

DATA LABEL: PUBLIC



GOVERNANCE & RISK COMMITTEE

EXTERNAL AUDIT REPORT 2019/20

REPORT BY GOVERNANCE MANAGER

A. PURPOSE OF REPORT

To consider the parts of the report by the council's external auditors (EY) on the council's annual accounts which are relevant to the committee's remit.

B. RECOMMENDATIONS

1. To note the terms of the 2019/20 Annual Audit Report which was reported to council on 29 September 2020 and that council referred the report to this committee in relation to the aspects of the wider-scope audit relevant to the committee's remit
2. Specifically:-
 - a) To note the auditors' unqualified audit opinion on the Council and Group financial statements
 - b) To note their "green" assessment of the Governance & Transparency element of the wider-scope audit and that they found the key features of good governance to be in place and operating effectively
 - c) To note their conclusion that the council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the COVID-19 lockdown period
 - d) To note that there were no recommendations made requiring an action plan to be prepared in relation to any aspect of the accounts and statements
3. To note the summary of matters in the auditors' report which are relevant to the remit of this committee
4. To note that due to the pandemic the auditors have deferred some of their planned high level Best Value plan/audit coverage until 2020/21
5. To consider and identify any actions or recommendations that might be made in relation to matters in the auditors' report which are relevant to the remit of this committee

C. SUMMARY OF IMPLICATIONS

I Council Values

Being honest, open and accountable

II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	Local Government (Scotland) Act 1973. Local Government in Scotland Act 2003. Local Authority Accounts (Scotland) Regulations 2014.
III Implications for Scheme of Delegations to Officers	None
IV Impact on performance and performance Indicators	None
V Relevance to Single Outcome Agreement	Good governance arrangements assist, support and promote the achievement of defined outcomes
VI Resources - (Financial, Staffing and Property)	Within existing resources
VII Consideration at PDSP	Not required
VIII Other consultations	Audit, Risk & Counter Fraud Manager

D. TERMS OF REPORT

1 Background

- 1.1 The council's unaudited accounts were considered by Audit Committee and submitted by the Head of Finance & Property Services to Ernst & Young (EY), its external auditors, in June 2020. They were then made available for public inspection and objection. No objections were made. EY's audit report is addressed to members of the council and is forwarded to the Controller of Audit. It was considered by council on 29 September 2020 when the audited accounts were approved for signature. The report was further considered at Audit Committee on 26 October 2020. It is reported to this committee in relation to its remit in relation to risk and governance.
- 1.2 The coronavirus pandemic resulted in changes to the audit process and content. Guidance was issued both in relation to information to be included in the accounts and statements and the approach to be taken in their auditing and reporting. The management commentary and the annual governance statement were particularly affected. The audit report makes frequent mention of the pandemic, its impact and the council's reaction to it.
- 1.3 EY's report has not been produced in full since all members have already considered it when approving the council's accounts for signature. There is a hyperlink to the report in Part F of this report.
- 1.4 EY's report deals first with the audit of the council's financial statements. It then deals with the wider scope audit covering four dimensions of public sector audit – Financial Sustainability; Financial Management; Governance and Transparency; and Value for Money. There are references to risks in the section on the audit of the council's financial statements but those are in the first instance within the remit of Audit Committee. The third area of the wider scope audit (Governance and Transparency) is the most relevant to the remit of this committee in terms of both governance arrangements and risk management. The significant relevant elements of those are as follows.

2 Governance and Transparency

- 2.1 “Governance and Transparency” is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. In the Key Conclusions (Page 4) EY have given an overall “green” assessment of this dimension and state that:-
- the key features of good governance at the council are in place and operating effectively
 - the council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic
 - the council has arrangements in place to appropriately scrutinise activities across its Group, in particular where financial support is being provided to entities in financial difficulty
- 2.2 The report considers Governance and Transparency under several headings: Local Code of Corporate Governance; COVID-19 Governance Arrangements; Assurance Statement; Openness and Transparency; EU Withdrawal; and Group Governance Arrangements. Risk Management had been a separate heading in last year’s audit report.

3 Local Code of Corporate Governance (Page 29)

- 3.1 EY reviewed the annual governance statement against the required guidance and were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity. The statement concluded that although there are areas where improvement can be made, the council and the West Lothian community can be assured that the council’s corporate governance standards were substantially met in 2019/20.
- 3.2 The statement was found to include a detailed summary of the impact of COVID-19 on governance arrangements and how management responded to ensure adequate governance arrangements remained in place, particularly through the initial lockdown period. It included reference to the statutory mechanisms available to the council, both through new and existing legislation, and where the council took advantage of these mechanisms. In the main the council was found to have continued under existing arrangements with minimal utilisation of extraordinary measures.
- 3.3 This committee received two reports in relation to COVID-19 at its meeting in June. One was to provide an update on the ongoing risks and actions in relation to the COVID19 pandemic and the other to provide an initial overview of the governance aspects and effects of the pandemic. A separate report is to be considered at this meeting on how COVID-19 has been reflected in the risk register.

4 COVID-19 Governance Arrangements (Page 30)

- 4.1 EY concluded that arrangements were quickly developed to ensure that the council was kept informed of the impact of COVID-19, and that key governance arrangements could continue during the lockdown. It noted that the council moved to revised governance arrangements at the beginning of the lockdown period with committee meetings scheduled from the end of March through July 2020 initially cancelled before a number were reinstated and conducted remotely.

- 4.2 EY noted that the addition of new COVID-19 risks related to the delivery of critical services and the re-assessment of existing risks. That resulted in some risks moving to “high risk” status, including council tax – failure to achieve budgeted income; West Lothian Leisure - failure to achieve financial plan; and Pandemic – failure to maintain critical services. A separate report is to be considered at this meeting on how COVID-19 has been reflected in the risk register.

5 Assurance Statement (Page 30)

- 5.1 EY noted that after reviewing the council's system of internal control the council's Audit, Risk and Counter Fraud Manager concluded that “the framework of governance, risk management and control is sound.” The internal audit work planned for the year 2019/20 was completed in line with planned deadlines with no delay resulting from the impact of COVID-19. The Audit, Risk and Counter Fraud Manager concluded that governance arrangements are adequate and that improvements had been made during 2019/20.

6 Openness and transparency (Page 30)

- 6.1 The council was found to have clear arrangements to ensure that members of the public can attend council and committee meetings as observers in usual circumstances, and agendas and papers are available in advance of each meeting. EY noted that arrangements were temporarily removed as a result of meetings being held remotely due to the pandemic, although minutes of meetings, including key decisions, were publicly available after the meetings. It was also noted that public access to meetings via audio broadcasting had been secured from 26 May 2020.

7 EU Withdrawal (Page 30)

- 7.1 EY recorded that the council continued to monitor potential scenarios of EU withdrawal and the possible impact on the council through its Brexit Working Group, established in 2018. The council maintained its Brexit risks log, including a risk rating for all risks identified. Updates to members and the public were noted through quarterly horizon scan reports to the Partnership and Resources PDSP and to the Governance and Risk Committee throughout the year.
- 7.2 EY considered that as the 31 December 2020 deadline for the end of the transition period approaches, increasing focus would be given to implementing plans to mitigate identified risks. They confirmed the continued liaison with the Scottish Resilience Partnership and community planning partners. There is a Brexit risk-related update on the agenda for this meeting.

8 Group Governance Arrangements (Page 31)

- 8.1 EY's role requires consideration of governance arrangements to monitor and scrutinise the wider group (a defined accounting term) in particular where there is the possibility for a financial or operational impact on the council's services. Overall, EY were satisfied that the council is demonstrating the required level of scrutiny and governance over entities within the council's Group, including demonstrating rigour around the use of public funds for private bodies.
- 8.2 In relation to the Integration Joint Board (IJB) they noted the COVID-19 related delay to the review of the Integration Scheme. Both council and health board approved the delay with no impact on the IJB, and will update the scheme in 2020/21

- 8.3 EY noted that West Lothian Leisure (WLL) had been significantly impacted by the pandemic, leading to a reprofiling of the management fee payments, reported to Council Executive in May 2020. The council included a £500,000 contingency in its 2020/21 outturn forecast to reflect additional anticipated support that may be required in the year. However, EY explain that WLL is immaterial to the consolidation of the council's Group financial statements, and so does not impact the going concern conclusions around the Group financial statements. WLL's financial position has been reported to committee most recently in August 2020.

9 Recommendations and Actions (Page 43)

- 9.1 There were no recommendations made by EY requiring the development of an Action Plan.
- 9.2 EY participate in the Local Area Network (LAN), comprising representatives from different scrutiny bodies, to agree the council's local scrutiny plan (LSP). The 2018/19 LSP confirmed no scrutiny risks for 2018/19 and the auditors confirmed in September 2019 that the LAN determined that no separate scrutiny plan for the council has been necessary since that plan was published. The External Audit Plan for 2019/20, reported to Audit Committee on 22 June 2020, confirmed that there is no additional planned scrutiny for 2020/21. The external auditors have confirmed they have considered the need for any additional LAN meetings or scrutiny subsequent to the impact of COVID-19, and have agreed at this stage neither is required.

10 Future audit work (Page 36)

- 10.1 EY's audit report for 2017/18 set out their plan for their five year audit appointment. It included coverage of the elements of Best Value statutory guidance as well as the Accounts Commission's strategic priorities. It explained their timetabling and how EY would report them in accordance with the wider scope dimensions of public audit.
- 10.2 Following the impact of COVID-19 EY agreed with officers and Audit Scotland to defer work in the scheduled areas. This allows the focus to be on key operational priorities during the lockdown and recovery period, and allows the audit to prioritise the financial statements audit requirements. Following that deferral of planned work this year and the extension of EY's appointment by Audit Scotland there will be discussions with officer and Audit Scotland to agree a re-profiled schedule of work for the next two years. That will be reported to Audit Committee in March 2021.

E. CONCLUSION

The committee is invited to consider EY's report in relation to matters in its risk and governance remit and whether any actions or recommendations should be considered and made.

F. BACKGROUND REFERENCES

- 1 2019/20 Audited Annual Accounts for West Lothian Council
- 2 West Lothian Council, 29 September 2020
- 3 2019/20 Annual Audit Report to Members and the Controller of Audit –

<https://coins.westlothian.gov.uk/coins/submissiondocuments.asp?submissionid=46265>

4 Audit Committee, 26 October 2020

Appendices/Attachments: None

James Millar, Governance Manager, 01506 281613, james.millar@westlothian.gov.uk

Date of meeting: 9 November 2020