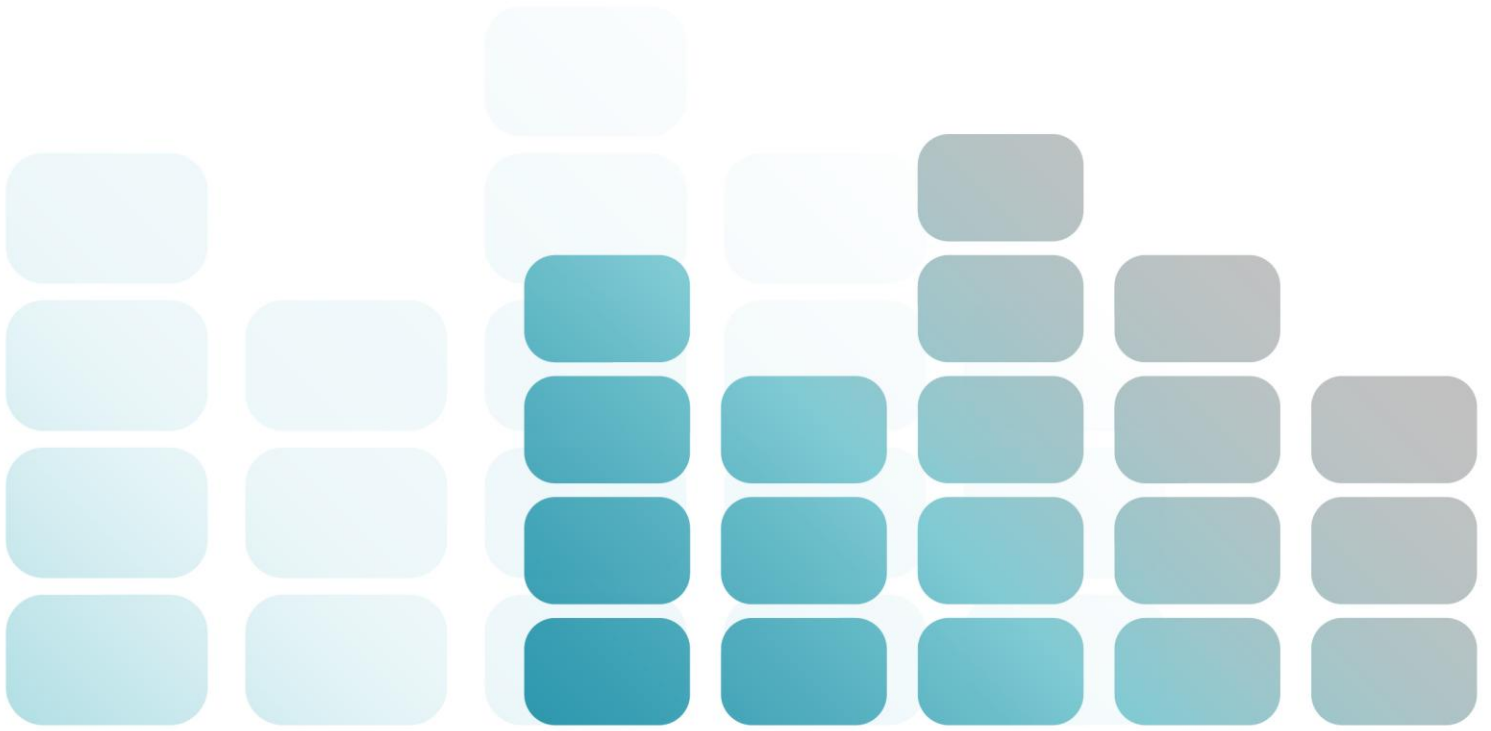


# East Ayrshire Council

Annual Audit Plan 2025/26



Prepared for East Ayrshire Council  
March 2026

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# Introduction

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## Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of East Ayrshire Council's annual accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

## Appointed auditor and independence

2. Fiona Mitchell Knight, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of East Ayrshire Council, hereafter referred to as 'the council', for the period from 2022/23 until 2026/27. The 2025/26 financial year is therefore the fourth of the five-year audit appointment.

3. Fiona Mitchell Knight and the audit team are independent of the council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the council to communicate.

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# Audit scope and responsibilities

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## Scope of the audit

**5.** The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, the Management Commentary, and the Annual Governance Statement and an opinion on the audited part of the Remuneration Report.
- Conclusions on the council's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on the council's arrangements for securing Best Value.
- Providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return, the Whole of Government Accounts return, and summary financial statements.
- A review of the council's arrangements for preparing and publishing statutory performance information.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.

## Responsibilities

**6.** The Code of Audit Practice sets out the respective responsibilities of the council and the auditor. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

**7.** The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information

reported within the annual accounts, and concluding on the council's arrangements in place for the wider scope areas and to secure Best Value.

### **The council's responsibilities**

**8.** The council has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements that give a true and fair view and other information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

**9.** In line with ISA (UK) 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements), in presenting this plan to the Governance and Scrutiny Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the council have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

# Audit of the annual accounts

## Introduction

**10.** The audit of the annual accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

## Materiality

**11.** The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

**12.** Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

**13.** The materiality levels determined for the audit of the council and its group are outlined in [Exhibit 1](#).

## Exhibit 1

### 2025/26 Materiality levels for the council and its group

Materiality	The council	Group
<b>Materiality</b> – based on an assessment of the needs of users of the financial statements and the nature of the council operations, the benchmark used to determine materiality is gross expenditure based on the audited 2024/25 financial statements. Materiality has been set at 2% of the benchmark.	£13.673 million	£13.689 million

Materiality	The council	Group
<p><b>Performance materiality</b> – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 70% of planning materiality.</p>	£9.571 million	£9.582 million
<p><b>Reporting threshold</b> – all misstatements greater than the reporting threshold will be reported.</p>	£0.684 million	£0.684 million

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**14.** The risk assessment process draws on the audit team’s cumulative knowledge of the council, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

**15.** Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in [Exhibit 2](#).

**16.** The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and [Exhibit 2](#) may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the council and those charged with governance, where relevant.

**Exhibit 2****Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response
<p><b>Fraud caused by management override of controls</b></p> <p>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>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries.</li> <li>• Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> <li>• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>

Risk of material misstatement	Planned audit response
<p><b>Valuation of property, plant and equipment</b></p> <p>The council held £988.206 million of property, plant, and equipment (PPE) at 31 March 2025, of which £866.354 million was land and building assets.</p> <p>The council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over the valuation process.</li> <li>• Review the information provided to the valuer and assess this for completeness and accuracy.</li> <li>• Evaluate the competence, capabilities, and objectivity of the valuer.</li> <li>• Obtain an understanding of management’s involvement in the valuation process to assess if appropriate oversight has occurred.</li> <li>• Review the appropriateness of the key data and assumptions used in the 2025/26 valuation process, and challenge these where required.</li> <li>• Review the indices applied by management to assets not subject to valuation in 2025/26 and assess if these are reasonable and have been correctly applied.</li> </ul>

Source: Audit Scotland

## Key audit matters

**17.** The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor’s professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

**18.** In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

**19.** The matters determined to be key audit matters will be communicated in the Annual Audit Report. Exhibit 2 outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

## Group audit

**20.** The council is part of a group and prepares group financial statements. The group is made up of seven components, including the council which is the parent of the group. Risk assessment procedures have been performed on the group audit to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in [Exhibit 3](#).

### Exhibit 3

#### Outcome of risk assessment procedures on the group audit

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
East Ayrshire Council	Consolidated on a line-by-line basis	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland
The Common Good Fund	Consolidated on a line-by-line basis	No – but is material to the group financial statements (PPE – Land and Buildings balance)	Yes – analytical procedures at group level	Audit Scotland
East Ayrshire Integration Joint Board	Accounted for on equity basis	No - not material	Yes – analytical procedures at group level	Audit Scotland
East Ayrshire Leisure Trust	Consolidated on a line-by-line basis from 2025/26	No - not material	Yes – analytical procedures at group level	Azets
Strathclyde Partnership for Transport (SPT)	Accounted for on equity basis	No – but is material to the group financial statements (Reserves balance)	Yes – obtaining assurances on the audit procedures carried out on SPT's reserves	Audit Scotland

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Strathclyde Concessionary Travel Scheme Joint Board	Accounted for on equity basis	No, not material	Yes – analytical procedures at group level	Audit Scotland
Ayrshire Valuation Joint Board	Accounted for on equity basis	No, not material	Yes – analytical procedures at group level	Audit Scotland

Source: Audit Scotland

**21.** Where audit procedures are required on a component's financial statements, and the component auditor is different to the council's appointed auditor, group audit instructions will be issued to the component auditor outlining expectations and requirements in performing these audit procedures.

## Audit of the Annual Accounts of the two section 106 charities administered by the Council

**22.** Elected members of the Council are trustees for two registered Scottish charities (the Charities):

- Miss Annie Smith Mair Bequest: charity number - SC021095
- East Ayrshire Council Charitable Trusts: charity number - SC025073

**23.** Louisa Yule, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of the Charities, for the period from 2022/23 until 2026/27. The 2025/26 financial year is therefore the fourth of the five-year audit appointment.

**24.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the Charities to communicate.

**25.** The trust balances are disclosed in a note in the Council's Annual Accounts but do not represent assets of the Council so are not included within the Council's balance sheet. As a result of the interaction of the Local Government (Scotland) Act 1973 with charities legislation, a full and separate audit and independent auditor's report is required for each registered charity irrespective of the value of its assets.

**26.** Our duties as auditors of the Charities administered by East Ayrshire Council are to:

- express an opinion on whether the Charity’s financial statements properly present the Charity’s financial position and are prepared in accordance with charities legislation.
- read the Trustees’ Annual Report and express an opinion as to whether it is consistent with the financial statements.
- report on other matters, by exception, to the Trustees and to the Office of the Scottish Charity Regulator (OSCR).

**27.** Based on our risk assessment, we have identified one significant audit risk for the Trustees Annual Report and Financial Statements, being “fraud caused by management override of controls”. Our response to this risk includes the same audit procedures as set out in [Exhibit 2](#).

**28.** Our calculated materiality levels are set out in [Exhibit 4](#).

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#### **Exhibit 4**

##### **2025/26 materiality levels for the charitable trusts**

<b>Charitable trust</b>	<b>Planning Materiality</b>	<b>Performance Materiality</b>	<b>Reporting Threshold</b>
Miss Annie Smith Mair Bequest (SC021095)	£102 (Based on 2 per cent of audited 2025/26 gross expenditure)	£71 (Based on 70 per cent of planning materiality)	£5
East Ayrshire Council Charitable Trusts (SC025073)	£2.00 (Based on 2% per cent of audited 2025/26 gross expenditure)	£1.00 (Based on 70 per cent of planning materiality)	£0.10

**29.** The Code of Audit Practice includes provisions relating to the audit of smaller audits. In light of the volume and lack of complexity of the financial transactions, we plan to apply the less complex body provision of the Code to the 2025/26 audit of the charities.

**30.** No significant risks in the wider scope areas or Best Value were identified from the risk assessment process.

**31.** Our work on the Trustees Annual Report and Financial Statements will be undertaken in line with the audit timetable set out in [Exhibit 5](#).

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# Wider scope and Best Value

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## Introduction

**32.** Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on the council being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering the council's medium to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering the council's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

**33.** A conclusion on the effectiveness and appropriateness of arrangements the council has in place for each of the wider scope areas will be reported in the Annual Audit Report.

## Best Value

**34.** Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit. As part of the annual audit, auditors

are required to take a risk-based approach to assessing and reporting on whether the council has made proper arrangements for securing Best Value, including follow up of findings previously reported in relation to Best Value.

**35.** The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on the council. The thematic review for 2025/26 is on the subject of asset management and involves considering how the council is managing its assets to ensure high quality services whilst also responding to the challenges around financial sustainability and climate change. Conclusions and judgements on the thematic review will be reported in a separate Management Report and summarised in the Annual Audit Report, where required.

**36.** At least once over the five-year appointment, the Controller of Audit will report to the Accounts Commission on the council's performance in meeting its Best Value duties. The third year of this programme runs from October 2025 to August 2026. The council is not included in the third year of the programme.

**37.** Auditors have a statutory duty to satisfy themselves that councils have made proper arrangements for preparing and publishing statutory performance information in accordance with the [Statutory Performance Information Direction 2024](#) (the Direction) issued by the Accounts Commission. The outcome of this will be reported in the Annual Audit Report, which will include:

- A conclusion on the council's arrangements for preparing and publishing the statutory performance information.
- Any instances where the arrangements or reporting are not in accordance with the Direction.
- Areas where the arrangements require to be improved.

**38.** In addition, the Accounts Commission requires auditors to include a summary of Local Government Benchmarking Framework (LGBF) indicators that the council has reported in the Annual Audit Report.

## Shared Risk Assessment

**39.** The Shared Risk Assessment process is designed to coordinate corporate and strategic scrutiny of councils and their functions. Strategic scrutiny does not include scrutiny activity carried out at service unit or institution level, such as inspections of individual schools or care homes, or the annual financial audit of public bodies.

**40.** A Local Area Network group is formed to co-ordinate the process in each council area. This group is led by the appointed auditor and includes

representatives from each of the larger scrutiny bodies, namely the Care Inspectorate, Education Scotland and the Scottish Housing Regulator. The Local Area Network for East Ayrshire Council met in February 2026 and shared intelligence on the council and discussed any planned scrutiny over the next year. The timing of our scrutiny work set out at [exhibit 5](#) has considered these discussions. No additional scrutiny work has been identified from the discussions.

## Significant wider scope and Best Value risks

**41.** No significant risks in the wider scope areas or Best Value were identified from the risk assessment process.

**42.** Whilst not a significant audit risk, the challenging financial environment in which the Council, along with other public sector bodies, is operating in, has been identified as an area of audit focus. There are challenges to the medium and longer-term financial sustainability due to the uncertainty over the future Scottish Government funding allocations, the rising cost of inflation and the cost of implementing future pay settlements. Our annual audit report will include comment on the Councils 2025/26 financial outturn, 2026/27 budget, and its medium-term financial plan.

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# Reporting arrangements, timetable and audit fee

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## Audit outputs

**43.** The outputs from the 2025/26 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the council and the Accounts Commission setting out opinions on the annual accounts.
- An Annual Audit Report to the council and the Accounts Commission setting out significant matters identified from the audit of the annual accounts, conclusions from the wider scope and Best Value audit, recommendations, where required, and any good practice identified.

**44.** The matters to be reported in the outputs will be discussed with the council for factual accuracy before they are issued. All outputs from the audit will be published on [Audit Scotland's website](#), apart from the Independent Auditor's Report, which is included in the audited annual accounts.

**45.** Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates for the audit outputs, consideration is given to the statutory date for approving the annual accounts, which is 30 September 2026 for local government bodies.

**46.** The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 30 September 2026.

## Audit timetable

**47.** Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 5](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the council and reported to those charged with governance, where required.

## Exhibit 5

### 2025/26 audit timetable

Audit activity	The council target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan		31 March 2026	5 March 2026
Issue of Best Value Management Report		15 January 2026	5 March 2026
<b>Annual Accounts:</b>			
• Consideration of unaudited annual accounts by those charged with governance	25 June 2026		25 June 2026
• Submission of unaudited annual accounts and all working papers to audit team	25 June 2026		
• Latest date for audit clearance meeting	4 September 2026	4 September 2026	
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report		11 September 2026	24 September 2026
• Agreement of audited and unsigned annual accounts	10 September 2026	17 September 2026	
• Approval by those charged with governance and signing of audited annual accounts	24 September 2026		24 September 2026
• Signing of Independent Auditor's Report and issue of Annual Audit Report		24 September 2026	
Certification of Non-Domestic Rates Return, Housing Benefit Subsidy Claim and Whole of Government Accounts		To be confirmed	

Source: Audit Scotland

## Audit fee

**48.** The council's audit fee is determined in line with Audit Scotland's fee setting arrangements. The agreed audit fee for the 2025/26 is £378,130 (£362,410 in 2024/25).

**49.** We have also agreed an audit fee of £1,250 (£1,200 in 2024/25) for the audit of the registered charities administered by the council.

**50.** In setting the audit fee, it is assumed that the council has effective governance arrangements in place and the complete annual accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

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# Other matters

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## Internal audit

**51.** The council is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

**52.** While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2025/26 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

## Audit quality

**53.** Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

**54.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

**55.** To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

**56.** Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

**57.** Audit Scotland may periodically seek the views of the council on the quality of audit services provided. The audit team would also welcome feedback at any time.

# East Ayrshire Council

Annual Audit Plan 2025/26



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