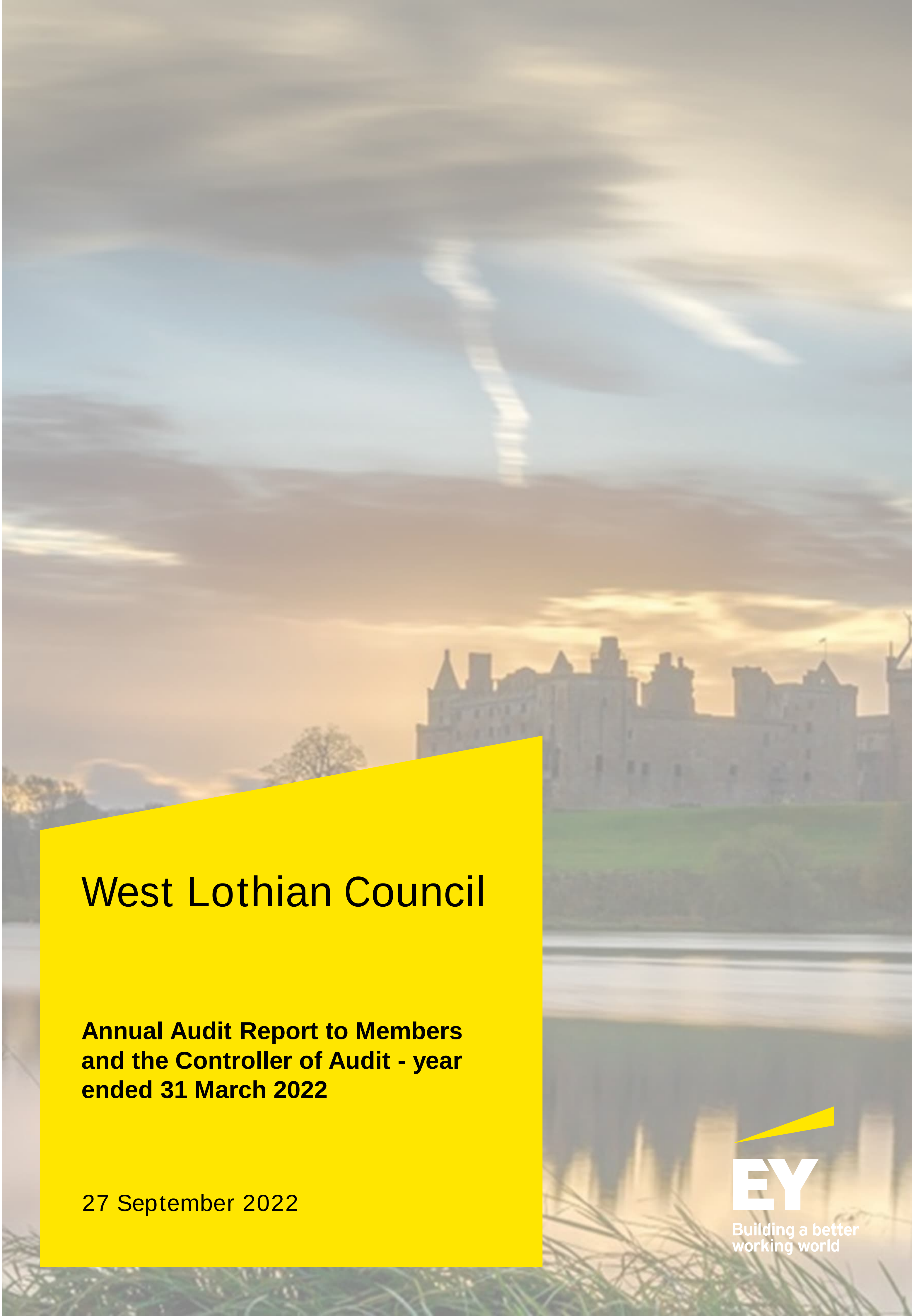


West Lothian Council

Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2022

27 September 2022

EY
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. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

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

Complaints

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

Executive Summary: Key Conclusions from our 2021/22 audit

We have issued an unqualified audit opinion on the Council and Group 2021/22 financial statements and also for the Charitable Trusts 2021/22 financial statements.

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

Financial Statements

We have concluded our audit of the Council's financial statements for the year ended 31 March 2022. One adjustment and one disclosure adjustment were made to the financial statements since the presentation of the unaudited accounts in June 2022; there are no unadjusted differences that we are required to communicate. The draft financial statements and supporting working papers were provided on time and were of a high quality, in line with previous years. We worked with management to make a number of enhancements to the Management Commentary, Annual Governance Statement and notes to the financial statements, in particular to ensure the financial statements reflected recent good practice guidance from Audit Scotland around the disclosures of related parties.

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

We have concluded our audit of the Charitable Trusts' financial statements for the year ended 31 March 2022. The draft financial statements and supporting working papers were provided on time and were of a high quality, in line with previous years. There are no matters to report in respect of these financial statements.

Going Concern

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

Under a revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. The Council has concluded that there are no material uncertainties around its going concern status, and has enhanced the disclosures around its future financial position in the financial statements to reflect the impact of Covid-19. We have no matters to report in respect of our work around going concern or the conclusions reached by the Council.

Wider Scope and Best Value

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

Financial Sustainability

The Council's existing Medium Term Financial Strategy runs until 31 March 2023. Work on a new strategy is underway, with initial forecasts indicating a projected budget gap of £38.4 million through to 2027/28. The assumptions underpinning all forecasts will require regular review as inflationary assumptions, particularly for energy costs, are updated and pay award settlements finalised. These factors will increase existing budget gaps identified and require additional saving plans.

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

Financial Management

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid-19. Financial reporting is clear and consistent throughout the year.

The importance of good financial control is clearly understood across the Council. Our interactions with finance through the year identified a robust financial management environment and no material financial control deficiencies. We did not identify weakening financial management arrangements following the changes to the established working arrangements following Covid-19.

Governance & Transparency

The key features of good governance remain in place at the Council. As noted in our prior year consideration, the Council has responded quickly to ensure governance arrangements are appropriate and operating effectively as circumstances, such as the global pandemic, change.

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

Value for Money

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

The Council maintains a culture of improvement and a commitment to self-assessment of its performance to ensure that services remain focussed on improvement. Council services continue to perform well compared to other councils.

Best Value Conclusion

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

As 2021/22 is the final year of our audit appointment, we ensured that the remaining areas of the Best Value programme were assessed, to allow us to handover to the successor auditor. Our specific areas of focus was in relation to the Council's approach to sustainability and community responsiveness.

Introduction

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

Purpose of this report

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

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

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

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Council employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the Council in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations.

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as external auditor. Further information is available in Appendix B.

We updated our assessment of materiality based on the 2021/22 financial performance. Planning materiality was reduced to £14.9 million.

Scope and Responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Council's Audit Committee in March 2022.

Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £15.4 million. We revised our materiality as part of our yearend procedures following review of the Council's 2021/22 unaudited financial statements. As a result, materiality was reduced to £14.9 million.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Overall Materiality	Tolerable Error	Level that we will report to committee
£14.9 million	£11.1 million	£250,000
2% of the Council's net expenditure	Materiality at an individual account level	Nominal amount

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

Financial statement audit

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

- whether they give a true and fair view of the financial position of the Council as at 31 March 2022 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 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom.

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

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

- whether they give a true and fair view of the financial position of the Trusts as at 31 March 2022 and its expenditure and income for the year then ended; and
- whether they have been properly prepared in accordance with the Charities and Trustees Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

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

Our findings are summarised in Section 3 of this report.

Best Value

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. We outline our findings and assessment for 2021/22 on page 39.

Financial Statements audit

Introduction

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

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

The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

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

Compliance with Regulation

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

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare financial statements, ensure their availability for public inspection and consideration by the Council or a committee with an audit or governance remit. Despite the ongoing impact of the pandemic and recovery, the Council complied with the regulations and the normal timescale concerning preparation, publication and approval of its annual financial statements. We received the unaudited financial statements on 28 June 2022.

The inspection notice was published by the Council on 9 June 2022, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

Preparation of the Financial Statements

The unaudited financial statements prepared by management were to a high standard and were materially compliant with the Code and required disclosures. As part of the audit process, we worked with management and the finance team to make amendments and enhancements to the presentation. Our focus included consideration of the appropriateness of the disclosures related to the ongoing impact of Covid-19 and recovery activities, including in the Management Commentary, Governance Statement and financial statements notes.

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

This year we also worked with management to consider guidance from Audit Scotland issued to local government bodies, following a review of the related parties disclosed within the 2020/21 financial statements of 30 Scottish councils. The disclosures of related parties were chosen for a good practice review because of the potential impact of the relationships in understanding the financial statements, along with indications that the quality of the disclosures were variable. Following our review and discussions with management, a number of enhancements were made to further align them with identified areas of good practice.

Group financial statements

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

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

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

Audit outcomes

We identified one audit difference and one disclosure adjustment arising from the audit, both of which were adjusted by management in the finalised financial statements. Our overall audit opinion is summarised on the following page, subject to finalisation of our work in respect of infrastructure assets outlined later in this report.

Our audit opinion

Element of opinion	Basis of our opinion	Conclusions
Financial statements • Truth and fairness of the state of affairs of the Council at 31 March 2022 and its expenditure and income for the year then ended • Financial statements in accordance with the relevant financial reporting framework	We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement. We are satisfied that accounting policies are appropriate and estimates are reasonable. We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.	We have issued an unqualified audit opinion on the 2021/22 financial statements for: • The Council and its Group; and • the Trust Funds.
Going concern • We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting	We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis. Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.	In accordance with the work reported on page 22, our audit opinion is unqualified in this respect.
Other information • We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit	We conduct a range of substantive procedures on the financial statements and our conclusion draws upon Review of committee and board minutes and papers, regular discussions with management, our understanding of the Council and the wider sector.	We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.
Matters prescribed by the Accounts Commission • Audited part of Remuneration Report has been properly prepared. • Management Commentary / Annual Governance Statement are consistent with the financial statements and have been properly prepared.	Our procedures include: • Reviewing the content of narrative disclosures to information known to us. • Our assessment of the Annual Governance Statement against the *Delivering Good Governance* Code.	We have issued an unqualified opinion.
Matters on which we are required to report by exception	We are required to report on whether: • there has been a failure to achieve a prescribed financial objective, • adequate accounting records have been kept, • financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or • we have not received the information we require.	We have no matters to report.

Significant and fraud audit risks

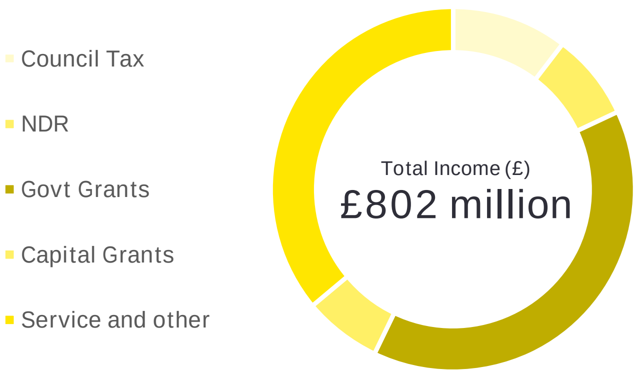
Risk of Fraud in income and expenditure recognition

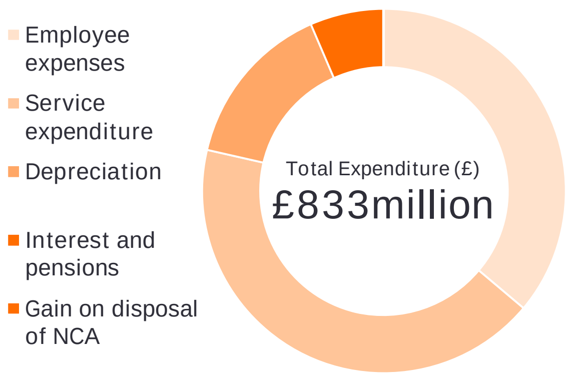
What is the risk?

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

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

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





Source: 2021/22 Financial Statements: Comprehensive Income and Expenditure Statement

What judgements are we focused on?

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

What did we do?

Our work included:

- Review and challenge management’s accounting estimates on revenue or expenditure recognition for evidence of bias.
- Focusing our testing on income and expenditure recognised around the financial yearend through manual journals and accruals raised by management.
- Search for material payments and receipts received after year end and ensured these had been accounted for in the correct period.

Our Audit of Other Income and Expenditure

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

Other audit procedures: non-significant risk areas:

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

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

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

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

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

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

Pension costs: We have outlined our consideration of the valuation of pension assets and liabilities held by the Council on page 20. In respect of all pension transactions impacting the CIES we agreed these journals to the underlying IAS 19 report prepared by the Council's actuary.

Audit of Covid-19 grant income and expenditure

2020/21 was the first year where income and expenditure transactions were materially impacted by Covid-19. The Council received £19.5 million in 2021/22 from the Scottish Government related to Covid-19 to support the Council in meeting its additional costs, to support local businesses and the wider public. The material nature of the additional funds created a new income stream for audit consideration in the prior year.

Additional funding continued into 2021/22 and therefore continues to be an area of focus. Our audit work focused on:

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

Our conclusions

- Our testing identified one disclosure misstatement whereby Covid-19 grant income was recorded as regular grant income, which was adjusted by management. No misstatements were identified relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.

Risk of Misstatement due to Fraud or Error

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

Risk of Fraud

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

Testing on Journal Entries

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

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions. In particular we considered:

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

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

Our conclusions

- We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

Judgements and Estimates

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

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

Our procedures included:

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

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

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

Accounting Policies

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

Our conclusions

- We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- There were no significant accounting practices which materially depart from what is acceptable under the Code.

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

The Council's property, plant and equipment (PPE) portfolio totals over £2 billion of assets (2021: £1.9 billion). The valuation of these assets requires expertise and significant estimation.

To meet the requirements of the CIPFA Code of Practice the Council values its property, plant and equipment on a 5 year cycle. Due to the timing of the Council's valuation cycle, a total of £102.8 million of the Council's estate was subject to revaluation in 2021/22 (2021: £1,401 million).

We assigned a significant audit risk to the valuation the Council's PPE, specifically to the valuation of the Old People's Homes under the EUV valuation methodology. All other assets valued at DRC were subject to a higher inherent risk audit designation.

Our work focused on the following key areas:

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

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

Management should continue to consider the asset valuation cycle for all Council PPE subject to revaluation, in particular in light of the most recent inflationary pressures.

Our overall observations of the Council's overarching process for valuation of its property, plant and equipment, consistent with previous audits, continues to be positive. The finance team invests significant resources in monitoring its estate and considering the accounting implications of any significant changes and ensuring there is proactive discussions with its auditor around the most appropriate way to account for matters identified.

In our 2020/21 annual audit report we noted that the Council has recently upgraded its in-house fixed asset system, and that this combined with the completion in 2020/21 of the revaluation of the major aspects of the Council's assets provided an opportunity for the Council to consider its approach going forward as a matter of good practice.

In particular we noted that consideration may be given to reducing the time between full valuations for all major individual asset classes or applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations.

We have kept this matter under discussion with management through the year, and management has provided its most current update in the appendix to this report. Given the recent and ongoing inflationary pressures, this area in particular should be kept under review on an annual basis. A valuation schedule should be agreed with the Council's new external auditor that will allow the Council to complete timely valuation exercises to reflect material changes to asset values, which are more likely to occur within five years in the current environment.

Our conclusions

- We identified one £656,000 audit difference through the course of our work around the valuation of the Council's social housing assets, outlined in Appendix E.
- We identified no assets which had not been revalued which demonstrated indicators they should be revalued in the year. However, we have raised an audit recommendation surrounding increased awareness of the indicators of a need to revalue as can be seen at Appendix D.
- In light of the ongoing focus on the valuation of assets the Council should continue to consider its overall asset valuation arrangements and agree a revised schedule with its new external auditor from 2022/23.

Recommendation: The statutory override is intended to be a short-term solution to issues in respect of accounting for infrastructure assets. The Council should ensure that greater detail on infrastructure assets is retained moving forward and appropriate consideration is given to disposals and replacements of infrastructure assets.

Infrastructure Assets

The CIPFA/LASAAC Code of Practice for Local Authority Accounting in the United Kingdom (the Code) requires infrastructure assets to be measured using the historical cost measurement basis and carried at depreciated historical cost. Due to the nature of these assets being more challenging to link between spend and an identifiable asset, Councils often capitalise schemes of expenditure and depreciate over an estimated economic life. Assets are removed from the financial statements ("derecognised") when depreciated to nil, with there rarely being an exercise performed to derecognise the actual asset being replaced. It is possible that asset lives can therefore materially vary from their initial estimated life.

Towards the end of the 2021/22 financial year, local government auditors across the UK raised concerns that Code requirements were not being adhered to, particularly in respect of subsequent expenditure on infrastructure assets. The Code requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component shall be derecognised to avoid double counting and the new component shall be reflected in the carrying amount of the infrastructure asset. However, largely due to data limitations, it is believed that most local authorities have been unable to comply with the requirement. Due to the information deficits in respect of infrastructure assets, further concerns were raised in respect of the ability to evidence the existence of infrastructure assets at the balance sheet date.

CIPFA LASAAC has been unable to find a solution that will both satisfy the concerns raised and the requirement for high quality financial reporting in compliance with the Code. The Scottish Government has agreed to provide a temporary statutory override whilst a permanent solution is developed within the Code. This temporary solution has been issued with the expectation that local authorities will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and timely adoption of the Code requirements once a permanent solution is agreed.

The override was issued on 29 August 2022 and has two areas:

- Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
- Statutory Override 2: For accounting periods commencing from 1 April 2010 until 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent amendment shall be made to the carrying amount with respect to that part.

Local authorities can choose to adopt either or both of the statutory overrides.

Infrastructure Assets (continued)

The Council holds infrastructure assets of £246 million (2020/21: £240 million) and therefore is a material balance within the financial statements. Following discussions with management the Council has elected to adopt both statutory overrides resulting in changes to disclosures in the financial statements in respect of infrastructure assets.

Following the identification of the matter raised during the year, the Council additionally undertook an exercise to determine the records available dating back to 2010, being the date of adoption of IFRS by local government accounting requirements.

In response to this emerging risk area, we performed the following procedures to satisfy ourselves around the underlying existence and valuation of assets held by the Council, notwithstanding the application of the statutory overrides referenced above:

- Enhanced our understanding of the Council's processes for accounting for infrastructure assets including how information is recorded on the fixed asset register and the process the Council has for identifying replacement assets.
- Performed additions testing over new infrastructure assets in year.
- Analysed the entries in the fixed asset register and reviewed supporting documentation including an analysis of spend back to 1 April 2010 where possible and material to the Council's financial statements.
- Evaluated the continued existence of infrastructure assets at the balance sheet date through detailed verification testing.
- Assessed the accuracy and completeness of disclosures in respect of infrastructure assets including overrides applied.

Our conclusions

- We are satisfied that management's disclosures in respect of infrastructures assets are in line with the statutory guidance.
- We note that while management has undertaken significant work to support the existence of infrastructure assets, further information is likely to be required to support any permanent solutions and therefore management should look to build on work performed during the audit fieldwork.

Other inherent audit risks

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

Valuation of pension liabilities

The Council's net pension liability, measured as the sum of the present value of the long term payments due to members as they retire against the Council's share of the Lothian Pension Fund investments, is a material balance in the Council's financial statements. At 31 March 2022 the net liability totalled £143 million (2021: £311 million). The pension figures included in the financial statements are those that are prepared annually for accounting purposes as required by IAS 19. The funding of the scheme and the determination of employer contributions is determined with reference to the triennial valuations carried out by the scheme actuary. The last triennial actuarial valuation, in 2020, assessed the overall funding position to be 104% (2017: 99%)

Accounting for this scheme involves significant estimation and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. We have outlined our requirement to consider this estimate in line with the requirements of ISA 540. In particular, for the valuation of pension assets and liabilities we are required to undertake procedures on the use of management experts, the assumptions underlying fair value estimates, and the valuation of the Council's share of scheme assets and liabilities at the year end.

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

- Auditing the reasonableness of the underlying assumptions used by the Council's actuary, including those associated with recent developments in relation to the various ongoing equalisation case judgements such as the GMP, McCloud and Goodwin rulings.
- Ensuring the information supplied to the actuary in relation to the Council was complete and accurate and that our own estimate of the valuation based on those inputs was materially consistent with the actuarial reports.
- The findings of the appointed auditor of the Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council, in particular in relation to the valuation of the Pension Fund assets at 31 March 2022.
- The accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

Our conclusions

- The assumptions used by the actuary have been reviewed by our EY actuarial team who concluded that the assumptions and methodology used are considered to be within a range which is appropriate.
- The auditor of the Lothian Pension Fund reported no material differences in the valuation of assets held by the Fund.

Financial flexibilities

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

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

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

In May 2022, the Scottish Government agreed to extend the loans fund repayment deferral flexibility for a further year.

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

- Following the finalisation of the technical methodology which should be used to reprofile PPP debt repayment periods, the Council is considering how to utilise this support going forward.
- Given the current affordability pressures in the approved capital programme, use of capital receipts was not recommended.
- The Council is able to use the loans fund repayment holiday in 2021/22 and 2022/23.

Going concern

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

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. In accordance with the CIPFA Code of Practice on Local Government Accounting, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, the ongoing cost of living crisis and inflationary pressures, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to October 2023. We note that the going concern period extends beyond the period for which an agreed financial plan is in place and therefore, we have focused on the assumptions made by management in the period between April 2023 and October 2023.

Management's going concern assessment reported that the Council shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. It reported significant access to cash to support the cost of delivering services, with balances more than sufficient to cover a plausible downturn in Council income from variable sources, and access to other useable reserves in committed funds which could be reallocated as necessary.

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

Our conclusions

- We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key Council reports and treasury management forecasts of future cash balances. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Council, or of the wider Group where they are material to the consolidated financial statements.
- We worked with management to enhance the disclosures in the financial statements in relation to the Council's future financial performance and ongoing work in respect of the revised medium term financial plan.

Looking ahead

The implementation of IFRS 16 has been delayed until 1 April 2024 however early adoption is permitted.

The Council finance team has previously performed an initial assessment of the impact of the change on the Council's financial statements which will be revisited once an adoption date is agreed.

CIPFA/LAASAC Code for 2022/23

Local authorities are required to keep their financial statements in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The most significant change to the Code for 2022/23 relates to IFRS 16.

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

Implementation of IFRS 16 has been delayed on a number of occasions in local government financial statements for various reasons. Most recently, CIPFA/LASAAC conducted an emergency consultation on the Code for both 2021/22 and 2022/23 in March 2022. This resulted in a further deferral to the implementation of IFRS 16 until 1 April 2024. However early adoption will be permitted from either 1 April 2022 or 1 April 2023.

While implementation has been further delayed, the Code strongly encourages early adoption and therefore all finance teams are encouraged to continue their preparations for implementation and to ensure that they are ready to adopt the standard in the next three years.

We have outlined previously that full compliance with the revised standard is likely to require a detailed review of existing leases and other contract documentation prior to the implementation date in order to identify:

- all leases which need to be accounted for;
- the costs and lease term which apply to the lease;
- the value of the asset and liability to be recognised as at 1 April; and
- where a lease has previously been accounted for as an operating lease.

Work is therefore necessary to prepare information required to enable the Council to fully assess their leasing position and ensure compliance with the standard.

We have discussed progress in preparing for the implementation of *IFRS 16 Leases* standard with the finance team over the course of the past few audits and are satisfied robust arrangements were being established to assess the impact of the changes for inclusion in the financial statements.

Best Value and Wider Scope dimensions

> Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value.

Introduction

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

We apply our professional judgement to risk assess and focus our work on each of the wider scope dimensions. In doing so, we draw upon conclusions expressed by other bodies including the Council's internal auditors, and the other scrutiny bodies that we work with on the Local Area Network including Education Scotland and the Care Inspectorate, along with national reports and guidance from regulators and Audit Scotland. As the appointed auditor, we are the LAN Lead. The LAN has determined, in agreement with the Council, that no separate scrutiny plan was required for 2021/22.

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

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

Financial Management: Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

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

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

Financial Sustainability

Our overall assessment: Amber

The Council's existing Medium Term Financial Strategy runs until March 2023. Work on a revised strategy is underway but initial forecasts for the updated strategy set out a projected budget gap of £38.4 million by 2027/28. The assumptions underpinning all forecasts will require regular review as inflationary forecasts are updated and pay award settlements finalised. These factors will increase existing budget gaps identified and increase the requirement for robust saving plans.

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

Medium Term Financial Planning – to 2023

The Council's current medium term financial plan is in its final year and runs to 2022/23, in line with the Corporate Plan approved in 2018. The most recent Council budget approval, in February 2022, identified a £11.7 million revenue budget gap over the remaining year of the plan. In conjunction with its budget approval, the Council approved savings over this period, totalling £9.1 million in 2022/23, combined with the use of one off resources of £2.6 million in 2022/23 to cover 100% of the budget gap.

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

Focus on outcomes - delivery of savings

In line with previous years, Council savings are agreed at a detailed service level with support provided by the Council's finance team. Each service has dedicated support from the Financial Management Unit to consider the financial impact of planned actions and ensure financial planning is robust. All saving plans are subject to review to ensure they support the delivery of the medium term financial plan as well as the delivery of the service specific plans and objectives.

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

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

The most recent update on the Council's monitoring of planned savings, which will be reported to Council Executive in October 2022, shows that the Council continued to demonstrate good progress in delivery of savings for this financial planning period to 2023. All of the Council's planned savings are currently graded as either green (which indicates that Heads of Service consider that the saving is achieved or achievable) or amber (meaning that an achievable plan is still to be agreed or existing/emerging issues require additional actions to be undertaken). (72%) of the £9.1 million planned for delivery in 2022/23 are graded green. No savings are considered unachievable.

Longer term planning, risks and uncertainties around the MTFP

As in previous years, while we have concluded that the Council's arrangements around medium and longer term financial planning remain robust, our assessment of amber reflects the scale of ongoing challenge facing the Council in delivering balanced budgets and financial sustainability without compromising the priorities in its corporate plan.

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

Council Officers have begun initial scenario planning for its next medium term financial plan period from 2023-28 in anticipation of delivering a range of options to the newly elected members following the 2022 local government elections. The latest part of this process will be budget options for years 1, 2 & 3 which will be subjected to a public consultation in October and November, before being reported to Policy Development and Scrutiny Panels in January 2023.

The scenario planning identifies the most material areas of uncertainty in financial planning on the Council's overall financial position, contributing to an overall savings gap for the five year period to be addressed. The main areas of sensitivity, in line with historic plans, are expected to be:

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

Additionally, there are a number of other factors currently unknown that will continue to threaten the accuracy of any financial planning. The most material of these areas is the impact of the ongoing cost of living crisis, the remaining effects of the pandemic, the UK leaving the EU and the Ukraine conflict all continue to generate considerable uncertainty.

We are also aware of the ongoing National Care Service review which is likely to result in significant changes to the service delivery model which is anticipated to impact local government services and funding thus impact the Council's current financial and future planning assumptions.

Financial Management

Our overall assessment: Green

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid-19. Financial reporting is clear and consistent throughout the year.

The importance of good financial control is clearly understood across the Council. Our interactions with the finance team through the year identified a robust financial management environment and no material financial control deficiencies. We did not identify weakening financial management arrangements following the changes to the established working arrangements following Covid-19.

Financial control environment

While our financial statement audit work is not designed to express an opinion on the effectiveness of internal control, we consider the financial control environment through the course of our interactions and observations through the audit. Based on work undertaken, we have not noted any material deficiencies in internal control. As part of our audit risk assessment we considered internal audit's review of finance and related functions in the Council through the year. While there were a number of recommendations, including three high risk recommendations in the year, these did not impact our view of the overall control environment.

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

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

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

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

Financial monitoring and outturn

The Council's financial monitoring arrangements have been broadly consistent with previous years, however they continue to be supplemented with additional monitoring and reporting to reflect the additional risks around Covid-19 and inflationary pressures. The Council's budget position, originally set in February 2021, has moved significantly during the year with these changes primarily being driven by the distribution of funding late in the financial year, rather than issues with forecasting arrangements.

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

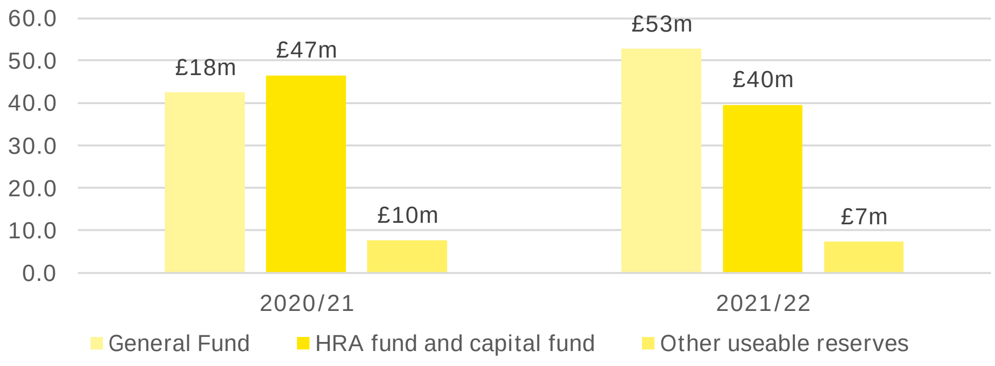
Reporting period	Period 4	Period 6	Period 9	Outturn
Forecast surplus / (deficit)	£nil	£nil	£nil	(£0.1m)
Forecast General Fund balance	N/a	N/a	N/a	£52.8m

Source: West Lothian Council 2021/22 Financial monitoring reporting

Council reserve levels and strategy

As part of the annual revenue budget setting process, the Council approves the minimum reserves to be held as uncommitted general funds. For 2021/22 it was concluded that the uncommitted balance be maintained at a minimum of £2 million. At 31 March 2022 the Council's uncommitted general fund balance was £2.081 million. This continues to be one of the lowest minimum reserves positions across Scotland, however this level has been assessed as appropriate by the Head of Finance and Property Services. The level of uncommitted general fund reserves takes into account the Council's approved medium term financial strategy underpinned by robust financial planning arrangements and a number of other earmarked reserves which could be reallocated if necessary.

Exhibit 4: The Council's cash backed reserves increased by approximately £3.1 million in 2021/22



Source: West Lothian Council 2021/22 Financial Statements

Capital programme

The Council spent £141.3 million on capital expenditure in 2021/22 (2020/21: £79.3 million), an acceleration of spend of £14.8 million against its original budget. General fund capital expenditure experienced a significant acceleration of approved activity of £18.3 million, most notably the new developer funded schools at Winchburgh which saw acceleration of £13.1 million. This was offset by a £3.5 million underspend in housing programmes due to supply chain issues and due diligence works.

This activity forms part of the Council's overall capital strategy to support the Council in its strategic objectives, approved through to 2027/28. The strategy is subject to annual review, update and approval by the Council to reflect actual expenditure incurred in the year and any slippage or changes in priorities, most recently being reviewed in June 2022.

Arrangements to prevent fraud and corruption

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

CIPFA Financial Management Code

The CIPFA Financial Management Code came into effect for all councils in 2021/22. It is intended to support good practice in financial management, assist in demonstrating a local authority's financial sustainability, and set out standards of financial management. Management completed a self-assessment against the Code and presented this to the Council Executive in February 2021. The assessment demonstrates the Council's existing compliance with the majority of the Code and sets out proposed actions to ensure compliance with the code in 2021/22. We have reviewed the Council's response to the action plan. We are comfortable that necessary action has been taken to address the findings from the self-assessment and the Council continues to be compliant with the code.

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

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

Audit Scotland National Fraud Initiative (NFI) programme

NFI is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The annual exercise produces data matches by comparing information held on public bodies' systems to identify potential fraud or error.

The 2020/21 NFI exercise commenced in January 2021. From 5,906 data matches identified, 1,427 of the data matches were classed as being 'High Risk'. The 2020/21 NFI exercise is now 100% complete and all high risk matches were fully investigated before the deadline of 31 March 2022. There are no matches identified which were indicative of serious fraud.

The NFI self-assessment exercise was undertaken in February 2022. This was reviewed ahead of submission to Audit Scotland with no issues identified. We are therefore comfortable that management are actively participating in the NFI matching exercise.

Governance and Transparency

Our overall assessment: Green

The key features of good governance remain in place at the Council. As noted in our prior year consideration, the Council has responded quickly to ensure governance arrangements were appropriate and operating effectively during the changing circumstances of the past three years.

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

Local Code of Corporate Governance

Under the CIPFA framework for *Delivering Good Governance in Local Government*, the Council uses the Annual Governance Statement to report on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement. The Code review informed the annual assurance process including completion of the Annual Governance Statement.

The Governance Statement for 2021/22 concluded that "there are inevitably issues on which on which future work is required, but, based on the sources and evidence described in this statement, the council and the West Lothian community can be assured that the council's corporate governance standards have been substantially met in 2021/22. "

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

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity. As part of the audit process some minor comments were provided to further enhance the disclosures.

The Chief Internal Auditor has concluded that governance arrangements are sound and that improvements have been made during 2021/22.

Covid-19 Governance arrangements

Throughout 2021/22 no further lockdowns were required, however many restrictions remained in place including the Government advice to work from home where possible. Throughout this period the Council was unable to meet in person so a full calendar of council and committee meetings has continued to be conducted wholly online without any significant or obvious impact on decision-making.

No other additional changes were made and no special powers were used to enable decision making to continue. With effect from 21 March 2022 all Covid restrictions were lifted. Steps have been taken to introduce the technology and the procedural rules to enable a move to hybrid meeting arrangements. Hybrid will be the norm going forward, ensuring maximum flexibility for elected members, officers and members of the public.

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

Internal audit work and Annual Assurance Statement

The internal audit work planned for 2021/22 was mostly completed in line with planned deadlines by 31 March 2022. The delayed 2020/21 work has been subsequently completed as part of the 2021/22 work plan for internal audit.

In addition to its ongoing programme of new reviews, internal audit continues to monitor the progress against existing recommendations and report to the Audit Committee on outstanding recommendations from internal and external parties, with a focus on those recommendations which are higher priority graded.

During the year no internal audit reports concluded the arrangements were unsound, with six reviews requiring improvement. Overall the majority of reviews were concluded as either satisfactory or effective, similar to 2020/21. Based on the work completed in the year, the Council's Audit, Risk and Counter Fraud manager concluded that "the framework of governance, risk management and control is sound."

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

Openness and transparency

The Council has clear arrangements to ensure meetings of Council and Committee meetings are open to the public in accordance with legislation, and agendas and papers are available in advance of each meeting. When meetings resumed by remote access during the pandemic that access was ensured by live audio webcasting and making recordings of meetings available after the event. Minutes of meetings, including key decisions, continued and continue to be made publicly available after the meetings. The Council now plans to move to live video webcasting and recordings of meetings in August 2022.

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

The Governance and Risk Committee undertook its annual self-assessment in 2022, with the results to be presented at the September 2022 committee. Responses were generally positive to the questions provided, mostly agreeing or strongly agreeing to the affirmative statements made.

EU withdrawal

A Concurrent Risk Working group was established during the pandemic and continued to meet until May 2022. A separate risk register arising from COVID-19 and EU withdrawal was established, and that has latterly been subsumed into the normal risk register and risk management practices. Reporting on those concurrent risks has been a standing item on agendas for meetings of Governance & Risk Committee.

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

Group Governance arrangements

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

The Integration Scheme which governs the working arrangements for West Lothian Integration Joint Board is in the process of review by the main partners. The final consultation was undertaken in early 2022 with the draft revised Integration Scheme being presented to and approved by Council Executive on 19 April 2022. NHS Lothian approval was obtained at its Board meeting on 22 June 2022. The Scheme was subsequently submitted to Scottish Ministers and it has yet to be approved by them.

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

West Lothian Leisure ("WLL") has been significantly impacted by the pandemic with leisure centres closed through the start of 2020/21, with a corresponding financial impact. It has remained open throughout 2021/22 with restrictions in place. In recent years the Council has provided significant financial support to WLL, and budgeted in 2022/23 for the potential requirement to provide more given the ongoing risks facing WLL.

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

WLL latest financial forecast for 2021/22 was reported to its Board on 24 February 2022. This shows a trading surplus and a year-end closing cash balance of £2 million, showing significant improvements since the reopening of leisure centres in 2021. The financial statements for 2021/22 are being approved and signed at the September 2022 board.

WLL's financial position and impact on support required by the Council has been subject to ongoing monitoring and reported to the Council's Executive by the Head of Finance and Property Services, most recently in August 2022. The WLL Board is attended by a representative of the Council's Senior Management Team who attends in a non-voting capacity to ensure robust scrutiny of arrangements. We are satisfied there continues to be evidence to demonstrate scrutiny and governance over the support provided to WLL, including demonstrating rigour around the use of public funds for private bodies. WLL is immaterial to the consolidation of the Council's Group financial statements, and as such its financial position does not impact the going concern conclusions around the Group financial statements.

Given WLL's current financial position, the Council have provided a letter of comfort to WLL stating that 'the Council will undertake cash flow management with WLL to allow them to remain in credit at all times, thus allowing them to proceed as a going concern and meet their everyday cash liabilities' over the year following the signing of the accounts. It was also proposed that the letter notes the context, including the requirement of WLL to approve a balanced budget each year, to reasonably progress their three year plan, to provide required financial information to the council, and to take all reasonable action to identify mitigating action to balance their budget without further funding from the council. This was approved by the Council Executive 16 August 2022.

Value for Money

Our overall assessment: Green

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

The Council's arrangements for performance monitoring, improvement and self-assessment have continued and are back to the planned schedule for reporting following the impact of Covid-19 in 2020 and 2021.

The Council maintains a culture of improvement and a commitment to self-assessment of its performance to ensure that services remain focussed on improvement. Council services continue to perform well compared to other councils.

Performance Management framework

The Council approved its Corporate Plan through to 2022/23, and its underlying corporate strategies and service management plans. To more effectively monitor performance, the Council also agreed targeted outcomes and target performance levels through to 2022/23 as the main KPIs to support its vision. We note that the Corporate Plan for beyond 2023/24 is being updated alongside the Council's MTFP.

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

The Council's overall performance management framework remained in place and operating despite the impact of Covid-19 and the subsequent additional urgent business requiring prioritisation.

Performance Reporting

The most recent performance update was submitted to the Council's PDSP's in June 2022, in relation to quarter four of the 2021/22 financial year. Out of 56 indicators reported (Q1: 62), 41 were green (Q1: 40), 5 amber (Q1: 7) and 6 were red (Q1: 10), with 4 unknown (Q1: 5) as performance is measured more intermittently.

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

For the red rated indicators:

- 4 were materially affected by the impact of Covid-19 on staffing sickness throughout 2021/22; and
- property debt continues to fall after initial increases resulting from the first UK lockdown.

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

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

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

Statutory Performance Indicators

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

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

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

The Council continues to report a range of performance information to stakeholders and the public to demonstrate the relative value and effectiveness of Council services. Information reported covers the quality and effectiveness of local services and progress in outcomes, as well as efficiency information.

This includes reporting of the most recently available LGBF results to the relevant committees and to the public. The 2020/21 LGBF results are due to be reported to the Corporate Policy and Resource PDSP (previously Partnership and Resources PDSP) on 23 September 2022.

Local Development Plan (LDP) and the Winchburgh development

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

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

Activity on the project continued throughout the year, with updates being provided to the Council Executive, most recently in June 2022. The forecast expenditure for the project is now £62 million, made up of £60.9 million construction costs in line with the initial approved budget, and £1.1 million fit out costs forecast.

The Council has recently announced that Winchburgh Academy, Holy Family Primary School and Winchburgh Sport & Wellbeing Hub have all been completed, on budget, ready for admission for the 2022/23 academic year. This was due to the Council bringing forward funding to initiate the earlier completion.

In 2022/23 the Council will continue to invest in local schools, specifically the new denominational secondary, Sinclair Academy, which will be operational from August 2023.

Best Value

Our overall assessment: Green

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

As 2021/22 is the final year of our audit appointment, we ensured that the remaining areas of the Best Value programme were assessed, to allow us to handover to the successor auditor. Our specific areas of focus was in relation to the Council's approach to sustainability and community responsiveness.

Forming our judgement

As appointed auditor, we are required to comment on how effectively, in our view, the Council demonstrates that it meets its Best Value responsibilities. In forming this judgement, we draw upon:

- the findings of Audit Scotland's Best Value Assurance Report (BVAR), which was published in July 2019;
- the results of the Best Value Follow Up review conducted by Audit Scotland in 2020/21; and
- the programme of work that we have conducted throughout our appointment to consider each area of Best Value. Our specific areas of focus in 2021/22 were in relation to the Council's approach to sustainability and community responsiveness. We also take into account our wider scope responsibilities and reporting.

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

Commitment to fairness and equality

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

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

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

The Council's 2019-21 Equality Mainstreaming Progress Report sets out nine outcome areas in relation to the Equality Act 2010. These provide good coverage across aspects of fairness and equalities, and the Council's own role as an organisation. The Council is required to publish equality outcomes and report progress at intervals of not more than 4 years. Therefore, the Council remain compliant with this statutory requirement.

The Equality Outcomes and Mainstreaming Framework 2021-2025 includes a suite of Equality Outcomes which are intended to reflect that the council has a more mature approach to the mainstreaming of equalities into the delivery of council services.

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

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

Climate Change and Sustainability

In October 2021, the Council published the West Lothian Climate Change Strategy 2021-2028, which sets out a vision framework for all community planning partners. The Council has been committed to taking action to mitigate and adapt to the impacts of climate change for some time. West Lothian Council signed the Climate Change Declaration in 2007 and declared a 'Climate Emergency' in September 2019. As a result, the partnership has recognised that co-ordinated action is required at pace to deliver West Lothian's contribution to the Scottish Government's target to be net-zero by 2045.

The Scottish Government has set a target to be net-zero by 2045; 5 years' ahead of the UK target.

The Council has committed to the target to achieve net zero on its buildings, energy and transport emissions by 2045.

Climate Emergency Action Plan

The Council has committed to the target to be net-zero by 2045 at the latest for its own activities. During 2021/22, the Council reviewed current legislative targets and how they apply to Council service delivery. The Climate Change Adaption Action Plan 2022-2028 was prepared and approved by the Council Executive in April 2022. There will be an annual report to the Environment PDSP in March/April at the end of each financial year.

Climate change is one of the eight priority projects within the Corporate Plan – Transforming Your Council. As a result of the recent intense focus on climate change and sustainability we noted a number of areas of good practice including:

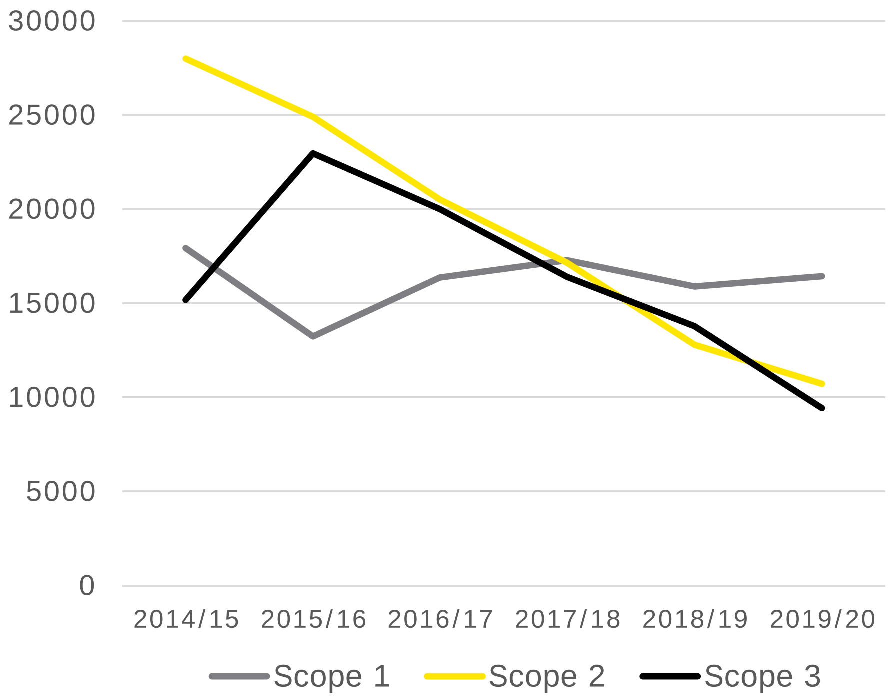
- The Head of Planning, Economic Development & Regeneration appointed as the owner of the Climate Change Strategy.
- The introduction of performance indicators and actions to monitor progress on climate change objectives and targets.
- A focus on climate change throughout the Capital Strategy, with regular monitoring by the Capital Asset Management Board, including but not limited to, focus on the road map to implement Energy Efficiency Standard for Social Housing of existing stock and ensuring compliance with energy standards for new builds.

Measuring and reporting emissions is essential to help the Council to reduce its greenhouse gas emissions.

This is an area where measurement standards and reporting requirements will continue to develop.

- Scope 1 emissions are direct emissions that are released into the atmosphere from sources that are owned or controlled by the Council.
- Scope 2 emissions are indirect emissions from the generation of purchased energy, which for most organisations are primarily emissions released during the generation of the electricity it uses.
- Scope 3 emissions are all other indirect emissions that occur because of an organisation's activities but from sources not owned or controlled by the Council.

Exhibit 5: The Council reports within its annual climate duties report that it has reduced emissions by over 40% since 2013/14



Source: Annual Report on Compliance with Climate Change Duties submitted to the Scottish Sustainability Network

The Council has recognised that achieving a net zero emissions position will require significant financial, resource and infrastructure support from the Scottish Government and others. The Council will continue to work with government, partners and other agencies to quantify the scale of the challenges presented and identify appropriate solutions.

Looking ahead: Sustainability Reporting

Significant advances have been made in sustainability reporting in the corporate sector and central government sectors over a number of years. There are not yet any mandatory emissions measurement and reporting requirements for local government, although it is an area many local authorities are exploring.

Mandatory requirements are likely to be required in the coming years. In March 2022, the International Sustainability Standards Board issued an Exposure Draft consultation, on requirements for the disclosure of climate-related matters. The proposals in the exposure draft set out requirements for identifying, measuring and disclosing climate-related risks and opportunities based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The consultation closed on 29 July 2022. In Appendix G we set out the key reporting areas of TCFD disclosures, along with annotations in green boxes with recommendations of good practice from other sectors.

Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the Audit Committee

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

E – Adjusted errors identified during the audit

F – Timing and deliverables of the audit

G – Likely developments in sustainability

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

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

Appendix B: Independence and audit quality

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

Matters that we are required to communicate

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

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Confirmations

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

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

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

Audit Fees

	2021/22	2020/21
Component of fee:		
Total agreed auditor remuneration	£203,604	£199,390
Audit fee in respect of s106 Trust Fund	£10,290	£9,990
Additional audit procedures (see below)	£14,400	£24,600
Audit Scotland fixed charges:		
Pooled costs	£21,220	£18,960
Performance audit and best value	£105,430	£105,190
Audit support costs	£10,870	£10,970
Total fee	£365,814	£369,100

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

Through the 2021/22 audit cycle we have discussed with management areas of the audit which required additional work beyond that usually expected for the Council. The only matter occurring this year is the additional procedures in respect of infrastructure assets accounting, as outlined in this report. Given the ongoing nature of this work, we will discuss and agree any fee variation with management before issuing an updated report as appropriate. Any fee variation will be approved by Audit Scotland and based on the approved day rates in the Audit Scotland planning guidance for auditors.

Matters that we are required to communicate	International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The EY 2021 UK Transparency Report can be accessed on our website at [EY UK 2021 Transparency Report | EY UK]. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our Audit Quality Report. The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it. Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ). Our Audit Quality Board (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.
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: [Quality of public audit in Scotland annual report 2021/22 (audit-scotland.gov.uk)]

Appendix C: Required communications

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the audit, risk and governance 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. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	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	Annual Audit Plan Annual Audit Report
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	Annual Audit 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	Annual Audit Report
Fraud • Enquiries of the audit, risk and governance 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	Annual Audit Report

Required communication	Our reporting to you
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
Subsequent events Where appropriate, asking the audit, risk and governance 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
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, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of	Annual Audit Report or as occurring if material.
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

Appendix D: Action Plan

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

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty.	In our 2020/21 Annual Audit Report we recommended the Council consider its approach going forward as a matter of good practice. In particular, we noted that consideration should be given to reducing the time between full valuations for all major individual asset classes or applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations. Given the recent and ongoing inflationary pressures, this area in particular should be kept under review on an annual basis. A valuation schedule should be agreed with the Council's new external auditor that will allow the Council to complete timely valuation exercises to reflect material changes to asset values, which are more likely to occur within five years in the current environment. *Grade 2*	Response – A Valuation Scheme will be agreed with the council's new external auditor, Audit Scotland, as a matter of priority. Responsible Officer – D Baird Completion Date – 31 March 2023

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
2	The statutory override in respect of infrastructure assets is intended to be a short-term solution to issues in respect of accounting for infrastructure assets.	The Council should ensure that greater detail on infrastructure assets is retained moving forward and appropriate consideration is given to disposals and replacements of infrastructure assets. *Grade 2*	Response: Review of Infrastructure Assets expenditure will be undertaken to address information deficits moving into 2022/23. In particular, the Council will give consideration to: 1. Updating its fixed asset register to enhance the detail of information held in relation to infrastructure assets, using all remaining information held by the Council wherever possible to more effectively support existence of these assets. 2. Reviewing the useful economic lives applied to depreciate infrastructure assets going forward, agreeing appropriate lives based on a breakdown of the type of infrastructure assets held. This will include consideration of sector wide applied useful lives and any future guidance from CIPFA/LASAAC. 3. Applying any future guidance or statutory amendments from CIPFA/LASAAC or the Scottish Government in conjunction with discussion with the Council's new auditors. Responsible officer: Financial Management Unit Implementation date: 31 March 2023.

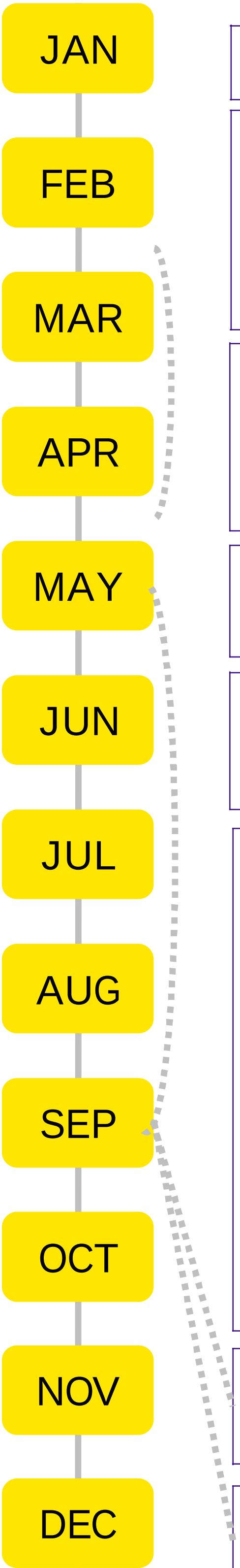
Appendix E: Adjusted errors identified during the audit

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

Adjusted differences			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's
1	*PPE Valuation – Council dwellings – correction of adjustment factor used in annual impairment calculation*		Dr Capital Adjustment Account 656 Cr PPE – Council Dwellings 656
2	*Covid-19 grant income – reclassification of income between SOCI line*	Dr Grant income 1,124 Cr Covid-19 grant income 1,124	

Appendix F: Timing and deliverables of the audit

We delivered our audit in accordance with the timeline set by the Council, in accordance with the annual audit planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2021/22 audit cycle, including the remaining areas of work with completion deadlines subsequent to this report.



Audit Activity	Deliverable	Timing
• Onsite fieldwork, documentation and walkthrough of key accounting processes • Scoping of wider scope work for year	Annual Audit Plan	Finalised and submitted to Audit Scotland April 2022
• Review of current issues impacting the Council • Review of reported frauds	Quarterly current issue return submission Quarterly fraud return submission	Quarterly throughout the audit cycle
• Education Maintenance Allowance (EMA) grant claim testing	Certified EMA return	Submitted to Audit Scotland July 2022
• Submit minimum dataset return to Audit Scotland	Return for financial overview	Submitted to Audit Scotland August 2022
• Year-end substantive audit fieldwork on unaudited financial statements • Conclude on results of audit procedures • Issue opinion on the Council's financial statements	Whole of Government Accounts assurance statement to NAO (as required) Certify Annual Financial Statements Issue Annual Audit Report Submit minimum dataset return to Audit Scotland	Financial statements audit and annual audit report on course for submission September 2022. WGA guidance and further minimum dataset return requests awaited.
• Completion of Non–Domestic Rates return testing	Certified Non-Domestic Rates return	On course for completion September 2022
• Completion of Housing Benefits claim testing	Certified Housing Benefit subsidy claim	On course for completion September 2022

Appendix G: Likely developments in sustainability reporting

In the corporate sector, significant financial reporting developments has meant that there has been a step change in the level of climate related disclosures within company financial statements. There is not yet an equivalent requirement for local government accounting, but guidance from the Scottish Government recently issued Public Sector Leadership on the global climate emergency guidance which recommends that public bodies should consider reporting to external frameworks such as the Taskforce for Climate Related Financial Disclosure. We outline the key elements below:

Cross-reference to where the disclosure can be found. If cross-referencing to another document, explain why the information is not included in the annual report.

The governance processes, controls and procedures the entity uses to monitor and manage climate related risks and opportunities

How climate related risks and opportunities are identified, assessed, managed and mitigated

Set out key focus areas for next year

Consider explaining readiness to comply with any changes to requirements applicable for next reporting cycle

Consider commenting on progress in preparing a climate transition plan

Consider commenting on progress in being able to report scope 3 GHG emissions

TCFD elements	TCFD recommendations	Cross-reference or explanation of non-compliance	Next steps and other comments
Governance	a. Board oversight		
	b. Management's role		
Strategy	a. Climate-related risks and opportunities		
	b. Impact on the organisation's businesses, strategy and financial planning		
	c. Resilience of the organisation's strategy to climate-related risks		
Risk Management	a. Risk identification and assessment processes		
	b. Risk management process		
	c. Integration into overall risk management		
Metrics and Targets	Climate-related metrics in line with strategy and risk management process		
	Scope 1, 2 (and 3) Green House Gas (GHG) metrics and the related risks		
	Climate-related targets and performance against targets		

Source: Adapted from Continuing the journey towards TCFD compliance, EY Centre for Board Studies, May 2022

EY | Assurance | Tax | Transactions | Advisory

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

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

Ernst & Young LLP

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

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

ey.com