

# East Lothian Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for East Lothian Council  
February 2020

## 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit, including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


## Adding value


3. We aim to add value to East Lothian Council (ELC) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the council promote improved standards of governance, better management and decision making and more effective use of resources.


## Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for ELC. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p>2 <b>Risk of material misstatement caused by fraud in income recognition.</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the</p>	<p>All income is reviewed monthly.</p> <p>Monthly monitoring and performance reporting for</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. 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 there is an inherent risk of fraud.</p>	<p>council tax and rental income.</p> <p>Specific grant/account codes used for other income and verified via monthly monitoring and bank reconciliations.</p>	
3	<p><b>Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. The extent of ELC's expenditure means that there is an inherent risk of fraud.</p>	<p>Clear procedures in place for staff and key controls are working.</p> <p>Financial authorisation limits in place for authorising and approving expenditure.</p> <p>Budget monitoring and review with significant variances investigated and discussed with budget holders.</p>	<ul style="list-style-type: none"> <li>Review work on the National Fraud Initiative.</li> <li>Assess high level key controls in areas of significant expenditure.</li> <li>Focused substantive testing of expenditure and housing benefit transactions.</li> </ul>
4	<p><b>Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement 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>	<p>Valuations carried out every five years for all assets as part of rolling revaluation programme.</p> <p>Procurement and contract criteria ensure valuations are carried out by reputable valuers.</p> <p>Detailed discussions between valuers and ELC Estates team.</p> <p>Detailed working papers retained to support asset reviews and impairments.</p>	<ul style="list-style-type: none"> <li>Completion of 'review of the work of an expert' in accordance with ISA 500 for the professional valuer(s).</li> <li>Focused substantive testing of asset valuations and asset useful lives.</li> <li>Focused substantive testing of provisions.</li> <li>Review of work by ELC to ensure adequate review, presentation and disclosure of provisions / contingent liabilities.</li> </ul>
5	<p><b>Financial management</b></p> <p>The 2019-20 Period 7 Financial Review highlights that £1.0 million of the £5.2 million planned savings in 2019-20 will not be delivered.</p> <p>The council reported an overspend of £2.5 million as at the end of October 2019, an increase of nearly £0.8 million from the Period 5 position.</p> <p>The Financial Review also identifies two service areas (Children's and Additional Support for Learning) as being at high risk of not operating within approved budgets.</p>	<p>Financial Prospects Report considered by Council in October 2019.</p> <p>Financial Strategy approved by Council in December 2019.</p> <p>Period 7 Financial Review approved by Council in December 2019.</p> <p>Budget Development Report and Administration draft proposals considered by Cabinet on 21 January 2020.</p>	<ul style="list-style-type: none"> <li>Review ELC's progress towards delivery of its transformation and savings plans as part of our normal audit procedures.</li> <li>Review of financial monitoring reports and the council's financial position.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>Collectively, service projections are forecasting an overspend of £5.0 million for 2019/20.</p> <p>There is a risk that the council will not operate within its 2019/20 budget and will not deliver the level of savings required.</p>	<p>Council budget to be considered by Council on 25 February 2020.</p> <p>2019-20 Q3 Financial Review to be considered by Council on 25 February 2020.</p> <p>The projected overspend of £5.0 million for 2019/20 will partially be offset by the savings from the Loans Fund Review carried out in 2018/19 (approximately £3.5 million). The remaining £1.5 million is being actively reviewed by CMT.</p> <p>Quarterly Financial Reviews presented to Council.</p> <p>Enhanced financial controls approved by Council in October 2019 will continue until the end of the financial year.</p> <p>Additional enhanced controls and monitoring are in place for service areas identified as high risk.</p>	
<b>6</b>	<p><b>Financial Management - Corporate Finance Review</b></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 the council going forward.</p> <p>There is a risk that the review does not deliver the intended efficiencies or impact as desired.</p>	<p>A draft service review has been developed and this is being progressed as quickly as possible.</p>	<ul style="list-style-type: none"> <li>Ongoing review against progress of implementing the service review.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest, will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**7.** We will provide an independent auditor's report to ELC and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Section 95 Officer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**8.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December.

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## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	10 February 2020	18 February 2020
Management Report	8 June 2020	16 June 2020
Independent Auditor's Report	22 September 2020	TBC
Annual Audit Report	22 September 2020	TBC

Source: Audit Scotland

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### The audit of trusts registered as Scottish charities

**9.** Members of ELC are sole trustees for the Dr Bruce Fund, a charitable trust registered as a Scottish charity, with total assets of £18,360 (2018/19). The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

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

**11.** Based on our discussions with staff and planning work we have identified a risk relating to the overall operation of the Dr Bruce Fund. As of January 2020, the Dr Bruce Fund trustees had not met and there are no meetings planned for the remainder of the 2019/20 financial year. In addition, no grants have been awarded for 2019/20. The grants awarded in previous years were provided at Christmas (2018/19: £60; 2017/18 and 2016/17: £50) and to date no awards have been made in 2019/20. Given the lack of activity in the trust there is a risk that the trust is failing to meet its charitable objectives.

### Audit fee

**12.** The proposed audit fee for the 2019/20 audit of East Lothian Council, including the Dr Bruce Fund Charitable Trust is £247,080 (2018/19: £241,440). In determining the audit fee we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 30 June 2020.

**13.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Audit Committee and Accountable Officer

**14.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**15.** The audit of the annual accounts does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**16.** Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**17.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.



# Audit scope and timing

## Annual accounts

**18.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of ELC and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**19.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual accounts

**20.** We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**21.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**22.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

23. We calculate materiality at different levels as described below. The calculated materiality values for ELC are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values



Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts.	£4.0 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£2.4 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£40,000

Source: Audit Scotland

### Timetable

24. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	23 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	23 June 2020
Latest date for receipt of audited accounts for group components/ component auditor questionnaires	28 August 2020
Latest date for final clearance meeting with Head of Council Resources	7 September 2020
Issue of Letter of Representation and proposed independent auditor's report	14 September 2020
Agreement of audited unsigned annual report and accounts	By 30 September 2020
Issue of Annual Audit Report to those charged with governance	By 30 September 2020
Independent auditor's report signed	By 30 September 2020
Latest date for signing of WGA return	30 September 2020

## Internal audit

**25.** Internal audit is provided by ELC's Internal Audit section, overseen by the Internal Audit Service Manager. As part of our planning process, we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**26.** We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**27.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

**28.** From our initial review of internal audit plans we plan to place formal reliance on internal audit work for payroll deductions, non-domestic rates and council tax. We will also place reliance on the procurement audit for our wider audit dimensions work as set out in [paragraph 32](#).

## Audit dimensions

**29.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

### Exhibit 5 Audit dimensions



**30.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

### Financial sustainability

**31.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

### Financial management

**32.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- whether the effectiveness of the budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how ELC has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption including arrangements in procurement.

### Governance and transparency

**33.** 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. We will review, conclude and report on:

- whether ELC can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs, and timely reporting of Group results to those charged with governance)
- whether there is effective scrutiny, challenge and transparency on decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

### Value for money

**34.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether ELC can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.

- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

### Best value

**35.** The Accounts Commission agreed the overall framework for a new approach to auditing best value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

**36.** A key feature of the new approach is that it integrates best value into the wider scope annual audit, which will influence audit planning and reporting. Best value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on best value will be reported through:

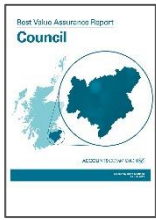
- the annual audit report for each council that will provide a rounded picture of the council overall
- an annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five-year period.

**37.** The seven councils on which a BVAR will be published during the fourth year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2020.

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## Exhibit 6

### 2019/20 Best Value Assurance Reports

	Aberdeenshire Council	Dundee Council
	Argyle and Bute Council	Falkirk Council
	City of Edinburgh Council	Moray Council
	North Ayrshire Council	

Source: Audit Scotland

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**38.** ELC was the subject of a BVAR in 2017/18 published in October 2018. Best value work planned this year will focus on:

- ELC's arrangements for demonstrating best value in fairness and equalities
- the effectiveness and appropriateness of the arrangements in place for complying with the 2018 SPI Direction
- a follow up the 2017/18 ELC BVAR recommendations to ensure sufficient progress is being made against action plans.

### Independence and objectivity

**39.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When

auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**40.** The engagement lead (i.e. appointed auditor) for ELC is Gillian Woolman, Audit Director. The engagement lead for the Dr Bruce Fund is Esther Scoburgh, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of ELC or the Dr Bruce Fund.

## Quality control

**41.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**42.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**43.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

# East Lothian Council

## Annual Audit Plan 2019/20

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