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## East Lothian Council

2 February 2023

### Update on the 2022/23 audit of East Lothian Council

1. The purpose of this letter is to provide members with an update on the 2022/23 audit of East Lothian Council (ELC) and its group (consisting of ELC, East Lothian Investments, Enjoy East Lothian Ltd., Brunton Theatre Trust, East Lothian Integration Joint Board, Lothian Valuation Joint Board, East Lothian Land Ltd., East Lothian Mid-Market Homes LLP, Trust Funds and Common Good Funds). We will issue separate audit opinions for the council and its group and for the Dr Bruce Fund charitable trust. Covid-19 has continued to impact on the completion of the 2021/22 audits with ongoing extensions to statutory deadlines. This, along with the changeover in the appointed auditor, has impacted on the timing of our planning work on our 2022/23 audits.

2. Our planning work on the 2022/23 audit of East Lothian Council is at an early stage. Therefore, we are not able to present our Annual Audit Plan to the Audit and Governance Committee at the meeting on 14 February 2023. We have included this Audit Strategy Letter to update committee members on progress and highlight key audit matters. Following the conclusion of our audit planning procedures, we will issue a copy of the Annual Audit Plan to officers and members of the Audit and Governance Committee by 31 March 2023.

### Risks

3. Our preliminary planning work has identified the following significant risks that require specific audit considerations.

- **Risk of material misstatement due to management override of controls:** International Standard on Auditing 240 (ISA 240) requires that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls to change the position disclosed in the financial statements.
- **Estimation in the valuation of land and buildings:** East Lothian Council held land and buildings with a net book value of £926 million as at 31 March 2022. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. Through our audit work we will pinpoint our risk to areas most susceptible to material misstatement and include this in our external audit plan.

4. ISA 240 presumes a risk of fraud in revenue recognition which is extended to expenditure by Practice Note 10. There is a risk that income or expenditure may be fraudulently misstated resulting in a material misstatement in the financial statements. Through our initial audit planning, we do not consider these to be significant risks for East Lothian Council as there are limited opportunities to manipulate the way income or expenditure are recognised in the financial statements and have therefore rebutted these risks.

5. Our Annual Audit Plan will include any further risks identified from our planning work and outline our response to all identified risks.

## Best Value

6. Under the 2021 Code of Audit Practice, the audit of Best Value in councils is fully integrated within our annual audit work.

7. Best Value at East Lothian Council will be assessed comprehensively over the period of the audit appointment and will include an annual evaluation of East Lothian Council's approach to demonstrating improvement in the effective use of resources and public performance reporting. We will also follow up findings reported previously in the Best Value Assurance Report in November 2018 to assess the pace and depth of improvement.

8. In addition to our annual work on Best Value we will conduct thematic reviews as directed by the Accounts Commission. In 2022/23 our focus will be on the effectiveness of council leadership in developing new local strategic priorities following the elections in May 2022. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

## Audit Fee

9. The proposed baseline audit fee for the 2022/23 council audit is £290,020 (2021/22: £257,700) as set out in [Exhibit 1](#). Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

10. In setting the fee for 2022/23 we have assumed that the council has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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### Exhibit 1

#### Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	223,480
Contribution to Audit Scotland costs	8,470
Contribution to Performance and Best Value	58,430
Sectoral Cap Adjustment	(360)
2022/23 Audit fee	290,020
Audit of Charitable Trust (Dr Bruce Fund)	1,000
Total 2022/23 fee	291,020

Source: Audit Scotland

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## Audit Timetable

11. As outlined in paragraph 1, Covid-19 has continued to impact on the timings of our 2022/23 audit planning. We are working towards issuing the independent auditor's report and Annual Audit Report by the statutory deadline of 30 September 2023. However, we acknowledge this may not be achievable due to ongoing pressures. We will maintain a pragmatic and flexible approach to the audit and will continue to have discussions with management and the Chair of the Audit and Governance Committee around the progress of our work and any changes that may be required to the target dates outlined in [Exhibit 2](#).

## Exhibit 2 Audit outputs

Audit Output	Target date	Audit and Governance Committee date
Annual Audit Plan	31 March 2023	<i>To be circulated to members by 31 March and presented at the Audit and Governance Committee on 13 June</i>
Independent Auditor's Report	30 September 2023	TBC
Annual Audit Report	30 September 2023	TBC

Source: Audit Scotland

## Independence and Objectivity

12. 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 Executive Director of Innovation and Quality who serves as Audit Scotland's Ethics Partner.

13. The engagement lead (i.e. appointed auditor) for ELC is John Boyd, Audit Director. Auditing and ethical standards require the engagement lead 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 East Lothian Council.



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