

# East Lothian Council

2018/19 Annual Audit Report



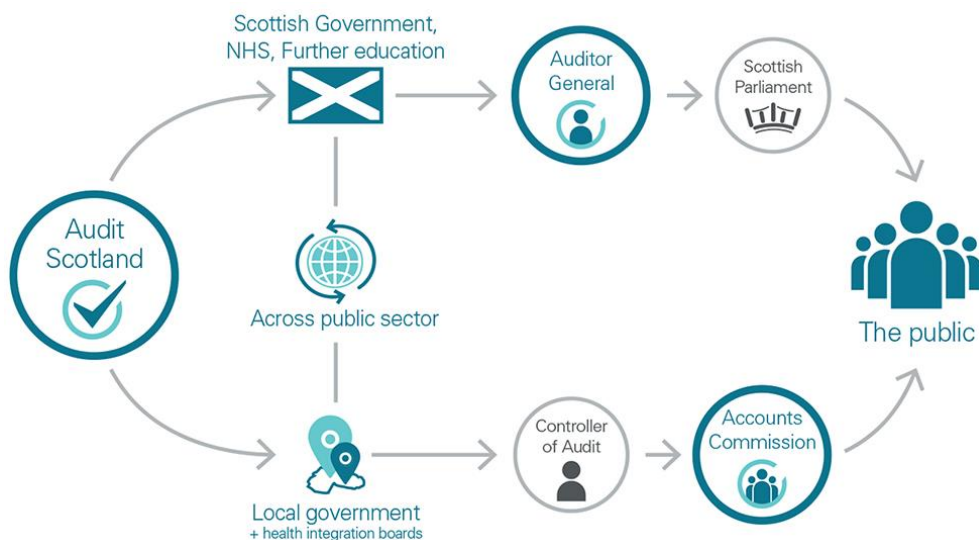
 AUDIT SCOTLAND

Prepared for the Members of East Lothian Council and the Controller of Audit  
17 September 2019

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2018/19 annual accounts

- 1** East Lothian Council and its group financial statements give a true and fair view and were properly prepared.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.
- 3** The statement of accounts of the Dr Bruce Charitable Fund section 106 charity administered by the council is free from material misstatement.

## Financial management

- 4** Financial management is effective with a budget process focussed on the council's priorities.
- 5** On the basis of audit work undertaken, we concluded that appropriate and effective internal controls were in place for key financial systems.
- 6** Developer contributions play an increasingly significant role for the fulfilment of the capital expenditure ambitions of the council. Governance arrangements have been put in place to ensure developer contributions are managed in line with the council's capital programme. It will be important to demonstrate that this is all working to plan, as the system matures.

## Financial sustainability

- 7** The council and its group financial position is sustainable in the foreseeable future although rising demand for services will continue to place a strain on the council's capacity to deliver services at the current levels.
- 8** There is a five-year financial strategy that is aligned to the council's priorities and demonstrates how it will address future budget challenges.
- 9** The council has made savings over the past few years. However, the size of the future funding gap and a reliance on non-recurring savings means it will struggle to make the required savings in future years.

## Governance and transparency

- 10** The council's governance arrangements are appropriate, effective and support good governance and accountability.
- 11** The council demonstrates a commitment to openness and transparency in the way it conducts its business.

## Value for money

- 12** A number of activities are underway in response to the Best Value Assurance Report published in November 2018 although several areas are not due for completion until 2020. The council will wish to ensure it can demonstrate the difference they are making in respect of these improvements.

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# Introduction

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1. This report summarises the findings arising from the 2018/19 audit of East Lothian Council and its group (the council).

2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 19 February 2019 meeting of the Audit and Governance Committee. This report comprises the findings from:

- an audit of the annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2018/19 have been:

- an audit of the council and its group 2018/19 annual report and accounts and the statement of accounts of the Dr Bruce Fund, a section 106 charity administered by the council, including the issue of independent auditor's reports setting out our opinions
- a review of the council's key financial systems
- a follow up of the 2017/18 Best Value Assurance Report

- consideration of the four audit dimensions.

## Added value through the audit

4. We add value to the council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

7. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements, and financial position,
- the arrangements for securing financial sustainability and,
- best value arrangements.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

11. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its

responsibility to address the issues we raise and to maintain adequate systems of control.

**12.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

**13.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £241,440 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**14.** This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**15.** We would like to thank all management and staff for their cooperation and assistance during the audit.



# Part 1

## Audit of 2018/19 annual accounts



### Main judgements

**East Lothian Council (the council) and its group financial statements give a true and fair view and were properly prepared.**

**The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.**

**The statement of accounts of the Dr Bruce Fund section 106 charity administered by the council is free from material misstatement.**

The council and its group annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

### Audit opinions on the annual accounts

**16.** The annual accounts for the council and its group for the year ended 31 March 2019 were approved by the Audit and Governance Committee on 17 September 2019. We reported, within the independent auditor's report, that the:

- financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

**17.** We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

### Audit opinions on section 106 charity – Dr Bruce Fund

**18.** Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of East Lothian Council are sole trustees, irrespective of the size of the charity. The Dr Bruce Fund is the only charity for which this applies in East Lothian Council.

**19.** We received the Dr Bruce Fund accounts on 19 June 2019, in line with the agreed timetable. There were no adjusted or unadjusted audit differences raised. However, the following issue was noted during the audit which has previously been raised in our 2016/17 and 2017/18 annual audit reports:

- The Dr Bruce Fund was set up to provide relief for the poor of Musselburgh. The Dr Bruce Fund awarded the same two individuals £60 in 2018/19 (2017/18: £60, 2016/17: £50). More could be done by East Lothian Council to promote the trust and its availability to the residents in Musselburgh.



### **Recommendation 1 ([appendix 1, action plan point 1](#)).**

**The council should review the method(s) used to promote this (and other) charitable trusts as part of the wider trust review to ensure that the potential availability of these funds are known to the wider community.**

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**20.** After completing our audit, we reported in the independent auditor's report that:

- the financial statements give a true and fair view for the Dr Bruce Fund's financial position and are properly prepared in accordance with charities legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

### **Submission of the council and its group annual accounts for audit**

**21.** We received the unaudited annual accounts on 19 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan.

**22.** The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

**23.** In 2018/19 the group accounts were prepared on the basis of unaudited accounts of the subsidiaries and associates; this was also the case in 2017/18. Audited accounts have been received for East Lothian Land Ltd, East Lothian Investments Ltd, Brunton Theatre Trust, Lothian Valuation Joint Board and the East Lothian Integration Joint Board with no changes identified. However, we have yet to receive the audited / updated accounts for Musselburgh Racing Associated Committee (expected sign off is 17 September) and Enjoy East Lothian Ltd (expected sign off is 23 September).

**24.** As previously reported in our 2017/18 annual audit report, the delay in receiving audited accounts from group components impacts on the ability to ensure the most up-to-date audited figures are included in the group accounts and could delay signing the group accounts by the statutory deadline of 30 September.



### **Recommendation 2 ([appendix 1, action plan point 2](#)).**

**The council needs to work with the various subsidiaries and associates to plan and agree a suitable timetable for receipt of audited accounts to ensure all group components are fully signed off by the time the group accounts are to be approved.**

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## Whole of Government Accounts

**25.** In accordance with the WGA guidance, the council submitted a consolidation pack for the whole of government accounts audit on 24 July 2019 in line with the deadline. We will complete the required assurance statement and submit it to the National Audit Office (NAO) by the 28 September 2019 deadline.

### Risk of material misstatement

**26.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

### Materiality

**27.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

**28.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**29.** On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

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## Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£4.0 million
Performance materiality	£2.4 million
Reporting threshold	£40,000

Source: Audit Scotland, Annual Audit Plan 2018/19

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## Significant findings from the audit in accordance with ISA 260

**30.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in [Exhibit 3](#).

### Qualitative aspects of the audit

**31.** We have no significant findings to report around the qualitative aspects of the 2018/19 accounting practices.

## Exhibit 3

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. IAS 19 actuarial valuation</b></p> <p>The actuarial valuation of the IAS 19 pension liability in the unaudited accounts was revised to take account of the McCloud Supreme Court ruling. As a result, a revised valuation was carried out which resulted in an overall increase to the pension liability of £10.8 million.</p>	<p>The Council obtained a revised actuarial valuation which took into account the Supreme Court's ruling and adjusted the financial statements to reflect the revised pension liability. The impact of the adjustment was to increase the employer's liability by £9.4 million and the guaranteed minimum pension by £1.4 million (£10.8 million in total) with a corresponding increase to the pension reserve.</p>
<p><b>2. Loans fund</b></p> <p>In December 2018 the council undertook a review of the loans fund based on advice from its external treasury advisors. The work was put on hold pending clarification of prevailing statutory regulations and guidance.</p> <p>In June 2019, Audit Scotland confirmed that the existing regulations allow local authorities to vary the period and repayment of pre 2016 loans fund advances if they consider it prudent to do so.</p> <p>A review of the council's loans fund has now been completed and has been applied to the 2018/19 financial year. This has resulted in changes to the repayment period and value of historical and current loans fund advances. The council feels the revised payment profile of the loans fund now more accurately reflects the period and pattern of benefits from their capital investments.</p>	<p>The reprofiling of loans fund repayments has been applied to the 2018/19 financial year. The overall impact has been a reduction in the charges to General Services and the Housing Revenue Account of £3.6 million and £0.1 million respectively.</p> <p>We have reviewed the reasoning and process behind the re-profiling exercise and have concluded that it is prudent.</p>

### How we evaluate misstatements

**32.** In addition to the IAS 19 adjustment included above, adjustments were made to the draft accounts for depreciation (an increase of £1.6 million) and a movement from Health and Social Care Partnership income to People and Resources income (£1.2 million, no net impact on the Comprehensive Income and Expenditure Statement). An adjustment was made to the cash flow statement for PWLB borrowing (£20 million, no impact on cash and cash equivalents at the end of the period). Adjustments were made to the group accounts for common good finance leases and property, plant and equipment additions, the net impact being an increase in assets of £254,000.

**33.** One error above our reporting threshold but below materiality was identified but has not been adjusted in the financial statements. [Appendix 3](#) gives details of the unadjusted error and the impact on the financial statements.

**34.** It is our responsibility to request that all misstatements above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the item above as the amount is not considered material in the context of the financial statements.

## Follow up of prior year recommendations

**35.** The council has made some progress in implementing our prior year audit recommendations. Further improvements could be in the areas of: group accounts, review of trust funds and following the public pound. For those recommendations not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

## Integration Joint Board

**36.** The council has included its share of the financial transactions of East Lothian Integration Joint Board (the IJB) within its group financial statements. The IJB is considered a joint venture within the council's accounts. We have completed the audit of the IJB and reported our findings separately to the East Lothian IJB Audit and Risk Committee on 10 September 2019 where the accounts were approved for signing. Assurances were obtained from NHS Lothian and East Lothian council to check the accuracy and completeness of IJB figures included in the accounts. Further commentary on the IJB is provided in [Part 4, paragraph 105](#) of this report.

## Other findings

**37.** Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted for and reflected in the audited annual accounts.

## Objections

**38.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations and there were no objections to the 2018/19 unaudited annual accounts.

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# Part 2

## Financial management

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### Main judgements

**Financial management is effective with a budget process focussed on the council's priorities.**

**On the basis of audit work undertaken, we concluded that appropriate and effective internal controls were in place for the key financial systems we reviewed.**

**Developer contributions play an increasingly significant role for the fulfilment of the capital expenditure ambitions of the council. Governance arrangements have been put in place to ensure developer contributions are managed in line with the council's capital programme. It will be important to demonstrate that this is all working to plan, as the system matures.**

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Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

### Financial performance in 2018/19

**39.** The council approved a General Services budget of £237.3 million in February 2018. The budget was aligned to the council's main priorities and vision.

**40.** The 2018/19 end of year financial review presented to council on 25 June 2019 reported an overspend of £1.0 million across all services relative to the approved budget. This includes an IJB underspend for council related activity of £0.3 million which has been transferred to the IJB.

**41.** The overspend across all services has been mitigated by a review of the loans fund and bad debt provisions which resulted in an overall improvement of £3.3 million relative to the council's planned use of reserves. Much of this improvement is non-recurring.

**42.** While the council's spending has remained in line with its overall budget, there are significant variations in how different services have performed. The more significant under and overspends are summarised in [Exhibit 4](#).

## Exhibit 4

### Summary of significant under / overspends against budget

Area	Under / over spend (£m)	Reason for variance
<b>Underspends</b>		
Resources and People Services	£0.867	The introduction of additional pre-school provision within Education Group and lower than anticipated expenditure on school technology (TIC) budget, period poverty and school clothing grants within Support Services.
Partnership and Services for the Community	£0.436	Ongoing savings in staff costs, an increased surplus in the Property Maintenance Trading account, and a number of one-off benefits in Economic Development within Development Services.
<b>Overspends</b>		
Health and Social Care Partnership	£2.34	Increased demand and average costs for residential and secure placements within Children's Services.

Source: East Lothian Council 2018-19 End of Year Financial Review

**43.** The Health and Social Care Partnership (including both Adult and Children services) directorate has overspent against budget in both the current and previous two financial years. Although the overspend has been partially offset by underspends in other services, the council delivered an overspend relative to approved budgets of around £1.0 million in 2018/19.

### Housing revenue account

**44.** The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to a level which will at least cover the costs of its social housing provision.

**45.** The 2018-19 End of Year Financial Review, presented to full council in June 2019 reported that the HRA delivered an additional surplus of £673,000, over the planned budgeted underspend of £1.7 million.

**46.** During the year, employee costs were lower than budgeted due to a high number of vacancies. Income was higher than anticipated. Benefits also accrued from a lower than anticipated increase in the provision for bad and doubtful debt and lower than budgeted debt charges due to a combination of the wider review of debt charges, and lower than expected loans fund repayments.

**47.** The HRA reserve balance has increased by £0.67 million during the year to £6.07 million at 31 March 2019. This is in line with the council's five-year financial strategy for 2019-24 which has a stated policy of maintaining an HRA reserve balance of at least £1 million, to allow the council to maintain a cushion against any unexpected increase in costs or loss of income, and to protect against the unexpected fluctuations arising from UK welfare reform proposals. Given the uncertainty that exists over the timing and scale of capital investment in new affordable housing, there is no upper limit on the HRA reserve.

## Reserves

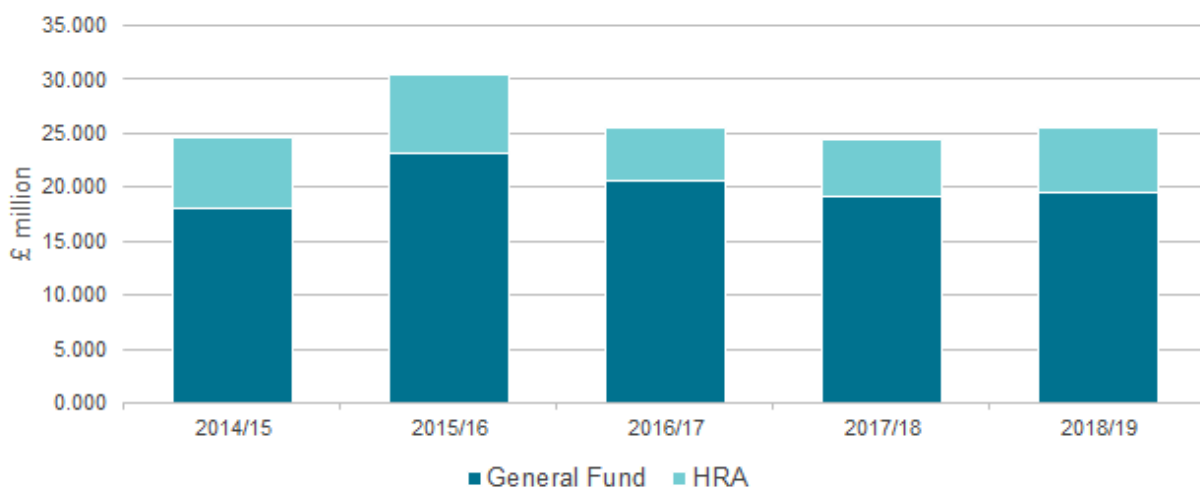
**48.** One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the council increased from £24.4 million in 2017/18 to £25.5 million in 2018/19 as illustrated in [Exhibit 5](#) (£3.2 million more than planned). This was due to a review of the loans fund and a review of bad debt provisions relating to Council Tax and Housing Benefit. However, spending on General Services continues to be higher than total income receivable by around £1 million.

**49.** The general fund is the largest usable reserve. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

**50.** The council reviews the level of its uncommitted reserves when setting the budget each year. The council's approved reserves strategy recommends that there is now a need to establish a minimum level of uncommitted general reserve balances which can be used to support any unforeseen / unquantifiable event. This level should equate to a minimum of 2% of the council's annual running costs (£4.27 million). Taking into account the Civil Emergency Fund (£2 million) and the General Services Capital Fund (£2.28 million), both earmarked, uncommitted reserves, the council currently meets this minimal required level of balance at just over £4.28 million.

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### Exhibit 5 Analysis of general fund and HRA over last five years



Source: East Lothian Council Audited Annual Accounts (2015/16, 2016/17, 2017/18) and Draft Annual Accounts 2018/19

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## Efficiency savings

**51.** Efficiency savings are an important means of bridging the gap between funding received and spending commitments especially with the increased demand for services.

**52.** The council is required to submit an annual return to COSLA in respect of recurring / non-recurring efficiency savings. Budget monitoring reports, including risk assessed savings plans, are routinely submitted to council and cabinet.



**53.** The council had planned to secure efficiency savings of £5.017 million in 2018/19. The council achieved actual savings of £4.037 million (80% of the total).

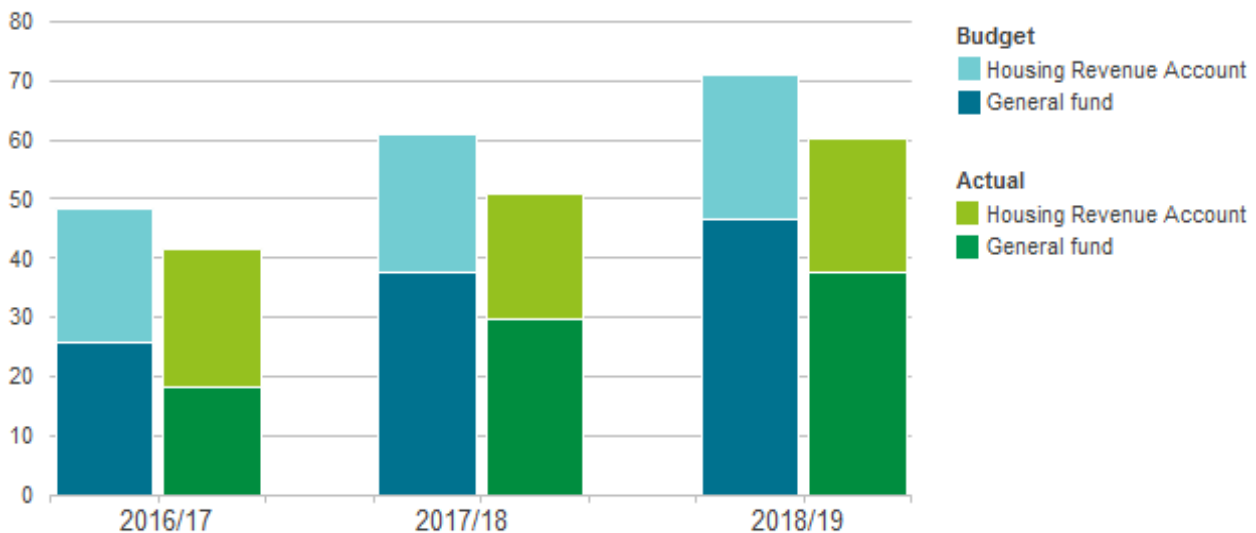
### Capital programme 2018/19

**54.** Total capital expenditure in 2018/19 was £60.1 million of which £37.7 million related to general services and £22.4 million to the housing revenue account (HRA).

**55.** General services capital spend was £8.8 million (18.9%) below budget. The HRA capital spend was £2.0 million (8%) below budget. For the last three years, the council has reported slippage in its capital programme as outlined in [Exhibit 6](#).

## Exhibit 6

### Capital slippage compared to budget (general fund and HRA)



Source: East Lothian Council End of Year Financial Reviews (2016/17, 2017/18 and 2018/19)

**56.** Income was £9.3 million lower than budget for general services, most of which is attributable to the reprofiling of developer contribution income and non-realisation of asset sales.

**57.** For HRA, an additional £3.6 million of Government Grants was received in addition to budget (£2.1 million of which related to the supported purchase of Herdmanflat). Underspends were incurred for the Modernisation Programme and Mortgage to Rent Applications of £1.8 million and £0.8 million respectively. The underspends were offset by an overspend of £0.8 million for New Affordable and Council Housing.

**58.** The council's outstanding loans at 31 March 2019 were £360 million, an increase of £2 million on the previous year. The council made £17.6 million of loan repayments and £20 million of new loans were taken out during the financial year.

**59.** Total external debt, which includes the council's long-term liabilities, was within the authorised limit and operational boundary set by the treasury management

strategy. The current borrowing position is prudent, and the council will continue to consider the affordability of future borrowing.

## Developer contributions

**60.** There is significant growth in East Lothian as set out in the [East Lothian Local Development Plan<sup>1</sup>](#) (LDP). Alongside the LDP, the council has developed supplementary guidance: a [Developer Contribution Framework](#) which sets out the developer contributions required to support the LDP developments. Developer contributions are amounts paid to the council by developers and land owners in order to mitigate the impact of new homes and other buildings which create extra demands on local facilities such as schools and infrastructure. A developer contribution is a legal agreement between the land owner and the local authority and can also be referred to as Section 75 (S.75) agreements.

**61.** In East Lothian developer contributions are required to address the transport, education, community, health care and affordable housing requirements that arise as a result of these developments. For example, the council plans to construct three new primary schools, one new secondary school as well as undertake expansion / improvement works in five secondary schools and extend 17 existing primary schools. This is to accommodate the school roll growth anticipated as a result of the planned developments in the LDP. In addition, a new primary school in Wallyford was completed in during 2018/19 as part of the LDP.

**62.** The council uses the legal agreements to secure the necessary contributions (sometimes in kind) from each developer and the agreement must be signed prior to planning consent being given. A legal agreement would not be required in the event of a developer paying their full developer contribution in advance of the planning consent being issued. We were advised that for cash flow purposes most developers do not opt to pay in full in advance; developers prefer to pay once house sales have commenced. In most cases, developer contributions are received on, or in advance of, the council commencing building work. Developer contributions are recorded in the annual accounts as a long term liability with the amounts received from developers linked to the council's longer term capital financial plan. Amounts are retained until projects are completed.

**63.** In 2018/19 there was a 218% (£25.1 million) increase in developer contributions compared to the prior year. The result is a long term liability (deferred liability) in the accounts of £36.6 million in 2018/19 (2017/18: £11.4 million). This demonstrates the significant increase in growth in the area. The level of developer contributions that was applied to capital expenditure in 2018/19 was £3.17 million (2017/18: £8.18 million).

**64.** There are processes in place within the council to manage developer contributions and a new post was created, a dedicated Planning Obligations Officer responsible for the Section 75 process and ensuring that the infrastructure and facilities, to be provided under planning obligations, are delivered within appropriate timescales. As part of the governance of this area, a Section 75 Group, consisting of senior officers from planning, finance, legal and infrastructure meet monthly. An internal audit was carried out in this area during 2016 and made a number of recommendations for improvement. The audit was followed up in September 2017 and again in May 2018. The Planning Obligations Officer and the Section 75 Group are addressing the remaining actions.

**65.** Developer contributions play an increasingly significant role for the fulfilment of the capital expenditure ambitions of the council. Governance arrangements have been put in place to ensure developer contributions are managed in line with the

**1 The Local Development Plan sets out the strategy and policies for accommodating new developments in East Lothian.**

council's capital programme. It will be important to demonstrate that this is all working to plan, as the system matures.

## Budgetary process

**66.** The [Local Government in Scotland: Financial overview 2017/18](#) (November 2018) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of usable reserves to rely on.

**67.** We noted that the council's budget and savings plan is aligned to the council priorities as set out in its strategic plan. This is consistent with good practice. The council uses scenario planning to calculate estimated funding gaps for the five-year period as part of its 2018-23 financial strategy. Three scenarios were used ranging from best to worst case, based on a limited number of key variables (Revenue Support Grant, pay and non-pay inflation). The most recent financial strategy 2019-2024 has been updated with latest assumptions. The estimated funding gaps for the five-year period range from £6.3 million to £32.8 million (being the worst case scenario).

**68.** Since early 2018, the full council receives revenue and capital monitoring reports and provides detailed scrutiny of financial performance. From our review of these reports and attendance at council meetings we concluded that these reports provide an overall picture of the budget position at service level. The reports include forecast out-turn position for the year and good explanations for significant variances against budget. The reports allow both members and officers to carry out scrutiny of the council's finances.

## Systems of internal control

**69.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**70.** Our findings were included in our management letter that was presented to the Audit and Governance Committee on 18 June 2019. We concluded that key controls were appropriate and operating effectively for key financial systems. No significant internal control weaknesses were identified which could affect the council's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

## Finance service review

**71.** We raised a risk in our 2018/19 annual audit plan regarding the recent changes to the corporate finance function and the replacement for a head of internal audit. The finance service review / redesign is ongoing and requires to be completed and communicated to staff. These risks have been followed up as part of the annual audit and are concluded in [Appendix 2 \(point 7\)](#).



**Recommendation 3** ([appendix 1, action plan point 3](#)).

**The council needs to conclude the finance service review / redesign to ensure that the service is fit for purpose and meets the needs of council going forward.**

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## Internal audit

**72.** We reviewed the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. We concluded that we would place reliance on certain elements of internal audit work to support our audit opinion on the financial statements with regards to non-domestic rates and IT access controls. The internal audit reports provided reasonable and moderate assurance respectively. We also considered the internal audit follow up on ALEO arrangements with Enjoy East Lothian Ltd. The follow up internal audit report noted that all recommendations made had been addressed by the council. The 2018/19 internal audit programme was over 90% complete at June 2019 with the remaining three audit reviews due to be reported by September 2019.

**73.** Internal audit reports administratively to the Depute Chief Executive (Resources and People Services) and presents its findings to the Audit and Governance Committee. The former Head of Internal Audit retired at the end of December 2018. There have been attempts to fill the role with the council holding several recruitment exercises during 2018/19, none of which were successful. During this time, the Depute Chief Executive (Resources and People Services) was acting up as the head of internal audit. Through our audit work we are assured that there has been no diminution in compliance with PSIAS, nor non-completion of the annual plan despite this key vacancy in the team.

**74.** We have recently been informed that following on from a further recruitment exercise that the post has now been filled with the successful candidate due to start before by the end of October 2019.

## Standards of conduct for prevention and detection of fraud and error

**75.** The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these at the planning stage of our audit to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

**76.** We concluded that the council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

## ICT controls

**77.** The Public Services Network (PSN) is the UK Government's high-performance network. Public bodies wishing to connect are required to submit a detailed application together with an independent ICT health check. If the submission meets the assessors' standard, then compliance is granted either unconditionally or conditionally with an action plan if the current level is close to meeting the standard. In May 2019, the council successfully retained its PSN certification.

## National Fraud Initiative

**78.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity. NFI activity is summarised in [Exhibit 7](#). We reviewed the council's NFI activity in April 2019 and concluded that it was satisfactory.

**79.** The total number of matches identified as part of the 2018/19 NFI exercise is 3,638. As at 30 August 2019, 269 are currently being investigated. A further 236 matches have been investigated and closed with no issues. In addition, seven matches have been closed that had known issues and three matches have been closed which had errors (with recovery of £98,615 all relating to duplicate creditor payments).

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## Exhibit 7 NFI activity



**3,638**  
**Matches**



**269**  
**Being investigated**



**246**  
**Completed / closed  
investigations**

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

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**80.** Progress and outcomes of the NFI exercise are reported to the Audit and Governance Committee biennially. Outcomes from the 2016 NFI exercise were reported to the Audit and Governance Committee in February 2018. Internal audit propose to present outcomes of the 2018 exercise to the same committee in January 2020.

# Part 3

## Financial sustainability



### Main judgements

**The council and its group financial position is sustainable in the foreseeable future although rising demand for services will continue to place a strain on the council's capacity to deliver services at the current levels.**

**There is a five-year financial strategy that is aligned to the council's priorities and demonstrates how it will address future budget challenges.**

**The council has made savings over the past few years. However, the size of the future funding gap and a reliance on non-recurring savings means it will struggle to make the required savings in future years.**

Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Financial planning

**81.** It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the council's strategies, and which reflect the impact of future pressures on the council. The Accounts Commission recommended that councils should plan for a range of scenarios, so that they are prepared for different future levels of funding and income.

**82.** The council has a five-year financial strategy in place covering the period 2019/20 to 2023/24. The strategy includes funding gap projections for the five-year period based on scenario planning. Spending plans for the three-year period from 2019/20 to 2021/22 were approved as part of the 2019/20 annual budget process and were used to update the five-year financial strategy, to reflect the latest assumptions. The estimated funding gaps for the five-year period range from £6.3 million to £32.8 million (being the worst case scenario).

### Funding position and savings plans

**83.** In February 2019, council approved a 2019/20 budget for General Services and HRA revenue and capital and outlined the budgets for subsequent years. The General Fund revenue budget was approved over a three-year financial planning period covering 2019/20 to 2021/22. HRA revenue and capital, and General Fund capital, cover the five years until 2023/24.

**84.** The council is facing several challenges in maintaining a sustainable financial position over the medium to long term. These include rising demands for services and the increasing cost of services.

**85.** The council used scenario planning to calculate estimated funding gaps for the five-year period as part of its 2018-23 financial strategy. Three scenarios were used ranging from best to worst case, based on a limited number of key variables (Revenue Support Grant, pay and non-pay inflation).

**86.** The council's report 'Financial Prospects - 2019/20 and Beyond' (October 2018) forecasts funding gaps of £5.6 million and £1.9 million for 2019/20 and 2020/21 respectively. The council plans to bridge these gaps through efficiency savings, without using reserves. The Financial Prospects paper presented various financial scenarios to council, covering the five years to 2023/24 and this has been reflected in the 2019-24 finance strategy (December 2018).

## Changing landscape for public financial management and medium to long term financial planning

**87.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

**88.** A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning. As mentioned above, the council has a five-year financial strategy linked to its capital plans and is addressing the challenges.

## EU Withdrawal

**89.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**90.** The council has flagged the economic uncertainty in relation to Brexit as a challenge within its current Council Plan as follows: *East Lothian's economy will also feel the impact of the decision to leave the EU*. Key sectors of East Lothian's economy –farming, food and drink, and tourism –and Edinburgh's financial and higher education sectors, which employ a significant proportion of East Lothian's population, could be negatively impacted by 'Brexit' through loss of EU subsidies, changes in trade agreements and negative changes in currency values.

**91.** EU withdrawal is included on the council's corporate risk register as a high risk. To mitigate the risk, the council has established a working group to consider the implications of EU withdrawal and is working proactively across the public sector.

**92.** Work is still ongoing to identify the potential impact of any changes at the council. The council should ensure it closely monitors developments and has plans in place to mitigate any emerging operational risks.



# Part 4

## Governance and transparency



### Main Judgements

**The council's governance arrangements are appropriate, effective and support good governance and accountability.**

**The council demonstrates a commitment to openness and transparency in the way it conducts its business.**

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.

### Governance arrangements

**93.** We review the Council's governance and accountability arrangements annually. This included:

- Confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective – we found these arrangements to be satisfactory.
- Assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body – we found sound processes in place surrounding decision making and effective scrutiny and challenge by Members during 2018/19.
- Confirming that there is effective scrutiny and challenge in place over policy decisions, service performance, and programme management – we observed through various committee attendance effective scrutiny and challenge.
- Confirming that decision makers have the information they need to scrutinise, challenge and make transparent decisions – we found that decision makers were given appropriate information to make decisions.
- Ensuring that it is clear what decisions have been made, who made them and the rationale supporting those decisions – we found that documentation over decisions and rationale was clear and available.

**94.** Overall, we concluded that the council's governance arrangements are appropriate, effective and support good governance and accountability.

## Openness and transparency

**95.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.

**96.** A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

**97.** There is evidence from several sources which demonstrate the council's commitment to transparency. Members of the public can attend meetings of the full council, audit and governance committee and other committees. Minutes of these committee meetings and supporting papers are readily available on the council's website.

**98.** The council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. In addition, the website provides details of the citizen's panel and how to join it.

**99.** We conclude that East Lothian Council demonstrates a commitment to openness and transparency.

## Transparent reporting of financial performance

**100.** The management commentary that accompanies the financial statements should explain in simple terms and provide clarity to readers in order to help them understand clearly how the council has performed against its budget and how this is reconciled to the financial statements.

**101.** The council have redesigned the look, feel and layout of their 2018/19 annual accounts. The management commentary highlights the key success stories of 2018/19 as well as setting out political structure, decision making processes, the council's financial strategy followed by a summary of outturn against budget (for both revenue and capital). The management commentary also includes a brief summary of the group components' financial performance. The management commentary highlights the council's overspend against the approved budget with a clear explanation of the reason for this.

**102.** Within the section on financial strategy, the management commentary explains the council's spending plans alongside their planned efficiency savings and the efforts underway to deliver those savings.

**103.** Key financial performance indicators are included in the management commentary and there is adequate signposting to the council's annual performance report where the full suite of indicators and performance against them can be found.

**104.** Overall, we conclude that the council demonstrates a commitment to transparency in the way reports publicly on financial performance.

## Integration of health and social care

**105.** The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing

their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

**106.** The East Lothian Integration Joint Board (the IJB) is provided in partnership with NHS Lothian and East Lothian Council, and became fully operational on 1 April 2016. The financial transactions of the IJB have been consolidated into the council's group accounts and we have audited these with satisfactory results

**107.** In 2018/19 the IJB reported an underspend of £1.72 million against the original budget (2017/18: the IJB broke even). The underspend is recorded as a useable reserve with £0.69 million earmarked for specific purposes and the remaining £1.07 million is held as a general reserve. The council contributed £45.06 million to the IJB and NHS Lothian contributed £116.53 million for 2018/19. A separate annual audit report for 2018/19 East Lothian IJB was presented to the Audit and Risk Committee on 10 September 2019.

# Part 5

## Value for money



### Main judgements

A number of activities are underway in response to the Best Value Assurance Report published in November 2018 although several areas are not due for completion until 2020. The council will wish to ensure it can demonstrate what difference they are making in respect of these improvements.

Value for money is concerned with using resources effectively and continually improving services.

### Best value

**108.** Best value is assessed over the five-year audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR report for East Lothian Council was published in November 2018 and included recommendations for improvement.

**109.** The council's response to the recommendations was presented to the full council in December 2018 and an Improvement Action Plan prepared. A high level progress update was provided to the Audit and Governance Committee in June 2019 as an appendix to the report on Corporate Self Governance Self-Evaluation. We have followed up the council's progress in implementing the recommendations and [Exhibit 8](#) details the recommendations for improvement and a summary of progress to date.

**110.** Overall, the council is progressing a number of activities in response to the Best Value Assurance Report recommendations. Several areas are not due for completion until 2020. We will revisit progress against the recommendations again during the 2019/20 audit. The council will wish to ensure it can demonstrate what difference they are making in respect of these improvements.

### Exhibit 8

#### Progress in implementing the 2017/18 best value recommendations

2017/18 BVAR recommendation	Progress in implementing each recommendation
<p>In delivering its vision, the council should ensure that performance reporting arrangements are more coherent and better aligned to demonstrate the delivery of the</p>	<p>East Lothian completed a thorough review of its approach to continuous improvement in March 2019. This has resulted in improved guidance, emphasising five elements of their spiral model. It has given clearer guidance to services on how to implement the five elements and also reinforced</p>

2017/18 BVAR recommendation	Progress in implementing each recommendation
<b>council's vision, supporting objectives, service performance and savings plans.</b>	direction on a performance evaluation in the spring/summer and a people evaluation in late autumn. There is now a clearer focus on indicators, with the council adopting a top 10 and top 50 indicator set.
Work with the East Lothian Partnership to agree outcome measures and report on progress in reducing inequalities and supporting the economy.	The Partnership has moved forward, identifying in February 2019 the indicators that will be used to report progress. These are organised by the three themes and the report contains baseline figures and targets for most indicators for 2022.
Report the benefits the Transformation Programme projects are having for customers and communities; and the savings that are being realised.	Reporting of the Transformation Programme is done through the senior leadership team who receive regular update reports. This shows the council has split its Transformation Programme into two elements: transformation projects and wider East Lothian council projects. There are 13 transformation projects and four wider East Lothian council projects. The Quarter 1 report is currently being drafted. Internal audit are conducting an audit on benefits realisation as part of their 2019/20 plan.
Continue to focus on improving education performance for all children and young people in East Lothian.	Improving the performance of education is set out as a priority within the revised top 50 council indicators. Since the BVAR was published in 2018, the Education Committee have received a report compiling the findings of the Scottish Government's Insight data (June 2019). This report has a clear focus on improvement actions.
Build on its good arrangements for scrutiny by ensuring reports are free of jargon, clear on purpose and provide the information elected members need to scrutinise effectively	The council carried out an elected member survey followed up with a workshop to discuss the survey findings in August 2019. Less than half of the members accepted the offer of a personal development plan. The survey gave helpful feedback from elected members on how to improve the quality of council reports. A suggestion was to provide a short summary of the main points, within longer reports.
<b>Develop more detailed plans linked to its longer-term financial strategy and to delivering the savings required.</b>	Quarterly monitoring reports include a budget line on transformational savings and areas where other savings will be generated. A 1st quarter report is being prepared and this is to include monitoring against savings.
Ensure the Transformation Programme delivers the expected benefits within the planned timeframe and prioritise the projects most likely to lead to major change	No judgement expressed yet on whether the transformation programme is delivering the expected benefits / savings required. This is ongoing.
Prepare individual service workforce plans to support the high-level Workforce Plan Implementation Plan to help the council consider in	High level workforce plan is now in place. There is a good focus on workforce planning with service managers working on reprofiling the workforce for 2022.

2017/18 BVAR recommendation	Progress in implementing each recommendation
more detail how it will manage changes in services and staffing levels.	In March 2019 the council launched a management and leadership development programme. The council was able to achieve a balanced budget for 2019/20 without any significant cuts to workforce and in fact staff are growing in some areas.
<b>Continue to focus on working with communities</b>	<b>The deadline for this high level recommendation and those below is March 2020 per the council Improvement Plan.</b>
Ensure community and third sector organisations, such as charities and voluntary groups, have the opportunity to shape council strategic planning at an earlier stage	The council is due to consult with the third sector on establishing a community charter. A major service review of the new Connected Communities Service is being completed. The council continues to use its consultation hub, where it publicises current consultations reports back the results of formal consultations, so the public can follow what action has been taken as a result of their feedback.
Continue to support Local Area Partnerships to focus on priority actions within their local area plans.	The deadline is March 2020 per the council Improvement Plan.
Coordinate consultation activity through its People's Voice framework and tell local people how it has used their feedback	The council is now routinely providing feedback on major consultations.

## Following the public pound

**111.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

**112.** The council's financial regulations contain a specific section on following the public pound. These emphasise that services must adhere to the council's guidance for allocating funds to external organisations. The guidance applies where funding is provided, or transferred, to arm's-length bodies such as companies, trusts, voluntary and community-based organisations.

**113.** Formal reporting and monitoring arrangements have been put in place for funding to external bodies, but this is taking time to be fully implemented. We reported in our 2016/17 and 2017/18 annual audit reports that further work could be done to strengthen this area specifically with regards to the significant group components (Enjoy East Lothian Ltd and Musselburgh Racing Associated Committee).

**114.** 2018/19 has seen an improvement on prior years with the 2017/18 annual reports for Enjoy East Lothian Ltd and East Lothian Land Ltd being presented to the Audit and Governance Committee in November 2018 (this is the first available committee following the formal signing of those accounts). At the June 2019 Audit and Risk Committee meeting, a summary of the Musselburgh Racing Associated Committee's performance for 2018/19 was presented with an opportunity for members to query the report. There have been no 2018/19 reports on Enjoy East Lothian Ltd presented during the financial year. This remains an area for ongoing improvement.

## Overview of performance targets

**115.** The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

**116.** The most recent [National Benchmarking Overview Report 2017/18](#) by the Improvement Service was submitted to the Policy and Performance Review Committee (PPRC) in February 2019. The report submitted to the PPRC highlighted the following changes in council performance between 2016/17 and 2017/18:

- 19 indicators (26%) had improved
- 29 indicators (40%) remained roughly static and,
- 24 indicators (33%) declined.

**117.** The PPRC receives quarterly performance reports throughout the year and an annual performance report. These reports monitor progress against the council's key priorities. The most recent report was submitted to the June 2019 PPRC and includes, for the first time, tracking of progress against the Council Plan Top 50 Indicators. The report also highlights key improvements as well as areas to strengthen. We also noted that a briefing for elected members will be held in September 2019 to review proposed KPIs and, if necessary, identify alternative indicators that elected members would like to see included. This is intended to improve the scrutiny of performance and to demonstrate that there is a mechanism for internal scrutiny by members of performance and service outcomes.

## Statutory performance indicators (SPIs)

**118.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

**119.** For 2018/19 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
- SPI 2: relates to the reporting of performance information as required by the [Local Government Benchmarking Framework](#).

**120.** We have reviewed a number of areas as part of our best value follow-up during 2018/19 in relation to SPI 1. Progress against these areas is noted in [Exhibit 8](#) above.

**121.** For SPI 2, we placed reliance on the work on internal audit. The council's internal auditors selected four Adult Social Care performance indicators to review in 2018/19. The review focused on the Local Government Benchmarking Framework (LGBF) indicators for 2017/18, as published by the Improvement Service. Overall internal audit provided moderate assurance with several areas for improvement which the council are addressing.

## National performance audit reports

**122.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports were issued which are of direct interest to the council. These are outlined in [Appendix 4](#).

**123.** The council has sound arrangements in place for considering national reports. National reports are presented to the Audit and Governance Committee with a thorough covering paper summarising the report and putting it into the East Lothian context. From a review of the papers and attendance at the Audit and Governance Committees during 2018/19, we conclude that these arrangements are effective.



# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Dr Bruce Fund / Trust Review</b></p> <p>The Dr Bruce Fund was set up to provide relief for the poor of Musselburgh. The Dr Bruce Fund awarded the same two individuals £60 in 2018/19 (2017/18: £60, 2016/17: £50). More could be done by East Lothian Council to promote the trust and its availability to the residents in Musselburgh.</p> <p><b>Risk</b> – there is a risk that the fund may not be operating the way in which was intended i.e. providing relief for the poor of Musselburgh.</p>	<p>We repeat our recommendation that the Council should review the method(s) used to promote this (and other) charitable trusts as part of the wider trust review to ensure that the potential availability of these funds are known to the wider community (refer <a href="#">paragraph 19</a>).</p>	<p>A wider review of Trusts is on-going. The use of each Trust fund and how these funds can be accessed is being considered as part of that Review.</p> <p>Responsible officer: Chief Operating Officer Finance</p> <p>Agreed date: March 2020</p>
2	<p><b>Group accounts</b></p> <p>The council needs to work with the various subsidiaries and associates to plan and agree a suitable timetable for receipt of audited accounts to ensure all group components are fully signed off by the time the council's accounts are to be approved.</p> <p><b>Risk</b> – There is a risk that the group accounts are not up-to-date and based on incomplete and unaudited information. Delays could impact on the statutory deadline for signing the council's accounts.</p>	<p>We repeat our recommendation that the council should continue to work with the various subsidiaries and associates to plan and agree a suitable timetable for receipt of audited accounts for the group components (refer <a href="#">paragraph 24</a>).</p>	<p>The Council had in place appropriate timescales for Group components for 2018/19 however some delays have been experienced. Work has already been progressing with Group components to set out timescales for 2019/20.</p> <p>Responsible officer: Chief Operating Officer Finance</p> <p>Agreed date: June 2020</p>
3	<p><b>Corporate finance review</b></p> <p>A review of the finance function with a view to redesigning the service was due to take place and be completed during 2018/19. This has yet to be completed.</p>	<p>The council needs to conclude the finance service review / redesign to ensure that the service is fit for purpose and meets the needs of council going forward (refer <a href="#">paragraph 71</a>).</p>	<p>A draft service review has been developed and this will be progressed as a matter of priority.</p>



**No. Issue/risk**

**Risk** – There is a risk that the finance function does not meet the needs of council going forward.



**Recommendation**



**Agreed management action/timing**

Responsible officer: Chief Operating Officer Finance

Agreed date: On-going – by March 2020

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Management override of controls</b></p> <p>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. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and repayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p><b>Satisfactory</b> – we found no evidence of management override of controls during our normal audit procedures.</p>
<p><b>2 Risk of fraud over income</b></p> <p>ELC receives a significant amount of income from several sources, in addition to Scottish Government Funding, including income from fees and charges. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p><b>Satisfactory</b> – we found no evidence of this during our normal audit procedures.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>The <a href="#">Financial Reporting Council's Practice Note 10 (revised)</a> requires public sector auditors to give consideration to the risk of fraud over expenditure. The extent of expenditure means that that there is an inherent risk of fraud.</p>	<p>Review work on the National Fraud Initiative matches.</p> <p>Assess high level key controls in areas of significant expenditure.</p> <p>Focused substantive testing of expenditure and housing benefit transactions.</p>	<p><b>Satisfactory</b> – we found no evidence of fraud during our audit work.</p>
<p><b>4 Estimates and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement</p>	<p>Completion of 'review of the work of an expert' in</p>	<p><b>Satisfactory</b> – we found estimates and judgements to be appropriate (where applied).</p>

Audit risk	Assurance procedure	Results and conclusions
and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.	<p>accordance with ISA500 for the professional valuer.</p> <p>Focused substantive testing of asset valuations and asset useful lives.</p> <p>Focused substantive testing of provisions.</p>	

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>5 Financial sustainability</b></p> <p>ELC's 2019-20 to 2023-24 Financial Strategy sets out the estimated level of revenue savings required over the next 5 years.</p> <p>Current approved spending plans require the delivery of over £12.5 million of efficiencies between 2018-19 and 2020-21. In addition to the approved efficiencies, the total estimated revenue savings required over the next 5 years has been calculated based on a number of different scenarios and ranges from £6.3 million to £32.8 million.</p> <p>The Quarter 2 financial report for 2018/19 highlights that £493,000 of the £5 million planned efficiency savings for the year are unlikely to be delivered in 2018/19.</p> <p>As the delivery of the planned 2018/19 savings is proving to be challenging, there is a risk that ELC may not be able to deliver the level of savings required to be financially sustainable in the longer term.</p>	<p>Review the council's progress towards delivery of its transformation and savings plans as part of BVAR follow up work and normal audit procedures.</p>	<p><b>Ongoing</b> - Delivering the transformation programme will be challenging alongside increasing demands on services from a growing population.</p> <p>The council should ensure it continues to regularly review its transformation programme to ensure it can deliver any changes within the timescales continue to prioritise the projects that are most likely to result in major change and opportunities for savings.</p> <p>Audit Scotland will continue to monitor the delivery of this programme in future years.</p>
<p><b>6 Financial management</b></p> <p>The Quarter 2 financial report for 2018/19 identifies three service areas (Adult Wellbeing, Children's Wellbeing and Additional Support for Learning) as high risk of not operating within approved budgets. ELC's financial forecasts for the year indicate that overall there is a high risk it will overspend against its 2018/19 budget, with current</p>	<p>Review of financial monitoring reports and the council's financial position.</p>	<p><b>Satisfactory</b> – at year end the council overspent against its approved budget by £1 million, main area of overspend was Children's Services (within Health and Social Care Partnership directorate).</p> <p>Routine financial monitoring reports are presented to committees flagging the areas of concern; these are scrutinised by members.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>estimates suggesting this could be between £1 and £2 million.</p>		<p>The council recognises the challenges and these are reflected in their financial plans.</p>
<p><b>7 Governance and transparency – Corporate Finance and Internal Audit vacancies</b></p> <p>ELC’s Corporate Finance Manager, with responsibilities in a number of areas including debtors, creditors, banking and treasury management, left in November 2018. The Internal Audit Manager is due to retire at the end of January 2019.</p> <p>ELC is exploring options to address the vacancies in these two key finance posts, in the meantime some additional responsibilities have been taken on by the Service Manager for Business Finance.</p> <p>Until a review of the finance function, and allocation of the Corporate Finance Manager’s responsibilities is completed, there is a risk that management / supervisory controls in these areas may not operate effectively.</p> <p>Until a replacement Internal Audit Manager is in post, there is a risk that the council may not be able to demonstrate full compliance with PSIAS nor fully complete the 2018/19 internal audit plan.</p>	<p>Monitor the arrangements for delivery and completion of the 2018/19 Internal Audit Plan, including filling the post of Internal Audit Manager.</p> <p>Key controls testing of accounts receivable, accounts payable and cash/bank systems</p>	<p><b>Internal Audit - Satisfactory -</b> 2018/19 Internal audit plans completed (with two outstanding reports due to be presented in September 2019). Head of internal audit post was not filled at the time of writing however arrangements are in place. Internal audit complied with PSIAS during the year.</p> <p><b>Corporate Finance – Unsatisfactory -</b> Finance service review / redesign is ongoing and requires to be completed and communicated to staff. A recommendation has been raised in <a href="#">Appendix 1, action plan point 3</a>.</p>
<p><b>8 Value for money – Following the Public Pound</b></p> <p>In our 2017/18 Annual Audit Report, we recommended that ELC’s reporting and monitoring arrangements for significant group components should be revisited, clarified and strengthened to ensure the Council is complying with the duties set out in the Code of Guidance on Funding External Bodies and Following the Public Pound.</p> <p>The council has made some progress since our 2017/18 report, with reports on</p>	<p>Monitor arrangements put in place to report service and financial performance to a committee of the council.</p>	<p><b>Satisfactory and ongoing -</b> 2017/18 annual reports for Enjoy East Lothian Ltd and East Lothian Land Ltd presented to the Audit and Governance Committee in November 2018.</p> <p>Musselburgh Racing Associated Committee’s performance for 2018/19 presented in June 2019 with an opportunity for members to query the report.</p> <p>There have been no reports on Enjoy East Lothian Ltd presented during 2018/19. This remains an area for ongoing improvement the council are working to address.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Enjoyleisure and East Lothian Land Limited being taken to the November 2018 Audit &amp; Governance Committee. There remains scope for further improvement, including consideration of interests in any significant entities falling out-with the group accounting boundary e.g. Trusts. Reports should also be presented in a more timely fashion.</p>		

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# Appendix 3

## Summary of uncorrected misstatements

**We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £40,000 and request they be corrected.**

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level (£2.4 million) as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

#	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Property, Plant and Equipment			96	
	Creditors				96
	<b>Net impact</b>			<b>96</b>	<b>(96)</b>

Notes:

Entry 1 relates to retentions for land and buildings, and roads that have not been included in the 2018/19 financial statements.

# Appendix 4

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### Local government relevant reports

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019



# East Lothian Council

## 2018/19 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)