

West Lothian Council

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for West Lothian Council
March 2024

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Introduction

Summary of planned audit work

1. Claire Gardiner has been appointed by the Accounts Commission as external auditor of West Lothian Council for the period from 2023/24 until 2026/27. The 2023/24 financial year is the first year with Claire as the appointed auditor and the second year of our five-year audit appointment.

2. This document summarises the work plan for our 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published with the financial statements in the annual accounts, including the Management Commentary, the Annual Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- review of West Lothian Council's arrangements for preparing and publishing statutory performance information
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and West Lothian Council

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

Auditor responsibilities

4. The appointed auditor's responsibilities are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including

[supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

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

West Lothian Council's responsibilities

6. West Lothian Council is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

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

Adding Value

8. We aim to add value by:

- tailoring audit work to the circumstances of West Lothian Council and the audit risks identified
- being constructive and forward looking
- providing independent conclusions
- attending meetings of the Audit Committee
- by recommending and encouraging good practice.

9. In so doing, we will help West Lothian Council promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts

Introduction

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

11. We are required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

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

Materiality

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

Materiality levels for the 2023/24 audit

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

Exhibit 1**2023/24 Materiality levels for West Lothian Council and its group**

Materiality	Amount	Group
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of West Lothian Council’s operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£19.3 million	£19.5 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£14.5 million	£14.7 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount.	£500,000	£500,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

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

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

Exhibit 2**2023/24 Significant risks of material misstatement to the financial statements**

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Conduct variance analysis of balances and transactions in current and prior year accounts. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>2. Estimation in the valuation of land and buildings.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations.</p> <p>All non-current assets are revalued on a five-year rolling basis. Values may also change year on year, and it is important that West Lothian Council ensures the financial statements accurately reflect the value of the land and buildings.</p> <p>In addition, the council requires to satisfy itself that the carrying amounts of those assets not revalued at 31 March 2024 are not materially different to their current value.</p> <p>Due to the inherent complexity and subjectivity risks regarding land, buildings and dwellings' valuations, a significant risk of material misstatement in the 2023/24 valuations has been identified.</p>	<ul style="list-style-type: none"> • Revaluations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors. • Assessment of those assets not subject to valuation undertaken by valuer and reviewed by management. • An annual impairment review is undertaken by the registered valuer and reviewed by management. 	<ul style="list-style-type: none"> • Review the information provided to the in-house valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Consider whether the valuation frequency is appropriate. • Critically assess the approach West Lothian Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. • Test the reconciliation between the financial ledger and the asset register. • Challenge management's assessment of why it considers that the land, buildings and dwellings not revalued in 2023/24 are not materially misstated. We will critically assess the appropriateness of any assumptions. • Critically assess the adequacy of the West Lothian Council disclosures regarding the assumptions in relation to the valuation of land and buildings.

18. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted the presumption that a material risk exists, on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting
- a significant portion of the council's income comes from government grants and contributions that can readily be agreed to funding letters
- an effective control environment operates around income from council tax and non-domestic rates billing
- income derived from fees and charges for the provision of services is well controlled with controls around access to financial systems, segregation of duties, and reconciliations that prevent and detect the risk of misstatement.

19. We also considered the risk of fraud over expenditure, as most public bodies are net spending bodies, and the risk of external fraud (in accordance with Practice Note 10: Audit of Financial Statements and Regularity of Public Sector Bodies in the UK). We have rebutted the presumption that a material risk exists, on the basis that:

- most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale, with management or council approval required for material transactions
- evidence of external fraud from council's counter fraud team and the National Fraud Initiative does not indicate material risk
- experience in the sector, including a review of past misstatements, does not indicate material risk.

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

Other areas of audit focus

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

22. The area of specific audit focus is:

- **Valuation of pension liability:** The present value of the retirement (pension) obligations depends on several factors that are determined on an actuarial basis using a number of assumptions. Any changes to supporting assumptions caused by errors in the information provided to the actuary, or through late information, could result in a material misstatement to the financial statements.

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

23. As part of our risk assessment, we have also identified the following areas where further work will be performed. These are not audit risks but areas we will keep under review:

- IFRS 16 takes effect for local government bodies from 2024/25. This will change the way in which West Lothian Council accounts for operating leases, including recognising assets and liabilities for the rights and obligations arising from leases previously classified as operating leases. We will assess West Lothian Council's preparedness for this and review any disclosure made in relation to the new standard in line with guidance.
- The statutory override relating to valuation of infrastructure assets is due to end for the 2024/25 financial statements. We will review the progress made by West Lothian Council in preparing for this.

Group Consideration

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

25. West Lothian Council has a group which comprises component entities, including subsidiaries, associates, and joint ventures. The audits of the financial information of some of the components are performed by other auditors.

26. Our planned audit approach is informed by our assessment of the risk at the component bodies and our consideration of the size and nature of assets, liabilities and transaction streams. West Lothian Integration Joint Board is considered a significant component of the West Lothian Council group. However, as the engagement lead (Claire Gardiner) for the group audit and the West Lothian Integration Joint Board is the same individual, a streamlined approach will be taken, and a detailed evaluation and review of the component auditor's work is not required to be carried out.

27. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Audit of the trusts registered as Scottish charities

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

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

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

Materiality levels for the 2023/24 audit of trusts registered as Scottish charities

31. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Trusts' operations. For the year ended 31 March 2024, for each Trust, we have set our materiality at 2% of the net asset value based on the audited annual accounts for 2022/23. For each Trust, performance materiality has been set at 75% of planning materiality and the reporting threshold has been set at 5% of planning materiality.

Audit fee

32. The planned audit fee for 2023/24 is £11,350 (2022/23: £11,350). In setting the fee for 2023/24, we have assumed that West Lothian Council has effective governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Wider Scope and Best Value

Introduction

33. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

34. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by West Lothian Council. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how West Lothian Council demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

35. Our risk assessment has not identified any significant risks in respect of the above wider scope areas.

Financial sustainability

36. Whilst not a significant audit risk, we recognise the challenging financial environment in which the council is operating in and therefore financial sustainability has been identified as an area of audit focus.

37. There are challenges to the medium and longer-term financial sustainability due to the uncertainty over future Scottish Government funding allocations, the rising cost of inflation and the cost of implementing future pay settlements. Our

annual audit report will include comment on the council's 2023/24 financial outturn, 2024/25 budget, and its medium-term financial plan.

38. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Best Value

39. Under the [Code of Audit Practice](#), the audit of Best Value in councils is fully integrated within our annual audit work. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties.

40. The arrangements to secure Best Value at West Lothian Council will be assessed over the period of the audit appointment and will include an annual evaluation of risks and improvement areas and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement. This work will be integrated with the wider scope audit areas discussed above.

41. As part of our annual work on Best Value, we conduct thematic reviews as directed by the Accounts Commission. In 2023/24, the thematic review across the sector will be on workforce innovation and will consider how councils are responding to the current workforce challenge through building capacity, increasing productivity, and innovation. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

42. At least once every five years, the Controller of Audit will report to the Accounts Commission on West Lothian Council's performance in meeting its Best Value duties. West Lothian Council is included in the programme for 2025/26.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

43. Audit reporting is the visible output for the annual audit. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

44. We will provide:

- an Independent Auditor's Report to West Lothian Council and the Accounts Commission setting out our opinions on the annual accounts
- West Lothian Council and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

45. [Exhibit 3](#) outlines the target dates for our audit outputs set by the Accounts Commission. In determining the target reporting date, due regard is paid to the dates for approving the annual accounts set out in regulations of 30 September 2024.

46. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2024	26 April 2024
Best Value Management Report	30 September 2024	24 September 2024
Independent Auditor's Report	30 September 2024	24 September 2024
Annual Audit Report	30 September 2024	24 September 2024

Source: Audit Scotland



47. All Annual Audit Plans and the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: [Audit Scotland](#).

Timetable

48. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

49. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance.	28 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with the Head of Finance and Property Services	21 August 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	13 September 2024
Agreement of audited and unsigned annual accounts	13 September 2024
Issue of Annual Audit Report to those charged with governance.	13 September 2024
Signed Independent Auditor's Report	By 30 September 2024
Certified Non-Domestic Rates Return	To be confirmed
Certified Housing Benefit subsidy claim	To be confirmed
Latest date for WGA assurance	To be confirmed

Source: Audit Scotland

Audit fee

50. In determining the audit fee, we have taken account of the risk exposure of West Lothian Council and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The planned audit fee for 2023/24 is £406,970 (2022/23: £383,950).

51. In setting the fee for 2023/24, we have assumed that West Lothian Council has effective governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

52. It is the responsibility of West Lothian Council to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

53. Claire Gardiner, your appointed auditor, is independent of West Lothian Council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

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

55. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of West Lothian Council.

Audit Quality

56. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

57. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

58. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

59. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

60. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

West Lothian Council

Annual Audit Plan 2023/24

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

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