ The Council demonstrates good practice in forward financial planning. The five year revenue budget strategy approved in February 2018 covered 92% of the budget reduction measures required to meet its £65.3 million budget gap to 2022/23. ▸ Members and officers have responded to findings in the BVAR and prior year annual audit report ▸ Our assessment of amber reflects the challenge facing all local authorities and the need for continued member and officer focus in delivering challenging levels of savings

The context for financial sustainability

Since we issued our annual audit plan, the Accounts Commission issued the second part of their overview reporting for Local Government in Scotland: Challenges and performance 2018. This report recognised the complex and challenging environment facing local government, citing for example:

- the significant uncertainty around terms for the UK's withdrawal from the European Union (EU);
- revenue funding from the Scottish Government has fallen in real terms by 9.6% between 2010/11 and 2018/19; and
- Scotland's population is getting older, leading to increased demand for social care services and fewer working age people to fund public services.

Some national policies, however, combined with ongoing spending commitments such as pension and debt costs, mean there are limitations on where councils can make savings. Smaller service areas, which often include important regulatory functions, have seen the biggest budget reductions, while education and social care services take up a growing proportion of council spend.

Findings of the BVAR / prior year audit

In the prior year audit, we concluded that the Council's financial position was generally sound. We noted that while significant capital investment was required in response to demographic pressures, it had a good basis to undertake this investment.

The BVAR report highlighted the Council's established process for aligning its financial strategy to its corporate plan priorities. It did, however, highlight a risk surrounding the timeline for involvement of elected members following the public consultation exercise, as difficult decisions were expected to be required.

We report later in this section on how the Council responded to these findings.

Focus on EU Withdrawal

Senior management provide a 'Horizon Scan' report regularly to the Partnership and Resources Policy Development and Scrutiny Panel. This considers the potential implications of EU Withdrawal. At a UK level, the report covers potential implications for debt and borrowing; economic growth; productivity; exports and inward investment; inflation and interest rates; unemployment; and house prices. In considering the Scottish implications, management highlight that the changes to the Scottish rate of income tax from April 2017 means that Scotland's own economic performance has a more direct impact on the Scottish budget.

At a West Lothian level, the following matters have been highlighted:

- total number of residents from other EU countries was 5,112, with 85% of the total EU group of working age (2011 Census figures)
- large number of EU nationals work within social care services
- total employment sustained by exports to the EU estimated to be 4,500-5,000 jobs
- excluding retail, around 40 companies of scale are European owned, employing almost 2,000.

EY view: Management are well sighted on this issue. As the implications become clearer in time, there is scope for greater focus on the particular risks which could crystallise in respect of, for example, delivery of social care services.

Aspects of financial sustainability, and our assessment of the Council's arrangements

1. Does the Council have a medium term financial strategy / long-term financial strategy?
2. How has the Council factored in the demographic impact of changes in population, demography and demand within its financial plans?

1. We reported last year on the approach the Council has approved to develop its new financial strategy in tandem with the preparation of the Corporate Plan for the period 2018/19 to 2022/23. During the year officers developed a five year revenue budget strategy for consideration by Council when setting the annual budget. As such a detailed three year general fund revenue budget for 2018/19 to 2020/21 was approved by Council in February 2018, within the context of a strategy to 2022/23.
2. The Council's population demographic is for an overall increase of 8.6% over the period to 2039, principally due to a projected 47.9% increase, the largest in Scotland, in people of pensionable age and over. The Council is well aware of the challenges this poses, and the financial strategy includes the assessed impact of demographic changes in its revenue planning. From the table below, these total £28.3 million of the total expenditure pressures.

Forecast budget gaps	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Staffing costs	9.5	6.3	4.6	4.9	4.9	30.2
Demographics & Demand pressures	5.3	5.4	5.7	5.9	6.0	28.3
Service Pressures & Developments	6.8	1.6	8.6	4.7	0.4	22.1
Other pressures	3.3	3.4	3.7	3.8	3.9	18.1
Gross expenditure	**24.9**	**16.7**	**22.6**	**19.3**	**15.2**	**98.7**
Gross Income	(11.0)	(1.1)	(10.9)	(7.5)	(2.9)	(33.4)
Forecast Budget Gap	**13.9**	**15.6**	**11.7**	**11.8**	**12.3**	**65.3**

Budget reduction measures – impact by key service	2018/19 %	2019/20 %	2020/21 %	2021/22 & 2022/23 %	Total %
Social Policy – delegated to IJB	18.4%	17.8%	37.4%	28.9%	25.5%
Social Policy – non-delegated	3.7%	2.9%	12.2%	17.4%	10.1%
Education	27.0%	24.2%	15.8%	10.8%	18.4%
Operational Services	19.3%	38.4%	15.2%	7.0%	18.6%
All other expenditure areas	31.6%	16.7%	19.4%	14.2%	19.4%
Still to be identified	0%	0%	0%	21.7%	8%
% of budget gap for which budget reduction measures identified	**100%**	**100%**	**100%**	**78.3%**	**92.0%**

The table shows that in the first two years, the key service areas where budget reduction measures are targeted are in Education and Operational Services as well as being spread across the other expenditure areas of the Council. As we look forward, budget reduction measures are assumed to come more from Social Policy spend areas, as longer-term measures to transform and respond to the demographic pressures in this area come into effect.

The Council has indicated that the proposed reduction measures will see a reduction of 780.2 full time equivalent staff posts. This is offset by growth in Council service areas where 640.9 additional FTE staff are required, notably in education. The net position over the five years is forecast as a reduction of 139.3 FTE.

Budget reduction measures – involvement of the community in their development

In Autumn 2017, the Council undertook a large scale consultation *Transforming Your Council* (TYC) on the officer proposals to meet the forecast budget gaps. These were set out under seven themes:

1. Modernising services and managing our workforce (35% of measures)
2. Modernising social care (28% of measures)
3. Managing our relationships with customers (2% of measures)
4. Working with partners to deliver outcomes (5% of measures)
5. Managing our assets and reducing energy (5% of measures)
6. Reviewing income and concessions (7% of measures)
7. Environment (18% of measures)

Of these, items 1, 2 and 7 contributed approximately 80% of the proposals.

The TYC consultation received over 7,000 responses, and 45,000 comments in total. Detailed analysis of the responses were provided to the relevant Council Policy Development and Scrutiny Panel (PDSP) in December 2017 prior to consideration by firstly the Council Executive and then by full Council as part of the formal revenue budget strategy.

EY view – example of best practice

By setting a revenue budget that includes 100% of identified savings for not only the 2018/19 financial year, but also the subsequent two financial years, the Council has demonstrated best practice in forward financial planning.

Many councils currently have significant budget gaps to address – West Lothian have already identified savings measures covering 92% of the total five year gap.

Adding value to the Council

As an extension to the Council's arrangements, we recommended in the prior year that management include a red/amber/green (RAG) rating on savings proposals to provide members with an overview of the areas of greatest financial risk.

Management accepted and implemented this recommendation. Within the revenue budget report, an appendix included a full risk rating of all budget reduction measures. In setting the budget in February 2018, £26 million of budget reduction measures were graded as 'high' risk, but only £1 million were graded very high.

This recognises the challenge which the Council still faces to fully deliver on the identified proposals, but provides the elected members with appropriate support to focus their scrutiny on the higher risk areas.

As at September 2018, further work by management to implement the approved measures has now assessed that there are no high risk measures remaining within the detailed three year budgets to 2020/21. Of the total £41.2 million of measures, 46% are already categorised as green with 54% at amber.

3.3 Financial sustainability (cont.)

Use of reserves – does the Council have clear plans for its usable reserves?

The Council has a low level of uncommitted general fund reserves, at approximately 0.5% of expenditure. This is in line with the approved minimum level of £2.0 million, however, we highlighted this as a risk in the prior year audit and recommended continual review of the adequacy of the position.

The S95 officer provided a *Statement on General Fund Balances and Other Reserves* which covered all of the Council's usable reserves (excluding HRA which was covered in the specific HRA revenue budget paper). At the time, the forecast uncommitted balance was £2.835 million which the s95 officer recommended be retained as contingency. Elected members decided to commit the balance above the minimum level. The balance was retained for allocation in the 2018/19 budget awaiting consideration of the West Lothian Leisure position.

The s95 officer noted our audit recommendation and highlighted his view that the low level of reserves was only appropriate on the basis of the Council:

- approving a five year medium term strategy;
- maintaining the commitment to sound financial management; and
- has substantial earmarked reserves, including the capital and insurance funds, to manage priorities.

We therefore consider that the Council has given appropriate consideration to the risk we highlighted.

The quarter 1 reports for 2018/19 indicate specific pressures in homelessness and waste recycling costs, which management are considering may need to be factored into the 2019/20 recurring budget. Overall, while challenging, at this time there is no indication that the Council will need to draw on its uncommitted reserves.

Involvement of members in setting priorities, and approval of budgets

In the Accounts Commission's findings on the BVAR, they reported that it was crucial that elected members play a more prominent and leading role in responding to these challenges. In particular, it was recommended that members should identify earlier in the budgeting process the priorities which need to form the basis of engagement with communities.

Following the revenue budget setting process, in line with the agreed action plan, officers undertook a review of the financial planning process. This was done in consultation with the elected members, with the findings of the review reported back to members in June 2018 through the Council Executive. The officer report contained a number of recommendations, which confirmed much of the existing arrangements but committed the Council to the principles of financial planning, including a five year strategy that will run alongside the Corporate Plan and detailed three year budgets.

In order to respond to the risk of the timeline for member involvement, the report recommended that Council Executive should set out the basis for public consultation on the next corporate planning cycle by June following the elections, to enable the timeline to be advanced. Furthermore, the results of the consultation exercise will now be presented in a single report to the Council Executive, which will then allow PDSPs to be scheduled to allow consideration of the substance of the budget measures included in the consultation and to consider suggestions on potential budget savings received from stakeholders.

Members approved the recommendations in the report.

EY view

In reporting on what we consider best practice in approving detailed three year budgets, within the context of a five year plan, having attended the Council meeting at which the budget strategy was considered, there was a considerable amount of detail presented in the report for members to consider.

While some of this had been seen previously by members, certain key aspects had not been reported in advance, including for example the phasings of savings proposals and what actions required to be taken in 2018/19 and which proposals were for later years.

In recommending the changes to the financial planning process noted above, we believe there will be the opportunity for earlier consideration of some of this detail by members, prior to considering what will by necessity, be a very comprehensive budget report.

Capital investment – general services

The Council approved a ten year general services capital investment strategy in February 2018 in combination with the updated Corporate Asset Management Strategy.

Officers recognised the requirements of the revised Treasury Management Code of Practice issued by CIPFA in December 2017 and are working towards full implementation during 2018/19 to ensure elected members are provided with the required information as part of the 2019/20 capital budget report.

The Council recognise that resources are likely to be more constrained over the forthcoming ten year period. Officers' analysis reported that the value of the core investment programme, based on the principles of prudence, affordability and sustainability, was £238.3 million. The analysis further identified the opportunity to supplement this with external sources of funding for specific property, roads and open space projects of approximately £150.5 million. The overall projected resources are summarised below.

The focus of investment is aligned with Council priorities. The significant element of the programme is continued investment in schools, with over £200 million of planned expenditure, out of £265 million on the Council's property portfolio.

£72 million is allocated for investment in roads and related assets, £17 million in open spaces including children's play areas, with the balance of £33 million due to be spent on ICT assets as the Council strives to drive service modernisation through the enhanced use of innovative technology.

Projected resources	£million
Scottish Government Grants	181.2
Capital Receipts	25.0
Capital Fund	49.0
New borrowing	10.0
Other funding, including developer contributions	123.5
Total	**388.7**

Capital investment - housing

A five year housing capital investment programme was approved in February 2018, covering the period to 2022/23. This totals £155 million of which £79 million is allocated to new build and 90 open market acquisitions. This will support the Council in meeting their commitment to expand local housing supply, and the completion of the 1,000 New Build Housing programme which has been in progress. The programme will be principally funded by £99 million of borrowing plus £34.6 million of capital funded by current revenue through the HRA account. Government grants of £19 million represents the remaining key funding element.

Focus on developer contributions

The Winchburgh Core Development Area forms a large proportion of the agreed South East Scotland City Region Deal support for the Council. The development at Winchburgh involves the construction of a significant number of new homes, with over 400 already built and a further 150 per annum being built over coming years. This has driven the need for additional educational provision in the area.

The Council secured developer contributions to cover their costs as part of the section 75 legal agreement and conditions associated with the planning consent. During 2017, the lead developer approached the Council and said that due to the scale of upfront investment, and current market conditions, had led to a re-appraisal of the development viability. They remained committed to fully funding all infrastructure obligations but sought to re-negotiate the terms of the s75 agreements to an annual roof tax contribution equivalent to 150 completions per year.

A revised agreement was established in conjunction with the Scottish Government and the lead developer. This involves the Council undertaking additional advance borrowing to enable the schools to be built, but with the debt servicing costs to be met by the lead developer through the roof tax contributions. The Council has sought to mitigate its own risk through a Scottish Government guarantee. This culminated in Council Executive approving a business case submission to the Scottish Government in April 2018 requesting their formal support, through a stand-by facility, to protect the Council from exposure should the developer contributions not meet the additional borrowing. Final formal approval is awaited from the Scottish Government.

The capital investment strategy includes approximately £120 million of total investment in schools to be funded by developer contributions. Given the significance of these to the Council, this will remain an area of audit focus to ensure that the Council is securing the funding required to underpin its investment plans.

3.3 Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.	
Green	- The Council has an effective governance structure through committee meetings, the scheme of delegation and standing orders. - The Council has responded to findings through the BVAR to enhance its arrangements for effective scrutiny, challenge and transparency on decision making

Leadership and corporate planning

Following the local elections in May 2017, officers embarked on preparing the refresh to the Council's Corporate Plan. A proposed set of priorities and options on how the Council could deliver services in a better way and balance its budget was brought together in the Transforming Your Council consultation document which was published on 16 October 2017. The consultation ran for four weeks and closed on 12 November 2017.

To aid the consultation process, the Council's eight priorities were set out in the consultation document and respondents were asked to rate the priorities in order of importance. In addition, respondents were asked to comment on whether the eight priorities were still the priorities which the Council should be focusing on.

Respondents overwhelmingly supported the priorities. The detailed comments received identified what matters to the West Lothian community and the transformation they want in Council services. The top rankings were for priorities concerned with school children, early years, those affected by joblessness and poverty, and older people. This confirmed the community's support for the Council's approach to target services and resources to those most in need.

The Corporate Plan 2018/19 - 2022/23 was approved by Council in February 2018. The medium term financial strategy is directly linked to this.

Nine corporate strategies to support the Corporate Plan have been developed, with eight approved by Council Executive by 30 June 2018 with the remaining one approved after the summer recess. Seven management plans for the service areas have been considered by the relevant PDSP for implementation in 2018/19.

Commitment to transparency
Audit Scotland issued auditors with supplementary guidance covering transparency in public sector bodies in Scotland. We have utilised this guidance as part of our audit work, and in particular the questions for auditors to consider. We have identified the following relevant aspects of the Council's arrangements: - Decisions are transparent as actions are documented within Council and committee minutes. - There is a high level of transparency through the Council's website, which includes minutes and papers for all committee meetings. - Corporate strategies and management plans are included on the website, and there are links to Council performance reports.
Actions taken in response to the BVAR / prior year annual audit report
We recommended that the scheme of delegation should be updated to state that a member of the administration should not be chair of either the Audit Committee, or Governance and Risk Committee. The Council amended the scheme of delegation accordingly. We also recommended that membership of the Performance Committee could be reviewed to ensure there was sufficient involvement from elected members drawn from outside the decision-making committees of the Council. Council considered our recommendation but concluded that they were satisfied with the arrangements in place.

Annual Governance Statement (AGS)

The AGS sets out the Council's governance framework. The Council supports its arrangements through its local code of corporate governance, and assessments are undertaken regularly of compliance against this. Other core support for the AGS is through the system of compliance statements which are obtained from key individuals in the Council's management team, relating to their areas of responsibility.

In the prior year we had made suggestions to management on the form and content of the statement and these have been fully reflected in the 2017/18 financial statements. These enable the Council to set out clearly both the framework for governance and also the impact that it had on the business of the Council during the year. Aspects of governance which have been strengthened during 2017/18 are now clearly set out, along with areas identified for continual improvement in 2018/19.

No significant weaknesses in corporate governance were identified.

The annual report from the Audit, Risk and Counter Fraud Manager is a further source of support for the AGS. This report concluded "*that the council's framework of governance, risk management and control is generally sound.*"

Adding value to the Council

The AGS also sets out the areas where it has reviewed its governance and updated its arrangements in response to findings in the BVAR and / or audit recommendations from the prior year. Aspects of these include:

- review and development of the Council's scrutiny arrangements;
- self-assessment exercises in respect of the work of the key scrutiny committees; and
- review of the remit and powers of arrangements for monitoring and scrutiny of West Lothian Leisure.

We report on these matters further below.

Actions taken in response to the BVAR / prior year annual audit report

Review and development of scrutiny arrangements

The Council has reviewed the information presented to elected members and how it is scrutinised. Measures have been approved to improve the quality and consistency of reports and training for members and officers is scheduled to aid scrutiny. The success of this revised approach will be revisited as part of future audit work.

Committee self-assessment

Following a recommendation in 2017/18, the Audit Committee and Governance and Risk Committee undertook self-assessment in 2018. The committees noted the findings of the self-assessment and have committed to undertake these annually as part of their work plan. This will enable matters identified to be addressed during the committee cycle.

West Lothian Leisure Ltd

Council approved revisions to the scheme of administration to enable a significantly enhanced remit for the West Lothian Leisure Advisory Committee, which also made clear to exclude from committee membership any councillors who were acting as directors of the company.

Overall, we have seen a clear commitment by the Council to respond to recommendations to enhance the governance arrangements.

Internal audit / risk management

The Council's Audit, Risk and Counter Fraud Unit is responsible for ensuring that there is a corporate framework which enables the Council to effectively manage its risks.

The unit also independently audits key risks and investigates allegations of fraud or irregularity. The Audit Committee approves an annual internal audit plan and counter fraud plan. The Governance and Risk Committee approves an annual risk management plan. Following an audit or a counter fraud investigation, action plans are agreed with services to address any identified issues.

With a full-time equivalent staffing of 7, including 3 in internal audit and 3 in counter-fraud, we reported in 2016/17 our view that the section was relatively small, reflected in the cost of the function being benchmarked as the second lowest in Scotland, and that this increases the inherent risk around the dependency and reliance on key individuals within the team.

The 2017/18 internal audit plan was completed and enabled the Audit, Risk and Counter Fraud Manager to provide his annual opinion to the Audit Committee. In two areas under review, it was reported that controls were considered unsound, both of which were reported to the Audit Committee. One area related to the administration of exemptions from the Council's procurement processes as set out in the Council's Standing Orders for the Regulation of Contracts. The second area was in the administration of school medication.

Counter- fraud activity

The Counter-Fraud Team administer the whistle-blowing hotline and also investigate other referrals from inside the Council. During 2017/18, 46 investigations were progressed of which 13 indicated a fraud or irregularity had taken place. The cumulative value of fraud reported in the year was £30,971.

National Fraud Initiative

The Counter Fraud Team administers the National Fraud Initiative (NFI) biennial data matching exercise. The 2016/17 matches were received in January 2017. The NFI exercise identified 7,966 matches of which 2,101 were recommended matches. These are matches which, in the opinion of the NFI administrators, are more likely to result in fraud or error being identified. As at 31 March 2018, 2,057 of the recommended matches (98%) have been processed and closed on the NFI system. The data matching exercise has identified no frauds and 10 errors resulting in a total overpayment of £26,328.

Risk management

The Council has approved a new corporate risk management strategy, which the Governance and Risk Committee now has responsibility, at committee level, for monitoring through annual review of progress.

Adding value to the Council	In response to an audit recommendation, the 2018/19 internal audit plan presented to the Audit Committee included additional information setting out the priority of audit reviews included in the plan along with the indicative days for the review. This will aid the committee's consideration of the plan and members views on whether appropriate audit resource is being directed to key areas.

Value for money is concerned with using resources effectively and continually improving services. A focus for our work in this area is the Council's self-awareness and self-assessment of its performance.	
Green	▸ The Council has a clear culture of improvement and a commitment to self-assessment of its performance to ensure that services remain focussed on improvement. ▸ There is a clear alignment from the Corporate Plan to the supporting corporate strategies which underpin delivery of the Council's objectives. ▸ Council services continue to perform well compared to other councils.

Commitment to improvement

The BVAR reported on the Council's commitment to continuous improvement, with the Executive Management Team providing effective leadership. Since the publication of the BVAR, the Council has approved its updated Improvement Strategy 2018/19 to 2022/23. This builds on the previous strategies and forms a core part of the strategies approved by the Council to deliver on aims and objectives of the Corporate Plan over the next five years. The three outcomes of the strategy reflect a slight change in focus from the previous 2014-17 period, recognising the need for digital transformation:

- The Council is high performing and achieving.
- The Council effectively controls and utilises data assets.
- Council services are self-aware and improving.

The Improvement Strategy is a corporate strategy and is adopted across the Council. It has been subject to consultation with key stakeholders and approval by Council Executive. It sits within the other strategies as shown below.

The Council has approved all of its new Corporate Strategies.

In addition to the corporate strategies, seven Management Plans set out what each Council service will deliver in supporting the achievement of the Corporate Plan. To date five of these, covering Corporate Services; Finance and Property; Housing, Customer and Building Services; Operational Services; and Social Policy have already been made public on the Council website for transparency.

The Council's commitment to self-assessment

The Council adopted a new self-assessment framework in 2017/18, as part of the new three year West Lothian Assessment Model (WLAM) cycle covering 2017-20. All services complete a WLAM and attend an officer-led scrutiny panel at least once during a three-year improvement cycle. The WLAM self-assessment is completed by a representative group of staff from the WLAM unit ensuring that staff are able to contribute to developing and improving the service.

Six of the seven WLAM assessments that were scheduled to be undertaken in 2017/18 concluded. The programme of self-assessment and internal scrutiny activity in Council services during the period 2018/19 will now comprise a total of 16 services, incorporating the community care assessment that slipped from 2017/18. The remaining 11 WLAM units will complete their self-assessment in 2019/20.

The report on activity for 2017/18 reported an upward trend in the scores, with improvement demonstrated in eight out of nine criterion parts of the WLAM.

The BVAR concluded that the Council has demonstrated a commitment to continuous improvement and that the WLAM has been central to developing the Council's culture of improvement.

Elements of value for money, and our assessment of the Council's arrangements

Is there a flow from corporate plans to performance reports?

BVAR Recommendation:

The Council should be clear on the key performance indicators that support its vision and priorities so that it is able to effectively monitor whether it is achieving its vision.

Agreed Council response:

The Council has already agreed, in the management response to the 2016/17 External Audit Report, that officers would undertake a review to consider how reporting and scrutiny on corporate performance can be improved. Officers will now review the quality and range of all performance indicators to ensure that there is sufficient alignment with the council's priorities and key activities/processes.

Audit judgement of progress:

The Council has clarified links between performance information and their vision and priorities by clearly identifying key outcomes and targets within the refreshed corporate publications.

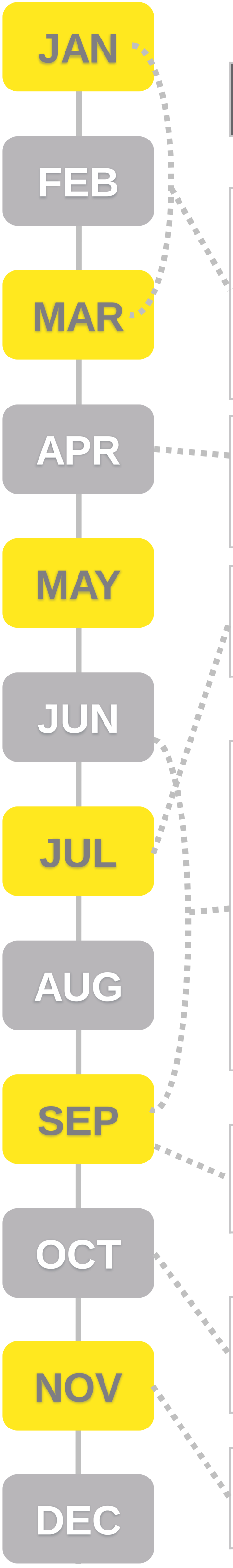
Under each of the eight corporate priorities within the new Corporate Plan 2018-23, six 'targeted outcomes' and target performance levels for each year to 2022/23 have been identified. This has clarified what the Council considers to be the main Key Performance Indicators (KPIs) that support their vision and the expected performance level by the end of the period.

Scorecards are also in place to monitor the progress of KPIs within each Corporate Strategy and there are clear links between the strategies and the corporate priorities and vision.

Elements of value for money, and our assessment of the Council's arrangements
Are user needs and views considered in the evaluation of service delivery and quality?
BVAR Recommendation: The Council has a strong track record of consulting local people on its savings plans. But it needs to continue to increase its programme for community involvement in reviewing and improving services through the Customer Led Inspection (CLI) programme following a pause in activity. This will provide a positive base to fully implement the Community Empowerment (Scotland) Act 2015. **Agreed Council response:** The Council will implement the programme of Citizen Led Inspection (CLI) for 2018 and extend opportunities to participate in the programme moving forward. **Audit judgement of progress:** The Council's programme of CLIs has now recommenced, with a full programme of inspections scheduled to take place in 2018. The Council is planning to launch a promotional campaign to encourage further public involvement by publicising the inspections in an attempt to recruit more lay inspectors. Three 'Look See' inspections carried out in recent years are now reported on the Council website with a fourth complete and due to be published. This provides transparency of the process. Overall, good progress has been made although further work is required to recruit inspectors, including for pupil-led inspections.

4. Other work; audit deliverables

We deliver our audit in accordance with the timeline set by the Council, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.



Audit Activity	Deliverable	Timing
➢ Onsite fieldwork, documentation and walkthrough of key accounting processes ➢ Scoping of Best Value work for the year	Annual Audit Plan	19 March 2018
➢ Review of frauds reported to the Audit Committee.	Fraud Return Submission	Submitted – in line with frauds reported to Audit Committee
➢ Education Maintenance Allowance (EMA) grant claim testing	Certified EMA return	Issued 31 July 2018 – no matters to report
➢ Year-end substantive audit fieldwork on unaudited financial statements ➢ Conclude on results of audit procedures ➢ Issue opinion on the Council's financial statements ➢ Performance of Best Value fieldwork	Whole of Government Accounts assurance statement to NAO Certify Annual Financial Statements Issue Annual Audit Report Submit Best Value Data Return to Audit Scotland	28 September 2018 30 September 2018 1 October 2018
➢ Criminal Justice Social Work (CJSW) return testing	Certified CJSW claim	No longer required
➢ Completion of Non-Domestic Rates return testing	Certified Non-Domestic Rates return	On track for 6 October 2018
➢ Completion of Housing Benefits claim testing	Certified Housing Benefit subsidy claim	On track for 30 November 2018

Appendices

A - Code of Audit Practice: responsibilities

In our Annual Audit Plan, we provided a summary of the responsibilities on audited bodies falling within the public sector audit framework, as set out in the Code of Audit Practice (the Code).

Responsibilities of audited bodies	
Corporate governance	Each body, through its Chief Executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.
Financial statements and related reports	Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: ▸ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. ▸ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. ▸ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. ▸ maintaining proper accounting records. ▸ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Financial position	Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: ▸ such financial monitoring and reporting arrangements as may be specified ▸ compliance with any statutory financial requirements and achievement of financial targets ▸ balances and reserves, including strategies about levels and their future use ▸ how they plan to deal with uncertainty in the medium and longer term ▸ the impact of planned future policies and foreseeable developments on their financial position.
Best Value	Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions. Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

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.

What we are required to communicate

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the 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 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 19 March 2018.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the Council consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of Council on 25 September 2018.

Audit fees – payable to us in the respect of the year ended 31 March 2018

Component of fee:	**2017/18**	2016/17
Auditor remuneration – expected fee	***£184,860***	*£183,030*
Fees in respect of additional audit procedures	**-**	£12,183
Total agreed auditor remuneration	**£184,860**	£195,213
Audit fee in respect of S106 Trust Funds	**£4,000**	£4,000
Audit Scotland fixed charges:		
Pooled costs	**£16,430**	£15,940
Performance audit and best value	**£101,690**	£103,610
Audit support costs	**£11,740**	£10,930
Total fee	**£318,720**	£329,693

Audit Quality

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 2017 UK Transparency Report, volumes one and two, can be accessed on our website at www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular.

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.

Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB 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 with a new leader.

Audit Scotland – Audit Quality Framework / Annual Audit Quality Report

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

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

The most recent audit quality report which covers our work at the Council since appointment can be found at: www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf.

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Annual Audit Plan
Significant findings from the audit ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	This Annual Audit Report We request written representation from you in respect of key matters arising during the course of our audit, and in accordance with auditing standards. A copy of this letter is provided for your consideration and signature at the time of approval of the financial statements.
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about the Council's ability to continue for the 12 months from the date of our report.
Misstatements ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	This Annual Audit Report
Fraud ▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	This Annual Audit Report
Consideration of laws and regulations ▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Annual Audit Report We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.

Required communication	Reference
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	No significant matters have been identified.
Independence Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Annual Audit Plan This Annual Audit Report – Appendix B
Internal controls Significant deficiencies in internal controls identified during the audit	This Annual Audit Report – no significant deficiencies reported
Group audits ▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Annual Audit Plan This Annual Audit Report
Subsequent events ▸ Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.
Material inconsistencies Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Annual Audit Report

D – Summary of audit adjustments

This appendix sets out the significant adjustments processed in the financial statements prior to their finalisation.

There are no unadjusted differences.

1. Correction of arithmetical error in individual asset valuation	**Income and Expenditure impact / £**	**Balance sheet impact / £**
Dr Revaluation Reserve		776,656
Cr Property, plant & equipment Fixed Assets – other land & buildings		(776,656)
2. Adjustment to pension assets as a result of an error in actuarial assumptions		
Dr Pension Assets		16,190,000
Cr Pension Reserve – return on pension assets		(16,190,000)

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