



# West Lothian Council

2015/16 Annual audit  
report to Members and  
the Controller of Audit

26 September 2016

## Key contacts

David McConnell, Assistant Director  
[dmccconnell@audit-scotland.gov.uk](mailto:dmccconnell@audit-scotland.gov.uk)

Allister Perston, Manager  
[aperston@audit-scotland.gov.uk](mailto:aperston@audit-scotland.gov.uk)

Inire Evong, Senior Auditor  
[ievong@audit-scotland.gov.uk](mailto:ievong@audit-scotland.gov.uk)

Audit Scotland

4<sup>th</sup> floor (South Suite)

8 Nelson Mandela Place

Glasgow

Telephone: 0131 625 1500

Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies ([www.audit-scotland.gov.uk/about/ac/](http://www.audit-scotland.gov.uk/about/ac/)). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

The Accounts Commission has appointed David McConnell as the external auditor of West Lothian Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of West Lothian Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

## Contents

Key messages .....	3
Introduction .....	4
Audit of the 2015/16 financial statements.....	5
Financial management and sustainability .....	11
Governance and transparency .....	17
Best Value.....	22
Appendix I: Significant audit risks .....	26
Appendix II: Summary of local audit reports 2015/16 .....	31
Appendix III: Summary of Audit Scotland national reports 2015/16 ...	32
Appendix IV: Action plan .....	33

# Key messages

## Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements.
- We have included a modification to the auditor's report on the failure of the Economic Development Properties Significant Trading Organisation to achieve its prescribed financial objective.
- Unqualified auditor's reports on the nine charitable trusts administered by the council.

## Financial management and sustainability

- Financial management remains strong with a robust budget setting process in place.
- West Lothian Council is sustainable currently and in the foreseeable future although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.
- Overall, an underspend against budget of £2.134 million was reported.

## Governance and transparency

- The council has sound governance arrangements in place
- Systems of internal control operated effectively.
- The council has an effective internal audit function and sound anti-fraud arrangements.

## Best Value

- The council continues to develop its arrangements for monitoring and reporting performance against strategic objectives.
- The council has arrangements in place for securing best value. The Controller of Audit is planning to provide the Accounts Commission with a Best Value Assurance Report relating to the council during 2017/18.

## Outlook

- Councils face rising demands for services and continued funding pressures alongside managing reforms in welfare and health and social care.
- Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of West Lothian Council. The report is divided into sections which reflect our public sector audit model.
2. The management of West Lothian Council is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of West Lothian Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements.
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that West Lothian Council understands its risks and has arrangements in place to manage these risks. The council and corporate management team should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of West Lothian Council will be Ernst & Young. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements

<p><b>Audit opinion</b></p>	<ul style="list-style-type: none"> <li>• We have completed our audit of the council and its group and issued an unqualified independent auditor’s report.</li> <li>• We have included a modification to the auditor’s report on the failure of the Economic Development Properties Significant Trading Organisation to achieve its prescribed financial objective.</li> </ul>
<p><b>Going concern</b></p>	<ul style="list-style-type: none"> <li>• The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council’s, its group and associated charitable trusts’ abilities to continue as going concerns.</li> </ul>
<p><b>Other information</b></p>	<ul style="list-style-type: none"> <li>• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.</li> </ul>
<p><b>Charitable trusts</b></p>	<ul style="list-style-type: none"> <li>• We have completed our audit of the 2015/16 financial statements of the charitable trusts administered by West Lothian Council and issued an unqualified independent auditor’s report for each of the relevant trusts.</li> </ul>
<p><b>Group accounts</b></p>	<ul style="list-style-type: none"> <li>• West Lothian Council has accounted for the financial results of two associates and one joint venture in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to decrease total reserves and net assets by £0.825 million.</li> </ul>
<p><b>Whole of government accounts</b></p>	<ul style="list-style-type: none"> <li>• The council submitted a consolidation pack for audit by the deadline. This is being audited and the certified return will be submitted to the National Audit Office (NAO) within required timescales.</li> </ul>

## Submission of financial statements for audit

10. We received the unaudited financial statements on 20 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.
11. In 2015/16, for the first time, local government group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. The West Lothian IJB was established on 21 September 2015 but did not become operational until 1 April 2016. Consequently as the amounts concerned in 2015/16 are not material, they have not been consolidated into the group accounts.

## Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 29 February 2016.
13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically, with regard to the financial

statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

18. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of West Lothian Council we set our planning materiality for 2015/16 at £6.124 million (1% of gross expenditure). We report all misstatements greater than £100,000. Performance materiality was calculated at £5.512 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and marginally adjusted materiality upwards to £6.899 million.

## Evaluation of misstatements

20. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments did not change the overall figures in the financial statements.

## Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:

- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
22. During 2015/16, a review of the vehicles Fixed Asset Register (FAR) was undertaken by the Financial Management Unit (FMU), This led to the identification of 19 vehicles in the asset register which were no longer held by the Council. As a result, assets with an initial cost of £0.412 million were removed from the FAR and disclosed as disposals in Note 11 of the financial statements. At the time of the review, all of these assets had zero book value and there was no gain or loss on sale recorded in 2015/16 in respect of them. The actual date of disposal, however, is not known by the council and there is therefore a risk of unrecorded gains or losses. The risk is however not deemed to be material.
  23. Operational services finance who were responsible for the vehicle FAR are now part of the FMU and a physical verification was conducted of the remaining assets (vehicles) and these were confirmed as being in existence. All other assets are recorded in Atrium the fixed asset register and managed by the FMU and we have no evidence that any other asset category is affected.

24. It is essential however that assets are tracked throughout their service and the FMU is informed promptly of any changes in the asset base. There is a risk of financial loss to the Council if procedures for recording assets are not followed.

**Action point 1**

25. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.



Table 1: Significant findings from the audit

## Significant findings from the audit in accordance with ISA260

### Economic Development Properties

26. The Council's Economic Development Properties Significant Trading Operations failed to meet the statutory obligation to break even over a three year rolling period. This was as a result of impairment charges of £4.477 million incurred during 2015/16 on assets from the Economic Development Property portfolio.
27. **Resolution:** We have included an explanatory paragraph in the auditor's report on the failure of the Significant Trading Organisation to achieve its prescribed financial objective.

### Non current assets

28. As detailed in paragraphs 22 to 34, during 2015/16, the FMU performed a vehicle fixed asset verification exercise to assess the accuracy of the vehicle fixed asset register. Operationally managed vehicles with a total cost of £0.412 million were identified as no longer held by the Council. FMU accounted for the vehicles by removing them from the asset register and disclosing the £0.412 million within "Disposals" in Note 11 to the 2015/16 unaudited financial statements.
29. **Resolution:** Further audit work was performed to gain required levels of assurance and the council has undertaken a review of all related assets within the FAR to confirm their existence.

## Future accounting and auditing developments

### Health and social care integration

30. From 1 April 2016, IJBs will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom. Where material, the financial results of the local IJBs will need to be reflected in the council's group accounts in 2016/17. The council will need to include the IJB in its plans for the preparation and audit of the 2016/17 group accounts, including consideration of assurance arrangements relating to the annual governance statement.

### Highways network assets

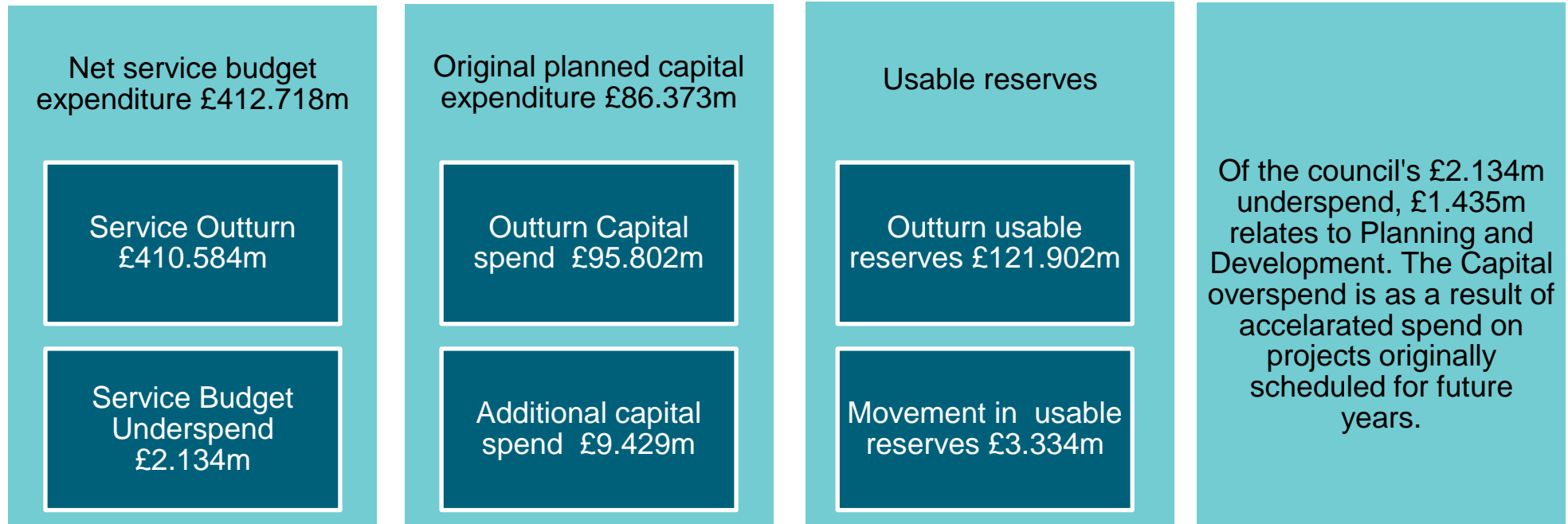
31. The 2016/17 local government accounting code will adopt a new measurement requirement for the valuation of the highways network asset. It will be measured on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.

### Code of Audit Practice

32. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
- Financial sustainability
  - Financial management
  - Governance and transparency; and

- Value for money
33. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

# Financial management and sustainability



## Financial management

34. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
35. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council

tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

## Financial outcomes

36. Overall, the council reported an underspend against budget of £2.134 million. Underspends were recorded in the following services:

- Schools and education support (£400,000)
  - Planning and Economic Development (£1.435m)
  - Chief Executive (£320,000)
37. The outturn of the general services budget is, broadly, satisfactory. However, there were a number of areas of underspending against budget lines in 2015/16, these areas should be reviewed to ensure that the approved budget is up to date for 2016/17 and reflects the underlying cost of the service level approved by members.

### Action plan 2

38. The council is required by legislation to maintain a separate Housing Revenue Account and to ensure that rents are set to at least cover the costs of its council housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The HRA budget was set in January 2015 and WLC achieved a breakeven position for 2015/16.

## Financial management arrangements

39. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the proper officer has sufficient status within the council to be able to deliver good financial management
  - financial regulations are comprehensive, current and promoted within the council

- reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.
40. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
41. We reviewed the council's financial regulations, which are revised annually, and concluded that they are comprehensive and current. The council's financial regulations are available on the council's website.
42. Financial monitoring reports (both revenue and capital) are submitted to the Council Executive on a quarterly basis. Reports are comprehensive and well laid out. Partnership Development and Scrutiny Panels also receive service performance reports quarterly.
43. We attend a number of full council and all audit and governance committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

## Conclusion on financial management

44. We have concluded that the council's financial management arrangements are satisfactory, with regular and effective budget monitoring and reporting to Council Executive.

## Financial sustainability

45. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
46. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
  - spending is being balanced with income in the short term
  - long term financial pressures are understood and planned for
  - investment in services and assets is effective.
47. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

## Reserves

48. The overall level of usable reserves held by the council increased by £3.334 million compared to the previous year and totalled £121.902 million, refer Exhibit 1.

49. The closing usable reserve balance at 31 March 2016 is made up of a number of earmarked commitments. The main commitments include:
- Capital Fund of £88.214 million
  - Insurance Fund of £13.715 million

### Exhibit 1: Usable reserves

Description	31 March 2015 £ million	31 March 2016 £ million
General fund	19.3	19.1
Housing revenue reserve	0.9	0.9
Insurance Fund	13.6	13.7
Capital Statutory Funds	84.8	88.2
<b>Total usable reserves</b>	<b>118.6</b>	<b>121.9</b>

Source: West Lothian Council 2015/16 financial statements

50. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows. The general fund reserve has an uncommitted balance of £2.1 million, with planned allocations of £17 million, including a £4.4 million Modernisation Fund balance and time limited projects of £4.8 million.

51. The £2.1 million uncommitted fund balance as at 31 March 2016 was 0.5% of budgeted net expenditure and is in line with the council's target minimum uncommitted General Fund balance. However, at 0.5%, this continues to be amongst the lowest uncommitted general fund balances held by all Scottish local authorities.

**Action plan 3**

**Financial planning**

52. The council set its 2015/16 budget in January 2015. The 2015/16 budget was set at £412.718 million and assumed savings of £10.195 million. A number of efficiency measures have been agreed and are being implemented across the council. Some of the more significant measures include:

- New models for service delivery
- Service restructure and workforce management measures
- Revision of certain discretionary charges with other local providers and public bodies
- Modernisation and more effective deployment of assets
- Integration of service delivery internally and with other partners
- Revised procurement contract terms, conditions and prices.

53. The council also set indicative budgets for 2016/17 and 2017/18 in January 2015 with updates approved in February 2016. The budgets for these two years require efficiency savings of £21 million. While the council has been proactive in its approach to identify

savings opportunities, the realisation of these savings will become progressively more challenging year on year.

**Action plan 4**

**Capital programme 2015/16**

54. The council approved its general services capital programme for 2015/16 in January 2015. Actual spend on the general services capital programme amounted to £60.9 million against a budget of £49.9 million. The overspend against budget of £11 million was due to accelerated spend on major projects planned for future years.

55. The council approved its housing capital programme for 2015/16 in January 2015. Actual spend on the housing capital programme amounted to £34.9 million, which was an underspend of £1.6 million against budget. The underspend was due to slippage on 1,000 new build houses.

56. The general services programme was concentrated on the new build, refurbishment and repair of schools, delivery of various ICT projects and roads and transport infrastructure. The housing programme mainly focused on "major component replacement" and the Blackburn Homeless Persons Unit.

**Asset Management**

57. The council's corporate asset management strategy was approved in January 2013 and covers the five years from 2013/14 to 2017/18. The strategy is focused on six key asset categories, with dedicated

asset management plans. The corporate asset management strategy contributes to all of the council's eight priorities.

### Workforce Management

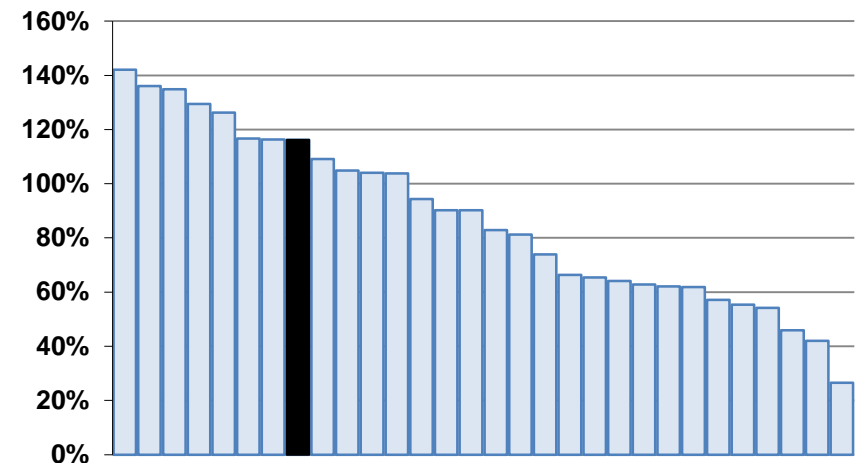
- 58. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its services.
- 59. The council's people strategy covers the years 2013-2017 and was approved by the Council Executive in December 2013. The strategy sets out a plan for key activities and action which will support and drive the development and effective leadership of council employees.
- 60. During 2015/16, there were 46 exit packages agreed with employees at a total cost of £1.1 million (2014/15 16 packages at a cost of £0.5 million).

### Treasury Management

- 61. At 31 March 2016 long term borrowing stood at £433.7 million, an increase of £39.9 million on the 2015 borrowing level of £403.8 million. During the same period, short term borrowing increased from £89.9 million to £100.1 million. Interest payable and similar charges rose by £0.2 million in 2015/16 to £27.3 million.
- 62. Exhibit 2 shows long term borrowing as at 31 March 2016 as a proportion of net revenue stream and the actual outturn for the year for all mainland councils in Scotland. Although it can be seen that

the council is not an outlier on the graph, it highlights that its long term debt is the 8<sup>th</sup> highest amongst all mainland Scottish councils.

**Exhibit 2: Scottish councils' long term borrowing as a percentage of net revenue streams**



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils)

- 63. The Council states that it continues to incur interest costs on additional borrowing in the short term to enable savings to be made on future borrowing requirements.

## Pension liability

64. Net assets on the council's balance sheet increased from £602.6 million in 2014/15 to £631.2 million in 2015/16, an increase of £28.6 million. The principal reason for this increase is actuarial gains in the Pension Plan.
65. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial valuation, the Lothian Pension Fund was 91.3% funded and had assets of £4.379 billion. The next valuation will take place in 2017. It is expected that new contribution rates will increase convergence between the pension liability and the underlying assets.

## Conclusion on financial sustainability

66. We have concluded that the council has an adequate level of reserves, is containing its expenditure within annual budgets and has credible medium-term financial plans in place. Overall, we conclude that the financial position is sustainable currently and in the foreseeable future, although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.

## Outlook

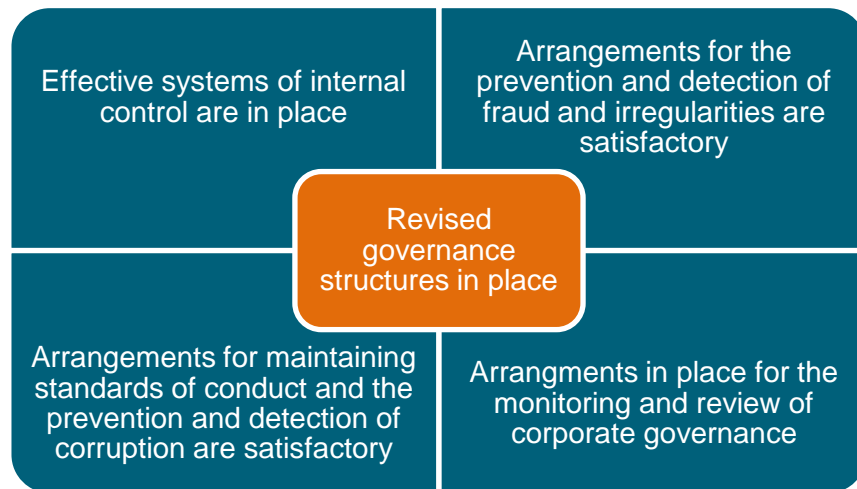
67. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, examples include increasingly difficult financial challenges, overall reductions

in public sector budgets and demand for council services increasing. Increased pension contributions and national insurance changes will create further cost pressures.

68. Councils continue to face difficult financial challenges. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.
69. The council is prepared for the introduction of Highway Network Assets in 2016/17. There is an agreement in place that the Roads Department (asset management and engineering staff) will populate the valuation spreadsheet, the value of the depreciated replacement cost will be calculated centrally using the same variables for all local authorities and finance staff will include the valuation in the financial statements.
70. This model has been used for several years now within the Council to produce the Highways infrastructure data for the Whole of Government Account and over the years has captured the progress being made by the council on revaluing its Highway Infrastructure Assets.



# Governance and transparency



71. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
72. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the council is making decisions and how it is using its resources.

Overall, we concluded that the council is open and transparent.

## Corporate governance

73. Within West Lothian Council, the corporate governance framework is centred on the council, supported by a number of committees. Committees are well attended by elected members and papers are subject to a high level of scrutiny.
74. The Council Executive and Education Executive are responsible for all of the Council's policy making, decision making, statutory functions and powers and duties, other than those matters reserved to full Council, delegated to other committees of the Council or delegated to a joint committee or joint board.
75. The council's nine Policy and Development and Scrutiny Panels (PDSPs) allow existing policies and new proposals affecting various areas to be considered and discussed by members. For example, the Partnership and Resources PDSP has oversight of the financial resources and functions of the council, including the revenue budget, capital plan and treasury management. It also has responsibility for corporate asset management planning and property disposal.
76. The Audit and Governance Committee has responsibility for reviewing the council's control environment as well as the adequacy of the policies and practices in operation to ensure compliance with

relevant statutes, directions, standards and codes of corporate governance.

77. The Audit and Governance Committee is also responsible for evaluating the arrangements in place for securing the economic, efficient and effective management of the council's resources and for considering internal and external audit reports and ensuring management implements the agreed recommendation.
78. The Audit and Governance Committee is chaired by a member of the administration, but there are members of the opposition who sit on the committee as well as an appointed lay member. The Controller of Audit has recently written to the council to underline that it is viewed as good practice for such committees to be chaired by an opposition member. The committee is well attended by appropriate council officers.
79. The council's Chief Legal Officer undertakes an annual review of compliance with the council's Code of Corporate Governance. The results of this review for 2015/16 were reported to the Council Executive in June 2016 and the report concluded that the Code's standards had been substantially met during 2015/16.
80. Based on our observations and audit work, our overall conclusion is that the governance arrangements within West Lothian Council are operating effectively.

## Local code of corporate governance

81. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. The local code is subject to annual review.
82. The Governance and Risk Board, which is chaired by a Depute Chief Executive met five times during 2015/16. The Board exercised oversight of the Council's governance, risk management and business continuity arrangements.

## Internal control

83. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
84. We reported our findings to the Audit Committee in June 2016. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Our findings included a number of recommendations to enhance the control system in operation.

## Internal audit

85. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
86. Our review of the internal audit function within the Audit, Risk and Counterfraud unit concluded that the service operates in accordance with the Public Sector Internal Audit Standards and that we can place reliance on the unit's work. We placed formal reliance on the work of internal audit in the following areas:
- council tax – discounts and exemptions
  - treasury management – controls over payments
  - housing repairs – open contractor ordering, receipting and invoice matching.

## ICT audit

87. Our ICT audit work during 2015/16 generally found that the ICT controls are satisfactory. We note the project for developing WLC1 (systems and processes that impact on life and limb) Business Continuity Planning is coming to an end with the two plans for the systems of Open Housing and Swift recently tested. We would emphasise the importance of keeping all business continuity plans up-to-date and regularly tested.

## Arrangements for the prevention and detection of fraud

88. We have concluded that the council's arrangements in relation to the prevention and detection of fraud and irregularities are satisfactory.

## National Fraud Initiative in Scotland

89. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
90. The council has made significant progress in following up the results of the NFI. 99.92% of the 1,240 recommended matches had been reviewed by the council by February 2016.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

91. The arrangements for the prevention and detection of corruption in West Lothian Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

## Transparency

92. Citizens should be able to hold the council to account for the services provided. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and uses its resources.
93. The council has arrangements to ensure transparency. With its Citizen Led Inspections and the Delivering Better Outcomes consultation, it is clear that citizens are engaged with the decision-making process of the council.
94. Citizen Led Inspections (CLIs) are inspections of council services by lay inspectors from the community. This initiative was designed by the council and encourages the community to become involved in improving and re-designing council services, while giving citizens a stronger voice in the decision-making process.
95. Committee papers are clearly written and available on the council's website and the press and public are rarely excluded access to agenda items.

96. Overall, we conclude that the council is open and transparent and information is not withheld unjustifiably from public scrutiny.

## Freedom of Information requests

97. During 2015/16, West Lothian Council received 1,214 FOI requests, which is a decrease of 48 on the 2014/15 figure. Of these, 1,142 (94%) were responded to within 20 days. During the year, there were 321 refusals to requests for information. The most common reason for refusal and part-refusal was that the information was not held.
98. An annual report on the council's FOI statistics is presented to the Corporate Management Team.

## Integration of health and social care

99. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.
100. The West Lothian Integration Joint Board (WLIJB) was formally established on 21 September 2015. This followed the approval of the Integration Scheme submitted by West Lothian Council and NHS Lothian. The WLIJB became fully operational on 1 April 2016, when delegated functions were transferred.
101. During this period between the establishment of the WLIJB and 1 April 2016, the council worked with the health board to develop an

integration plan. The plan sets out the key deliverables that would allow the WLIJB to meet its statutory obligations by 1 April 2016.

**102.** On 23 February 2016, the council approved its 2016/17 budget contribution of £66.685 million to the WLIJB. NHS Lothian continues to develop its revenue budget plans, and indicative resources of £140.586 million have been advised.

## Local scrutiny plan

**103.** The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to West Lothian Council on 16 March 2016.

**104.** The LSP is based on a shared risk assessment undertaken by a local area network (LAN). The LAN did not identify any specific areas from the risk assessment where scrutiny was required, other than scrutiny that was nationally directed or part of a planned programme of work.

**105.** The LSP highlights a number of areas which the Council is managing effectively but over which the LAN will continue to carry out some degree of monitoring as part of normal activities. These include:

- Leadership capacity (budget and staff reductions)
- Implementation of Integration Joint Board for Health and Social Care
- Financial Sustainability (rising demand for and costs of services)

- Quality of leadership (political and managerial) of the council's education service (decreased numbers and staffing changes within central management).

## Outlook

**106.** Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances, councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.

**107.** Partnership, joint working and arm's length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

# Best Value



108. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

## Best Value audit

109. The most recent Best Value report was issued in 2005 and highlighted that the council demonstrated a clear commitment to Best Value and community planning. The Controller of Audit is planning to provide the Accounts Commission with a Best Value Assurance Report relating to the council during 2017/18.

110. In June 2014, the Council Executive approved the council's updated Best Value framework, which replaced the existing BV framework established in 2003. The framework was updated to reflect changes to current procurement legislation and financial thresholds as well as two versions of BV guidance which were issued after the approval of the existing framework, and changes to the operating framework and approach to BV.

111. Officers review progress and compliance with the BV framework on an annual basis and this is considered by the Governance and Risk Board. In addition, an annual statement of compliance with the BV framework is included within the Head of Corporate Services annual compliance statement on procurement. This is submitted for review by the Council Executive as part of the governance report.

## Procurement

112. Following the Procurement Reform (Scotland) Act and the Public Contracts (Scotland) Regulations 2015, a new assessment regime was introduced as part of the new Procurement and Commercial Improvement Programme (PCIP). It came into effect on the 18 April 2016 and has new sections including fraud awareness & prevention and commercial acumen. In 2009, the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. Due to the move to the new assessment regime, no assessment was carried out at WLC in 2015/16. The most recent performance score for WLC was 62% which is an improved score over earlier

years. This reflects the improvements made by the council within corporate procurement

## Performance management

- 113.** Performance management is the way councils measure achievements of key objectives. It also helps councils monitor progress towards achieving key outcomes and priorities and demonstrates the efficient and effective delivery of services.
- 114.** West Lothian Council has robust self-evaluation arrangements in place. The council has a framework for assessing performance and improvement called the West Lothian Assessment Model (WLAM), which is used in all services to evaluate and challenge performance and improvement through a review panel process. Every service is required to complete the assessment and attend a review panel at least once every three years.
- 115.** The WLAM is supported by the Covalent performance management system which is used to monitor performance indicators, initiatives and risks across all of the council's service units. The performance indicators on Covalent provide a wide range of detailed management information on the efficiency and effectiveness of services. Quarterly performance reports for each service are presented to the relevant PDSP throughout the year.
- 116.** The performance committee conducts a continuous assessment of reviews on the units included in the WLAM. Services report their performance reviews to the committee on the key activities and are provided with recommendations on how to improve their

performance information. Our review of council minutes suggests the performance committee operates well and there is evidence of effective scrutiny.

- 117.** West Lothian Council participates in the Local Government Benchmarking Framework and the corporate plan is underpinned by a "strategy and activity map" which provides a clear link across council priorities, strategies and outcomes.
- 118.** We are satisfied that appropriate arrangements were in place within West Lothian Council during 2015/16.

## Overview of performance targets in 2015/16

- 119.** The corporate plan sets West Lothian Council's strategic direction and priorities for the years 2013-2017. There are eight priorities and each of them represents a strategic and joined up approach to maximising opportunities and tackling the issues and challenges that must be overcome to achieve successful outcomes. Each of the priorities are supported by the following three enablers:
- Financial planning
  - Corporate governance and risk
  - Modernisation and improvement
- 120.** Councils have a duty to be transparent in their reporting of performance and their actions in spending public money. The council's performance is monitored against a number of high level indicators aligned to the eight priorities and three enabler themes in the corporate plan.

121. Progress against performance indicators is reported annually to the public via the council's website and quarterly to elected members and the Executive Management Team via the performance committee, the PDSPs, the Review Panel and Covalent.
122. The council's overall performance in 2015/16 will be reported upon later in 2016.

### Statutory performance indicators (SPIs)

123. The Accounts Commission places great emphasis on councils' responsibilities for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.
124. For 2015/16 three (SPIs) were prescribed:
- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
  - SPI 2: covering a range of information relating to service performance
  - SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
125. Overall we concluded that the council's arrangements for publication were satisfactory.

### Local performance audit work

126. In November 2013, Audit Scotland published a report entitled *Scotland's public sector workforce*. The aim of the report was to assess if public bodies, including councils, are managing their workforces effectively.
127. Audit Scotland asked external auditors across the public sector to undertake follow-up audit work on the 2013 report. A standard questionnaire based on the report's findings was issued to external auditors to complete.
128. Our follow-up audit highlighted:
- The Council does not have an organisation wide workforce plan in place and there has been some degree of forecasting of expected staff numbers/skills requirements.
  - The council has been proactive in identifying shared services/resources opportunities.

### National performance audit reports

129. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the council. These are outlined in [appendix III](#). West Lothian Council has processes in place to ensure that all national reports and their impact on the council are considered by members.



## Equalities

130. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that, by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
131. The council's Corporate Equalities Outcome 2013-2017 was published in April 2013 and is available on the council's website. The report focuses on the issues identified by evidence and those affected by inequality, as priorities for the council.

## Outlook

132. In common with other councils, West Lothian Council faces the key challenges of reducing budgets, an ageing population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years in various ways, including reductions in the workforce. However, as choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

# Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Risk of management override of control</b> ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p><b>Risk</b> Management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates</li> <li>• Evaluating significant transactions that are outside the normal course of business</li> <li>• Focused testing of accruals and prepayments</li> </ul>	<p>From our audit testing of risk areas we did not identify any incidents of management override of controls.</p>
<p><b>Valuations</b> The financial statements of West Lothian Council include valuations which rely on significant assumptions and estimates.</p> <p><b>Risk</b> The level of subjectivity in the measurement and valuation of these balances increases the</p>	<ul style="list-style-type: none"> <li>• Review of budget monitoring</li> <li>• Review of the work of the professional valuer</li> <li>• Focused substantive testing of key areas, including provisions.</li> </ul>	<p>From our review of budget monitoring, the work of the professional valuer and focused substantive testing, no issues or misstatements were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
risk of error in the financial statements.		
<p><b>Income</b></p> <p>West Lothian Council receives a significant amount of income in addition to Scottish Government funding.</p> <p><b>Risk</b></p> <p>The complexity of the income transactions increases the risk of fraud.</p>	<ul style="list-style-type: none"> <li>• Review of budget monitoring</li> <li>• Review of the council's arrangements for the prevention and detection of fraud and corruption</li> <li>• Substantive testing of revenue transactions.</li> <li>• Analytical procedures on income streams to confirm completeness and identify any unusual transaction or variations in income.</li> </ul>	<p>From our audit testing of income, we did not identify any areas of concern.</p>
<p><b>Equal pay</b></p> <p>The council has made a provision for all known and outstanding equal pay claims.</p> <p><b>Risk</b></p> <p>There is a risk that the provision does not accurately reflect the total liability of the council.</p>	<ul style="list-style-type: none"> <li>• Review of results of finance team's correspondence with legal services.</li> <li>• Attendance at council meetings and review of minutes</li> <li>• Review of calculations and assumptions supporting provisions.</li> </ul>	<p>No significant areas of concern identified from our review of minutes and audit testing of provisions.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>Financial position</b></p> <p>West Lothian Council continues to face significant challenges in bridging an increasing</p>	<ul style="list-style-type: none"> <li>• Reviewed council papers and minutes to identify any potential areas of risk.</li> <li>• Monitored revenue and capital budget monitoring reports throughout the year to</li> </ul>	<p>From our review of council papers and management reports, no specific issues/areas of concern were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>funding gap identified for the period 2015/16 to 2017/18.</p> <p><b>Risk</b></p> <p>While there are efficiencies and cost saving measures in place to bridge the gap, there is a risk that these will not be sufficient.</p>	<p>identify any significant variances between budgeted and actual spend to identify any potential issues.</p>	
<p><b>Usable reserves</b></p> <p>The council continues to hold a low level of usable reserves. There is only £2.1 million of uncommitted general fund reserves at 31 March 2016 which is amongst the lowest of any local authority in Scotland.</p> <p><b>Risk</b></p> <p>There is a risk that there will be insufficient reserves to meet unforeseen circumstances.</p>	<ul style="list-style-type: none"> <li>• Review of risk register and risk management arrangements</li> <li>• Review of council papers and minutes</li> </ul>	<p>Disclosure as a risk in the Annual Audit Report</p>
<p><b>Borrowing</b></p> <p>The council continues to incur interest costs on additional borrowing in the short term as part of its treasury management strategy.</p> <p><b>Risk</b></p> <p>There is a risk of additional cost to the council if interest rates are not closely monitored.</p>	<ul style="list-style-type: none"> <li>• Review of treasury management strategy</li> <li>• Review of council papers and minutes</li> <li>• Review of financial statements disclosure and substantive testing of treasury management transactions.</li> </ul>	<p>From our audit testing and review, no significant areas of concern were identified.</p>

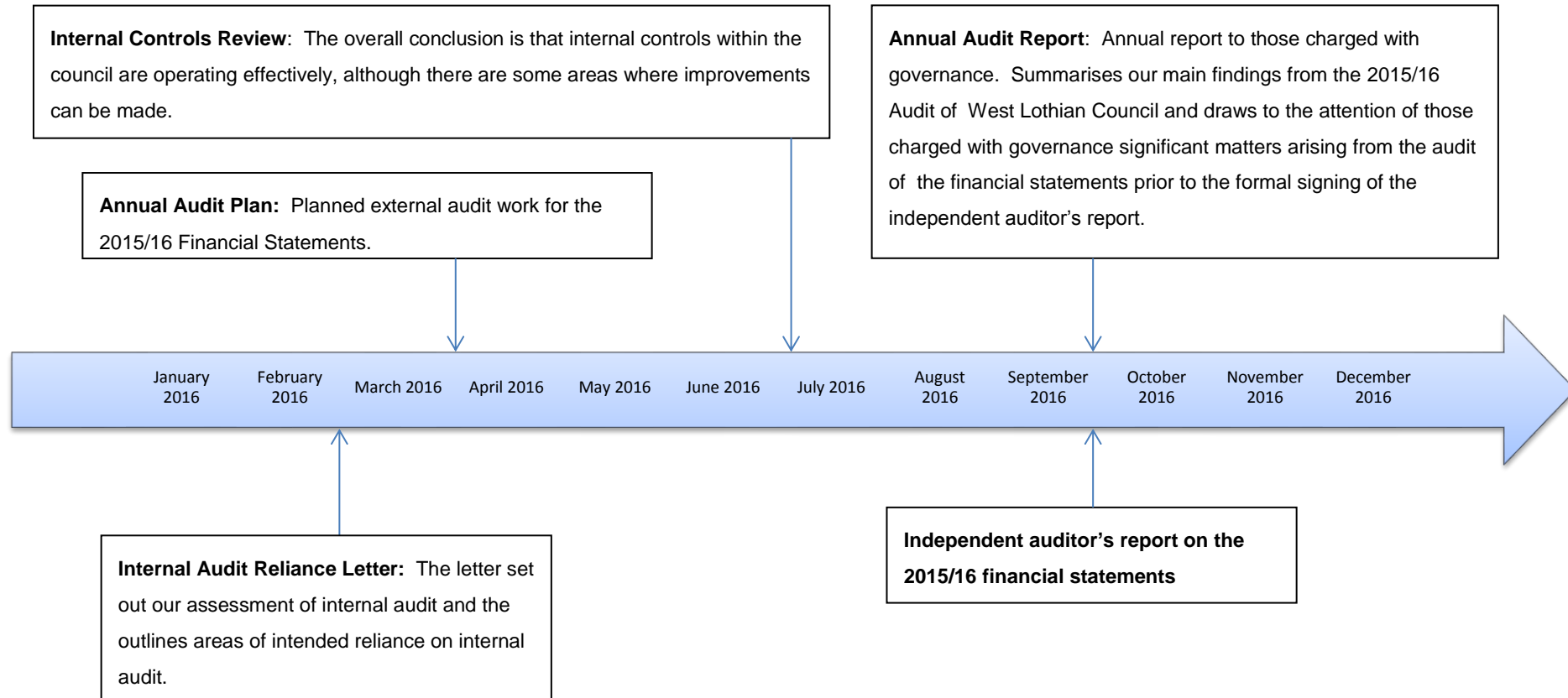
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Significant Trading Operations (STOs)</b></p> <p>The council's economic development properties STOs failed to meet the statutory requirement to breakeven over a three year rolling period in 2014/15 as a result of impairment charges incurred during 2012/13.</p> <p><b>Risk</b></p> <p>There is a risk that the council will not comply with the statutory requirement in 2015/16.</p>	<ul style="list-style-type: none"> <li>Review of results of STOs</li> </ul>	<p>The STOs did not achieve the statutory requirement as a loss of £4.395 million was made for the three years to 31/3/16. This was due to an impairment charge on assets in the Economic Development Property Portfolio in 2015/16 of £4.477 million. We have included an explanatory paragraph in the auditor's report on the failure of the STO to achieve its prescribed financial objective.</p>
<p><b>Business continuity</b></p> <p>At the time of issue of our audit plan, Swift and Open housing had yet to be tested as part of the WLC1 test programme.</p> <p><b>Risk</b></p> <p>Swift is a social work application and holds sensitive data, the loss of which could result in costs and/or reputational damage to the council.</p>	<ul style="list-style-type: none"> <li>Review of the council's system testing</li> </ul>	<p>We confirmed that both areas of testing were successfully completed.</p>
<p><b>Workforce planning</b></p> <p>The council's efficiency savings measures have led to plans to reduce the workforce by 357 FTE staff during the period to 2017/18.</p>	<ul style="list-style-type: none"> <li>Follow-up work on Audit Scotland's report <i>Scotland's public sector workforce</i>.</li> </ul>	<p>We concluded that although there is no organisation wide workforce plan in place, there are elements of forecasting of expected staff numbers, skill needs and costs on a rolling basis.</p>

---

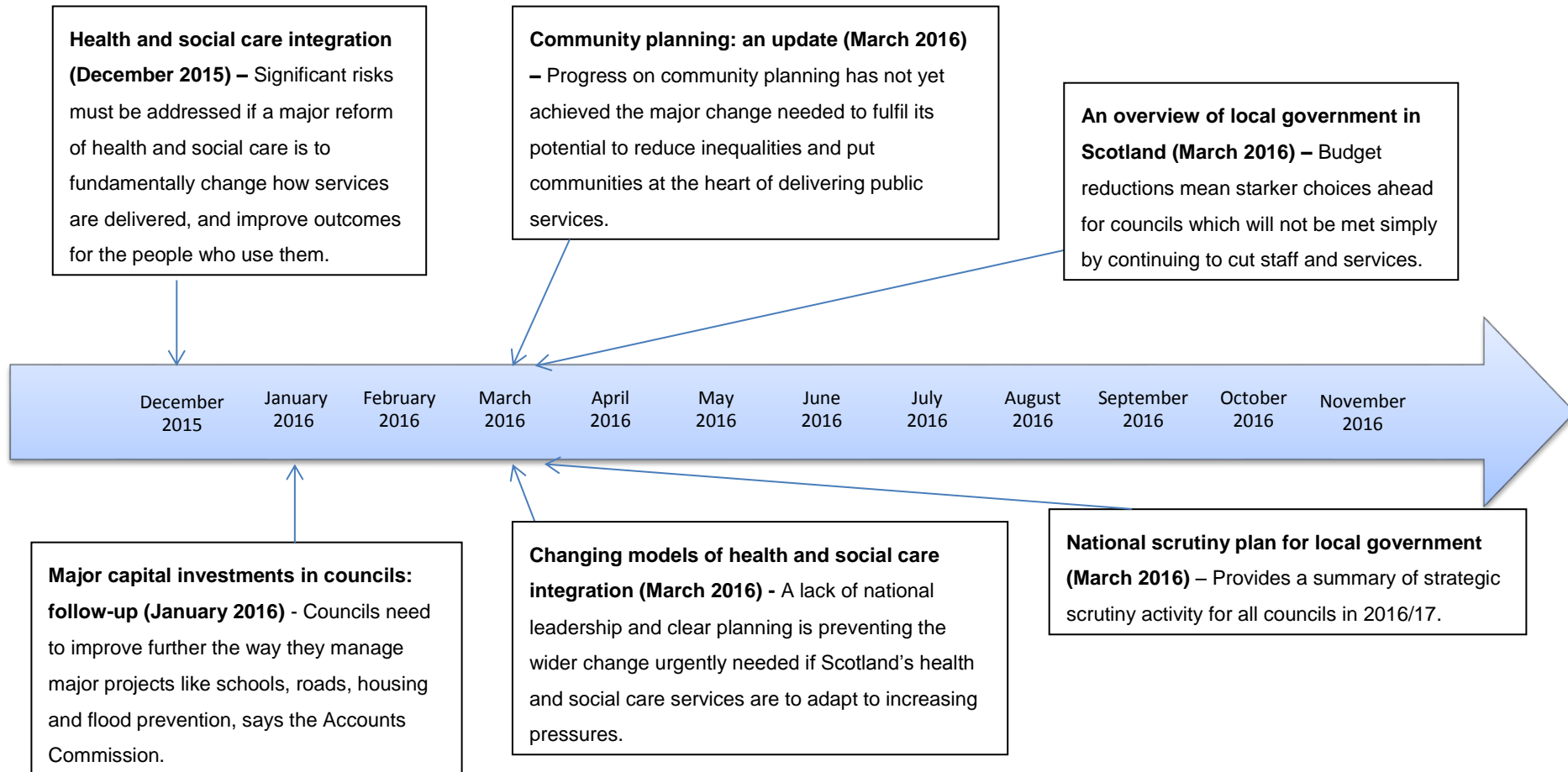
**Audit Risk****Assurance procedure****Results and conclusions****Risk**

There is a risk of adverse impact on service delivery and quality.

## Appendix II: Summary of West Lothian Council local audit reports 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16





## Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1	24	<p><b>Non-current assets</b></p> <p>A review of the vehicles in the Fixed Asset Register (FAR) by finance staff led to the identification of 19 vehicles which were no longer held by the Council. There is a risk of financial loss to the Council if procedures for recording assets are not followed.</p> <p><b>Recommendation</b></p> <p>Regular physical verification of assets should be carried out and staff reminded to promptly notify FMU of any changes in asset base.</p>	<p>All assets on the FAR have been assigned an owner and physically verified as being operational on a half yearly basis. Information will be recorded on verification and zero value disposals.</p>	<p>Donald Forrest/ Immediate implementation</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	37	<p><b>Underspend against budget</b></p> <p>There was an overall underspend against budget lines within General Services. There is a risk that that the budget approved is not up to date and does not reflect the underlying cost of the service level approved by members.</p> <p><b>Recommendation</b></p> <p>A review and adjustment of budget lines may be required to ensure the approved budget is up to date and reflects the underlying cost of the service level approved by members.</p>	Zero Based Budgeting/ Budget alignment review.	Donald Forrest/ Ongoing

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	51	<p><b>Reserves</b></p> <p>The council's £2.1 million uncommitted fund balance as at 31 March 2016 continues to be amongst the lowest uncommitted general fund balances held by all Scottish local authorities. The Council's uncommitted reserves may be insufficient to fund future unforeseen costs.</p> <p><b>Recommendation</b></p> <p>The Council should maintain a level of usable reserves that achieves a balance between meeting current obligations and preparing for future commitments.</p>	Level of reserves reviewed annually as part of revenue budget process. Specific appendix in the budget report.	Donald Forrest/ Ongoing

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	53	<p><b>Efficiency savings</b></p> <p>The indicative budgets for 2016/17 and 2017/18 require efficiency savings of £21 million. While the council has been proactive in its approach to identify savings opportunities, the realisation of these savings will become progressively more challenging year on year.</p> <p><b>Recommendation</b></p> <p>Progress against planned savings targets should continue to be monitored and corrective action taken to address any significant variances.</p>	<p>Robust zero based budgeting process in place.</p> <p>Robust risk based monitoring framework and procedures in place reviewed annually and updated.</p>	<p>Donald Forrest/ Ongoing</p>