

East Lothian Council

Annual Audit Plan 2021/22



Prepared for East Lothian Council
15 February 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of East Lothian Council (ELC). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Management Commentary, the Annual Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency, and value for money, that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- provision of assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- review ELC's arrangements for preparing and publishing statutory performance information
- review ELC's participation in the National Fraud Initiative.

Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

3. We aim to add value to 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 will help ELC promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Governance Committee and actively participate in discussions.

Respective responsibilities of the auditor and East Lothian Council

4. The Code of Audit Practice (2016) sets out in detail the respective responsibilities of the auditor and ELC with key responsibilities summarised below.

Auditor responsibilities

5. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

East Lothian Council responsibilities

7. ELC is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

8. ELC also has 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 deliver their objectives.

Managing the transition to 2022/23 audits

9. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

10. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

11. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for ELC are set out below.

Exhibit 1

2021/22 Materiality levels for ELC

Materiality	Amount	Group
Planning materiality – 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 2022 based on the latest audited financial statements for 2020/21.	£4.4 million	£4.4 million
Performance materiality – 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 assessed performance materiality at 65% of planning materiality.	£2.9 million	£2.9 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£100,000	£100,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

12. Our risk assessment draws on our cumulative knowledge of ELC, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

13. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

#	Significant risk of material misstatement	Sources of assurance	Planned audit response
1	Risk of material misstatement due to fraud caused by management override of controls <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business. Assess the adequacy of controls in place for identifying and disclosing

#	Significant risk of material misstatement	Sources of assurance	Planned audit response
			<p>related party relationship and transactions in the financial statements.</p> <ul style="list-style-type: none"> • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.
2	Estimation in the valuation of land and buildings <p>ELC held land and buildings with a NBV in excess of £1.0 billion as at 31 March 2021.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings as well as in the classification of these assets.</p> <p>Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p>	<p>Valuations carried out by an external valuer every five years for all assets as part of rolling revaluation programme.</p> <p>2021/22 out-of-cycle-valuation at the request of management to fully update records.</p> <p>Procurement and contract criteria ensure valuations are carried out by reputable valuers.</p> <p>Detailed discussions between valuers and ELC Place (Estates) team.</p> <p>Detailed working papers retained to support asset reviews and impairments.</p>	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Critically assess the approach ELC has adopted to ensure that assets not subject to valuation are not materially misstated and consider the robustness of that approach. • Test the reconciliation between the financial ledger and the property asset register.

#	Significant risk of material misstatement	Sources of assurance	Planned audit response
			<ul style="list-style-type: none"> Critically assess the adequacy of the ELC's disclosures regarding the assumptions in relation to the valuation of land and buildings.

Source: Audit Scotland

14. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for ELC because while the possibility of fraud exists, we do not judge it to be significant risk due to the nature of ELC's revenue streams and key sources of income, namely government grants.

15. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for ELC because there are limited opportunities to manipulate the way expenditure is incurred.

16. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

17. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

18. The areas of specific audit focus are:

- The ongoing review of Common Good assets to identify those assets held by the Council but which are properly owned by the Common Good.
- The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability.

- The ongoing impact of Covid-19 and how related expenditure and additional funding is being accounted for in the annual accounts.

Group Consideration

19. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

20. ELC has a group which comprises component entities, including subsidiaries, associates and joint ventures. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Audit of the trusts registered as Scottish charities

21. Members of ELC are sole trustees for one trust registered as a Scottish charity namely, the Dr Bruce Fund which had total net assets of £19,943 as at 31 March 2021. 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.

22. 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.

Materiality levels for the 2021/22 audit of the Dr Bruce Fund

23. Materiality levels for the various trusts are set out in [Exhibit 3](#).

Exhibit 3

2021/22 Materiality levels for the charitable trust

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
Dr Bruce Fund	£400 (Based on 2% of total net assets as at 31 March 2021 rounded to nearest £'00)	£300 (75% of planning materiality)	£20 (5% of planning materiality)

Source: Audit Scotland

24. There continues to be a lack of genuine activity in the trust. There is a risk that the trust may be failing to meet its charitable objectives and the trustees not discharging their duties accordingly. We raised this in our 2020/21 Annual Audit Report and will revisit and provide an update in our 2021/22 Annual Audit Report.

Audit risk assessment process

25. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

26. The Code of Audit Practice sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

27. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4 Audit dimensions



Source: Code of Audit Practice

28. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. Additionally, in the current year we have been asked to consider the risk of fraud and corruption in the procurement function and to report on this as part of our conclusions on financial management.

- **Financial sustainability** – 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).
- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

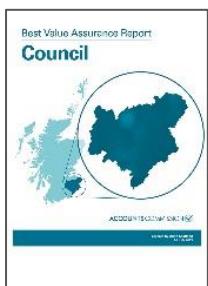
Best Value

29. 2021/22 is the final year of the extended six-year approach to auditing Best Value in councils. Best Value work is integrated within the annual audit. It is to be assessed comprehensively over the period of the audit appointment, both through ongoing annual audit work and through discrete packages of work focussing on specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report for each council.
- an Annual Assurance and Risks Report that the Controller of Audit will provide to the Accounts 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 over the period of the audit appointment.

30. BVARs will be considered by the Accounts Commission between February and September 2022 on the councils listed in [Exhibit 5](#).

Exhibit 5 2022 Best Value Assurance Reports



- Comhairle nan Eilean Siar
- Shetland Island Council
- Angus Council
- Moray follow-up

31. Our Best Value work at ELC in 2021/22 will follow-up on the findings reported in the council's BVAR which was published in November 2018. We will assess progress on the pace and depth of continuous improvement with findings reported through our 2021/22 Annual Audit Report.

Audit dimension risks

32. We have identified financial sustainability as an area of risk as set out in [Exhibit 6](#). This exhibit sets out the risk, sources of assurance from management and the audit procedures we plan to perform to gain assurances over the risk.

Exhibit 6

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
Financial sustainability The council continues to operate in an increasingly complex and challenging environment, where core national funding is reducing, relative to rising demand for services. A wide range of financial uncertainties has been further complicated due to the Covid-19 Pandemic and the council faces significant challenges to remain financially resilient and deliver services sustainably. There remains a risk to financial sustainability and the sustainability and quality of services in future.	The council has well developed medium-term financial planning arrangements in place: <ul style="list-style-type: none">• Three-year General Services budget covering the period 2021/22 to 2023/24.• Five-year General Services capital plan budget.• Five-year Housing Revenue Account revenue and capital budgets. A Financial Monitoring Risk Assessment is in place. Any service areas classified as high risk are asked to prepare financial recovery plans, and enhanced financial controls are put in place. Enhanced financial monitoring is in place to include the financial support received to date and implications faced by COVID-19.	<ul style="list-style-type: none">• Review of the council's annual budget setting arrangements.• Review and assessment of budget monitoring arrangements.• Review of the council's medium to longer-term financial planning.• On-going review of the council's financial position and delivery of planned savings.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

33. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in Exhibit 7, and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

34. 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 officers to confirm factual accuracy.

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

36. Exhibit 7 outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 7 2020/21 Audit outputs

Audit Output	Target date	Audit & Governance Committee Date
Annual Audit Plan	15 February 2022	15 February 2022
Independent Auditor's Report	By 31 October 2022	End October 2022 (TBC)
Annual Audit Report	By 31 October 2022	End October 2022 (TBC)

Source: Audit Scotland

Timetable

37. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at Exhibit 8 that has been discussed with management.

38. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

39. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 8

Proposed annual report and accounts timetable

Key stage	Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	June 2022
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2022
Latest date for final clearance meeting with the Executive Director of Council Resources	Early October 2022 (TBC)
Issue of Letter of Representation and proposed Independent Auditor's Report	17 October 2022
Agreement of audited and unsigned annual report and accounts	17 October 2022 (TBC)
Issue of Annual Audit Report to those charged with governance.	17 October 2022 (TBC)
Signed Independent Auditor's Report	By 31 October 2022
Latest date for WGA assurance	To be confirmed

Source: Audit Scotland

Audit fee

40. The agreed audit fee for the 2021/22 audit of ELC is £257,700 and the Dr Bruce Fund charitable trust is £1,000 (2020/21: £252,490 and £1,000 respectively). In determining the audit fee, we have taken account of the risk exposure of ELC, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

41. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate

supporting working papers 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.

Other matters

Internal Audit

42. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

43. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of Internal Audit across a range of work including:

- | | |
|---|--|
| <ul style="list-style-type: none">• Sundry debtors• Lower Value Purchasing• IT School Procurement | <ul style="list-style-type: none">• Finance Business Partners and Budget Monitoring• Payroll Overtime Payments• COVID Support and Grants |
|---|--|

Independence and objectivity

44. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

45. The engagement lead (i.e. appointed auditor) for ELC is Gillian Woolman, Audit Director. The engagement lead for the Dr Bruce Fund is Jim Rundell, 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

46. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

47. 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.

48. 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

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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