

# East Lothian Council

2019/20 Annual Audit Report



 AUDIT SCOTLAND

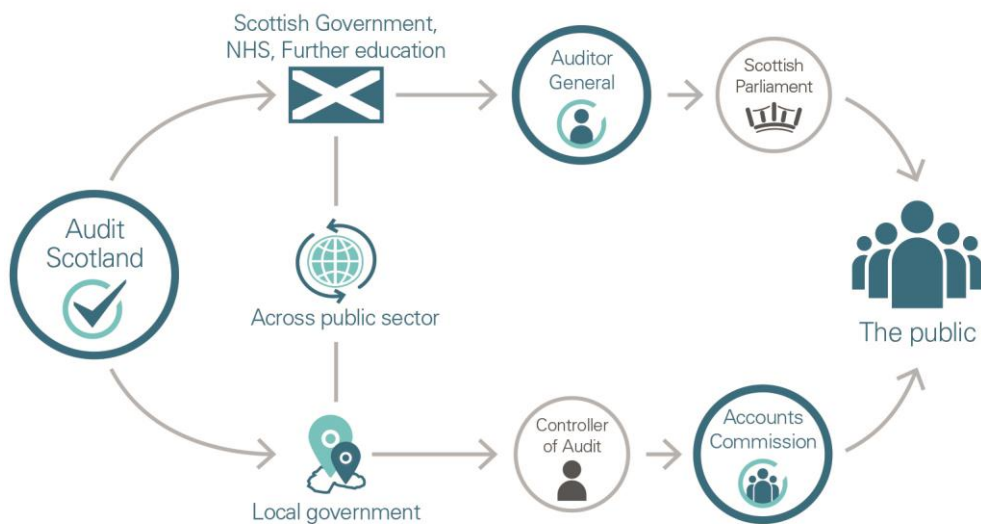
Prepared for the Members of East Lothian Council and the Controller of Audit

October 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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# Key messages

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## 2019/20 annual accounts

- 1** Our audit opinions on the annual accounts of East Lothian Council, its group and the one section 106 charity administered by the council are unmodified.
- 2** An Emphasis of Matter paragraph has been included in the Independent Auditor's Report reflecting the market valuation uncertainty on property values highlighted by the council due to the Covid-19 pandemic. This reflects guidance issued by the Royal Institution of Chartered Surveyors (RICS).
- 3** The Covid-19 pandemic had an impact on the auditing timetable for the 2019/20 financial statements and as a result concluding the audit was delayed by one month from the original timetable. This is acceptable under the Coronavirus (Scotland) Act 2020.

## Financial management

- 4** The council has appropriate and effective financial management in place.
- 5** Financial systems of internal control operated adequately with some recommendations noted.
- 6** Developer contributions play a significant role for the fulfilment of the capital expenditure ambitions of the council. Arrangements have been put in place to ensure developer contributions are managed in line with the council's capital programme.

## Financial sustainability

- 7** The Covid-19 global pandemic has had a significant impact on the short, medium and longer term finances of East Lothian Council. The impact of this has been evaluated by finance officers and updates on the financial implications relating to the current and on-going implications of managing the response to the COVID-19 have been circulated to members with the latest briefing in August 2020.
- 8** There is a five-year financial strategy that is aligned to the council's priorities and demonstrates how it will address future budget challenges.
- 9** The council has made savings over the past few years. However, delivery of planned savings in 2020/21 has been significantly compromised by Covid-19. Many of the plans related to savings have effectively been placed on hold to enable the council to focus its attention and support on responding to the pandemic. Significant additional interventions and changes to the financial strategy may now be required to manage the financial position.

## Governance and transparency

- 10** The council has appropriate and effective governance arrangements.

**11** Revised governance arrangements were in place and operated effectively during the lockdown period and continued to support good governance and accountability.

## **Best Value**

**12** Performance is now more clearly reported against the council's strategic priorities and the council has streamlined its performance measures into a council 'top 50'. The council could further improve how it reports progress against its improvement activity. Deadlines for some of the council's improvement actions are being reviewed in light of reprioritisation as a result of coronavirus.

**13** The council continues to work proactively with a local network to reach out to people and communities affected by equalities considerations. Improvements have been recommended for reporting performance against the Fairer Scotland duties.

**14** The council reported performance in line with the 2018 SPI Direction. Service performance levels are in line with agreed targets.

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# Introduction

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1. This report summarises the findings arising from the 2019/20 audit of East Lothian Council (the council) and its group.
2. The scope of the audit was set out in our 2019/20 Annual Audit Plan presented to the February 2020 meeting of the Audit and Governance Committee. This report comprises the findings from:
  - the audit of the annual accounts;
  - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2019/20 have been:
  - an audit of the annual accounts of the council and its group including the statement of accounts of the one section 106 charity administered by the council and the issue of independent auditors' reports setting out our opinions
  - a review of the council's key financial systems
  - audit work covering the council's arrangements for securing best value relating to fairness and equalities
  - a follow up of how the council are progressing with the [2017/18 Best Value Assurance Report](#) recommendations

- consideration of the four audit dimensions.

**4.** Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the council has had to respond to the global coronavirus pandemic. This impacted on the final month of the year and will continue to have significant impact into financial year 2020/21. This has had significant implications not least for the services it delivers, sickness absence levels, and the suspension of non-essential projects and activities. However, for 2019/20 we did not have to adapt our audit approach to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit. We did however have to adapt our approach to our working environments and respond accordingly. Lesson learned and the approach for 2020/21 will be discussed in due course with key finance officers.

## Adding value through the audit

**5.** We add value to the council through the audit by:

- Identifying and providing insight on significant risks and making clear and relevant recommendations.
- Sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides.
- Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
- Taking this together, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

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

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

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

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

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

**10.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#). and supplementary guidance.

**11.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

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

## **Auditor Independence**

**13.** 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £247,080 (including the Dr Bruce Fund Charitable Trust) as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**14.** This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.



# Part 1

## Audit of 2019/20 annual accounts



### Main judgements

**Our audit opinions on the annual accounts of East Lothian Council, its group and the Dr Bruce Fund Charitable Trust administered by the council are unmodified.**

**An Emphasis of Matter paragraph has been included in the Independent Auditor's Report reflecting the market valuation uncertainty on property values highlighted by the council due to the Covid-19 pandemic. This reflects guidance issued by the Royal Institution of Chartered Surveyors (RICS).**

**The Covid-19 pandemic had an impact on the auditing timetable for the 2019/20 financial statements and as a result concluding the audit was delayed by one month from the original timetable. This is acceptable under the Coronavirus (Scotland) Act 2020.**

The annual report and accounts are the principal means of reporting financial performance and demonstrating stewardship of the resources put at the disposal of the body

### Our audit opinions on the annual accounts are unmodified

**15.** The accounts for the council and its group for the year ended 31 March 2020 were approved by the Audit and Governance Committee on 26 October 2020. As reported in the independent auditor's report:

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

**16.** We have included an 'Emphasis of Matter' paragraph in our Independent Auditor's Report which refers to the impact of Covid-19 on the valuation of property, plant and equipment. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the accounts. This stems from RICS guidance which is the foundation of the work carried out by the valuer. Notes 3, 4 and 12 in the annual report and accounts highlight the uncertainty. The audit opinion is not modified in respect of this matter. Further information is contained in [Exhibit 3](#).

### The unaudited annual accounts were submitted to audit in line with normal timetable

**17.** The Scottish Government has advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 to be sufficient to allow each local authority to determine its own revised timetable for the Annual Accounts. The council chose not to use the powers in the 2020 Act to postpone the publication of

the unaudited accounts which were submitted to us for audit on 30 June 2020 in line with the normal timetable.

**18.** The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly. We and the council staff had to adapt our approaches to the new working from home environment, using new technology and respond accordingly. Lessons learned from this will be used to help inform the approach for the 2020/21 audit and will be discussed in due course with key finance officers.

### **The annual accounts were signed off in line with the timescales permitted to reflect Covid-19**

**19.** The impact of Covid-19 was a factor for the audit team which led to staff shortages and some loss of audit staff productivity due to remote working in this period. Although later than first planned, the annual accounts were signed off in line with the revised timetable permitted to reflect the impact of COVID-19.

### **Our audit opinion on the Section 106 charity, the Dr Bruce fund, is unmodified**

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

**21.** We received the Dr Bruce Fund accounts on 30 June 2020, in line with the agreed timetable. There were no adjusted or unadjusted audit differences raised. However, the following issue was noted during the audit which has previously been raised in our 2016/17, 2017/18 and 2018/19 annual audit reports and remains outstanding with limited progress – the fund awarded the same two individuals £60 in 2019/20 (2018/19: £60, 2017/18: £50, 2016/17: £50). We understand there is an ongoing council-wide review of the common good and trust funds, which includes the Dr Bruce Fund, however this review has lacked pace and progress. We repeat our Dr Bruce Fund recommendation from 2018/19 and have repeated our recommendation to highlight the importance of progressing the council-wide review of common good and trust funds.



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

**The council should progress and conclude on their review of common good and trust funds including an exercise to consider whether there is scope to consolidate any/all of the 46 trusts. This should include a review of the method(s) used to promote the Dr Bruce Fund and other charitable trusts to ensure that the potential availability of these funds are known to the wider community.**

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### **The council advertised the unaudited accounts on time and in line with the Regulation - there were no objections**

**22.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations. Normally, the unaudited annual accounts are available for physical inspection at council offices however due to Covid-19 the council made their unaudited annual accounts available electronically for inspection. An email address was also available on the website for specific requests for inspection. This variation from the

legislative arrangements was implemented under the terms of the Coronavirus (Scotland) Act 2020 Schedule 6, Part 3 and is acceptable. There were no objections to the 2019/20 accounts.

## Whole of Government Accounts

**23.** In accordance with the WGA guidance, the council submitted a consolidation pack for the whole of government accounts audit in line with the timetable set by the Scottish Government. We intend to complete the required assurance statement and submit it to the National Audit Office (NAO) by the 4 December 2020 deadline.

## Overall materiality is £4.2 million

**24.** The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

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

**26.** On receipt of the unaudited annual accounts we reviewed our materiality and updated our overall materiality from £4.0 million to £4.2 million. This did not have an impact on the planned audit approach.

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## Exhibit 2 Revised materiality values

Materiality level	Amount
Overall materiality	£4.2 million
Performance materiality	£2.5 million
Reporting threshold	£42,000

Source: East Lothian Council Unaudited Annual Accounts 2019/20

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## [Appendix 2](#) identifies the main risks of material misstatement at planning and our audit work to address these

**27.** [Appendix 2](#) provides our assessment of risks of material misstatement identified during the planning stage of our audit. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

**28.** Any issues we have to report from our work on the risks of material misstatement are captured in [Exhibit 3](#) below.

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

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

## Exhibit 3

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

Issue	Resolution
<p><b>1. Impact of Covid-19 on valuations of property, plant and equipment (PPE)</b></p> <p>Non-operational property was subject to valuation by DM Hall at 31 March 2020. Their updated report submitted in June 2020 added a caveat to the original valuation citing a 'degree of abnormal uncertainty' regarding the impact of Covid-19.</p> <p>Operational property was not subject to a full valuation in 2019/20 nor was the valuer requested to carry out an impairment exercise in light of Covid-19. The council's operational property is part of the rolling 5-year valuation programme, and is due for full valuation in 2020/21. However, as part of the ongoing contract with the valuers and, as part of the annual accounts process, an impairment review was carried out on a sample of operational property against the original valuation (carried out in 2016). The valuers concluded that there was, 'not a material impairment to the value of the operational stock as part of this exercise.'</p> <p>Operational land and buildings represent £541 million out of total PPE of £1.1 billion (46%) with the school estate comprising a significant portion of this.</p>	<p>Property assets are material and the impact of Covid-19 has increased the uncertainty over associated valuations. The extent and timing of the rolling programme of valuation work and the conclusions of the valuers have contributed to the view that less certainty can be attached to the valuation than would otherwise be the case. The accounts disclose this increased uncertainty at Note 3, 4 and 12 of the financial statements.</p> <p>After consideration, we have included an 'Emphasis of Matter' paragraph in the Independent Auditor's Report to highlight this disclosure; it is important to users' understanding of the accounts. This relates solely to the impact of the Covid-19 pandemic.</p> <p>The audit opinion is not modified in respect of this matter.</p>
<p><b>2. IAS 19 Actuarial valuation</b></p> <p><b>McCloud ruling</b></p> <p>The actuarial valuation for the IAS 19 pension liability in the unaudited accounts had not been revisited after publication of the proposed remedy (still subject to consultation) to check whether it would have a material impact on the pension adjustment recognised in 2018/19 with respect to the McCloud Supreme Court ruling.</p> <p><b>Goodwin tribunal</b></p> <p>The revised valuation also included reference to the Goodwin tribunal and impact on employer's future obligations. However no figures have been included in the valuation. This ruling will impact upon the future promised retirement benefits of members of the fund but the level of this impact cannot yet be quantified with any certainty by the actuary.</p>	<p><b>McCloud ruling</b></p> <p>A revised valuation was requested from the actuary which resulted in a decrease of £4.9 million to the overall net pension liability. The movement was deemed material by the council and an adjustment was made to reflect the revised pension liability. Additional disclosure has been made in the accounts.</p> <p><b>Goodwin tribunal</b></p> <p>As a result of the revised report, a disclosure regarding the uncertainty of the value of employer's future obligations has been included as a contingent liability in the accounts.</p>

### Identified misstatements of £2.2 million were adjusted in the accounts

**30.** Total misstatements identified were £2.2 million, which would have increased the net cost of services by £0.2 million. These mainly consisted of the reversal of inventory / deferred income recognised in respect of the Dolphingstone site (£1.4 million). We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on

making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have not adjusted for the item in [Appendix 3](#) as it affects multiple services as opposed to a single entry. Management have confirmed that this will be adjusted in 2020/21.

### **Good progress was made on prior year recommendations**

**31.** The council has made good progress in implementing our prior year audit recommendations (refer [2018/19 East Lothian Council Annual Audit Report](#)). Progress has been made in:

- agreeing a suitable timetable with the council's subsidiaries and associates to ensure group components were signed off prior to the council's accounts being approved. However, Covid-19 has impacted the timing of receipt of two audited group accounts (Lothian Valuation Joint Board and Musselburgh Racing Associated Committee), and
- good progress has been made with the corporate finance review with new roles established, vacant posts filled, and new staff added to the service. Roles are currently being redefined with clearer distinctions on responsibilities and reporting lines. During 2019/20 four new finance staff and a Head of Internal Audit were appointed, increasing the capacity to deliver the service.

**32.** A lack of progress has been made against one action and this remains outstanding. Actions are outstanding with regards to the operation of the Dr Bruce Charitable Trust as well as progression of the Common Good / Trust review, refer [action plan point 1](#). Revised responses and timescales have been agreed with management, and are set out in the 2019/20 action plan at [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

The council has appropriate and effective financial management in place.

Financial systems of internal control operated adequately with some recommendations noted.

Developer contributions play a significant role for the fulfilment of the capital expenditure ambitions of the council. Arrangements have been put in place to ensure developer contributions are managed in line with the council's capital programme.

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

### The 2019/20 budget included planned savings and contributions from reserves to address the funding gap

**33.** The council approved its 2019/20 General Services budget at a special meeting on 12 February 2019. The budget was set at £225.1 million which included planned savings of £5.2 million and the planned use of £3.0 million of reserves. [Exhibit 4](#) summarises the more significant areas of over / underspend against the budget.

### The council overspent its budget, excluding the HRA, by £3.2 million

**34.** The 2019/20 end of year financial review presented to council on 18 June 2020 reported an overspend of just under £3.2 million for service expenditure relative to the approved budget. This includes an IJB overspend for council-related activity of £0.2 million which will be met from IJB reserve balances in line with the IJB's reserves policy. The more significant under and overspends are summarised in [Exhibit 4](#).

**35.** The overspend includes non-recurring benefits across services and corporate budgets including the Loans Fund Review and a late and positive NDR benefit relating to the Business Rate Incentivisation Scheme (BRIS). Without these benefits, the overspend would have exceeded £6 million.

**36.** Overall, this has resulted in the use of £2.7 million of general reserves relative to the planned use of £3.0 million.

## Exhibit 4

### Summary of significant under / overspends against budget

Area	£m	Reason for variance
<b>Underspends</b>		
Corporate Management	£0.275	Council tax budgets were delivered in line with plans. Non-recurring NDR benefit of £0.72m relating to BRIS. Non-recurring £3.8m underspend on debt charges arising from the Loans Fund Review.
<b>Overspends</b>		
Resources and People Directorate	£2.722	The main pressures continued to be Children's and Education Services, mostly relating to the number of children in residential care and the education elements of external placement.
Health and Social Care Directorate	£0.356	Increased costs of commissioned services including care home places for older people.
Partnership and Services for the Community	£0.113	Infrastructure reported an overspend of £0.594m, largely due to the loss of the anticipated dividend from Lothian Buses due to business circumstances arising from Covid-19. This was offset by underspends by Development Services and Community and Partnerships of £0.363m and £0.118m respectively.

Source: East Lothian Council 2019/20 End of Year Financial Review

### Budget process was appropriate but remains challenging

**37.** The council's budget and savings plan is aligned to council priorities, as set out in its 2019-2022 strategic plan. This is consistent with good practice. The council uses scenario planning to calculate estimated funding gaps for the five-year period as part of its 2020-2025 financial strategy. Three scenarios were used ranging from best to worst case, based on a limited number of key variables (revenue support grant, pay, non-pay inflation, budget pressures and council tax yield). The estimated funding gaps for the five-year period range from £0.5 million to £31.7 million (being the worst case scenario).

**38.** The full Council receives revenue and capital monitoring reports and, from a governance perspective, conducts detailed scrutiny of financial performance. From our review of these reports, and attendance at council meetings throughout the year, we concluded that these reports provide an overall picture of the budget position at service level. The reports include the forecast out-turn position for the year and good explanations for significant variances against budget. The reports allow both members and officers to carry out scrutiny of the council's finances. The council has appropriate budget setting and monitoring arrangements in place.

### The housing revenue account operated within budget

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

**40.** The HRA delivered an additional surplus of over £1.0 million during 2019/20. In line with the financial strategy, this has been applied to increase the use of capital from current revenue (CFCR) to minimise the impact of future debt charges. The surplus is mainly a result of underspends in staffing, a lower than anticipated

increase in the level of bad debt provision, and lower debt charges (albeit partly offset by an overspend in revenue repairs).

**41.** The accounting deficit, including charges for depreciation, impairment and the HRA's share of corporate items, resulted in a deficit on HRA services for the year of £7.4 million. After statutory adjustments, there was a decrease in the HRA balance of £4.1 million for the year. This is largely due to the use of £7.7 million of revenue funding to support in-year capital expenditure. This is consistent with the overall strategy of utilising reserves for investment in housing, which minimises future debt charges for HRA tenants.

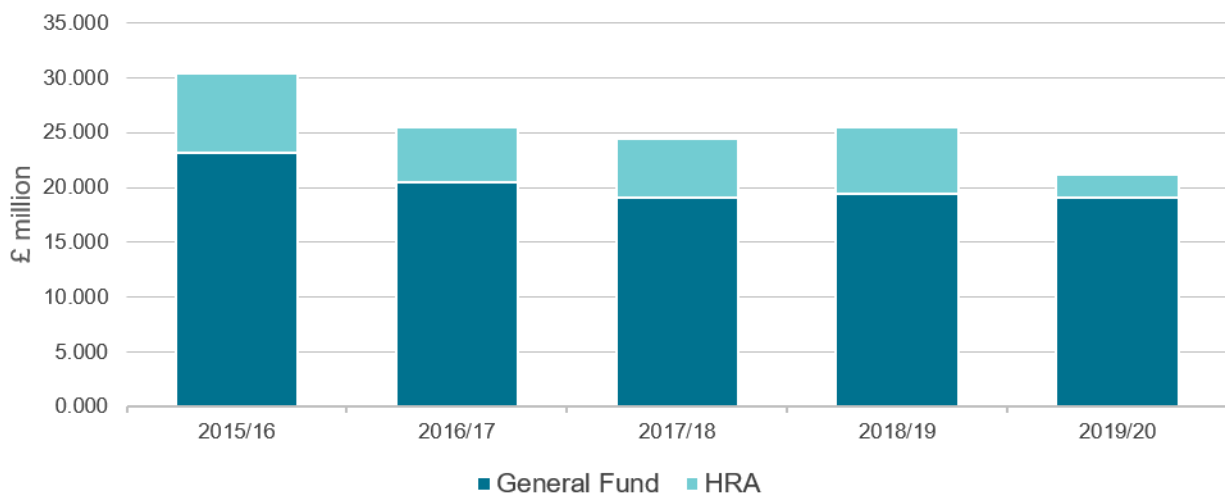
### The level of general fund reserves has remained constant

**42.** One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the council decreased from £25.5 million in 2018/19 to £21.1 million in 2019/20. The movement is largely due to the use of HRA reserves to support HRA capital expenditure. The general fund is the largest usable reserve. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

**43.** The council reviews the level of its uncommitted reserves when setting the budget each year. The council's reserves strategy recommends a minimum level of uncommitted general reserve balances which can be used to support any unforeseen / unquantifiable event. This level should equate to a minimum of 2% of the council's annual running costs (£4.9 million). Taking into account the Civil Emergency Fund (£2.0 million), the General Services Capital Fund (£2.3 million) and the uncommitted balance of £0.80 million, the council currently meets this minimal required level of balance at just under £5.1 million<sup>1</sup>.

**44.** There is currently no headroom in this balance. If reserves are projected to fall below this level, members must have a clear route for bringing reserves back up to the required level over the subsequent three financial years (Financial Strategy 2020-2025). [Exhibit 5](#) provides an analysis of the movements in the general fund and HRA over the last five years.

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



Source: East Lothian Council Audited Annual Accounts (2016/17, 2017/18, 2018/19) and Draft Annual Accounts 2019/20

<sup>1</sup> Source: East Lothian Council 2019/20 End of Year Financial Review



## Efficiency savings

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

**46.** The council is required to submit an annual return to COSLA in respect of recurring / non-recurring efficiency savings. Budget monitoring reports, including risk assessed savings plans, are routinely submitted to council and cabinet. The council has submitted all the required returns to COSLA including additional returns for Covid-19 impact.

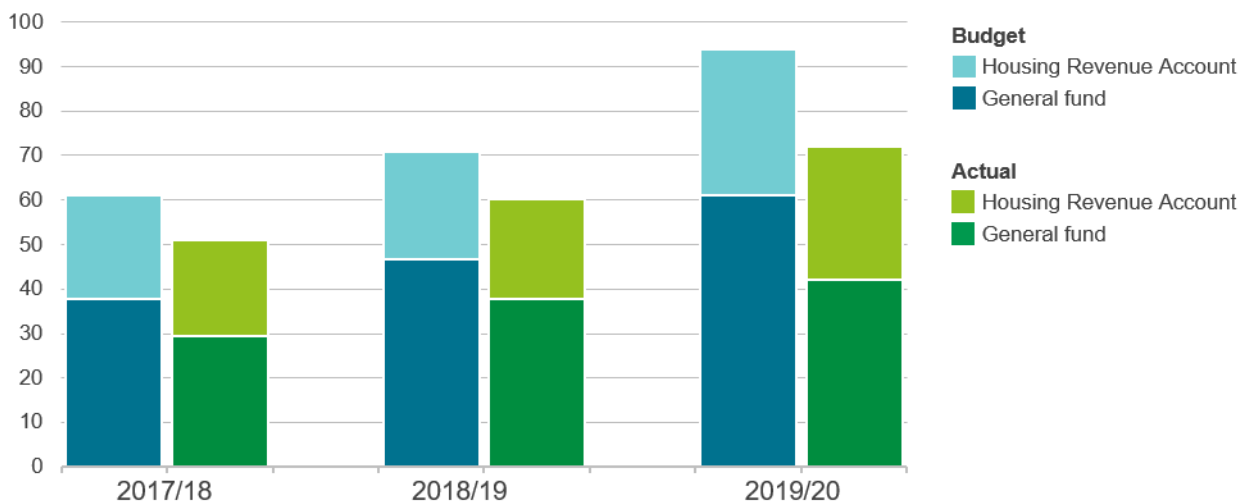
**47.** In 2019/20, the council planned to achieve efficiency savings of £5.228 million to address the budgeted funding gap. The council achieved actual savings of £5.208 million (99.62% of this total).

## Capital programme 2019/20

**48.** Total capital expenditure in 2019/20 was £72.0 million of which £42.1 million related to general services and £29.9 million to the HRA.

**49.** General services capital spend was £18.9 million (31.0%) below budget and, the HRA capital spend was £3.0 million (9.1%) below budget. For the last three years, the council has reported a degree of slippage in its capital programme as outlined in [Exhibit 6](#).

## Exhibit 6 Capital slippage compared to budget (general fund and HRA)



Source: 2017/18, 2018/19 and 2019/20 End of Year Financial Reviews

**50.** Most of the general services' underspend relates to the re-profiling of projects into future years. A number of projects were reviewed and delayed so that individual projects were aligned with the overall asset and service strategy.

**51.** The current general services programme is aligned to the council's approved Local Development Plan and City Deal requirements and remains ambitious. Much of the underspend though, is likely to be utilised in future years and matched against expected income for individual projects.

**52.** Some capital programmes have experienced delays due to Covid-19 implications with the temporary suspension of construction projects and some projects taking longer than originally planned due to increased safety measures in

place. Projects have also been re-profiled and aligned with service strategy plans. The impact of Covid-19 is likely to have a significant impact on the delivery of future capital plans for 2020/21 and beyond.

**53.** For HRA, there were no Mortgage to Rent applications during the year, leading to an underspend of £0.8 million. The accounting treatment for anticipated capital expenditure on the council house programme has also been reviewed, resulting in slightly lower than anticipated capital expenditure.

## Developer's contributions

**54.** In our 2018/19 annual audit report we highlighted the significant role that developer contributions play towards the fulfilment of the council's long-term capital programme and, the [East Lothian Local Development Plan](#) (LDP).

**55.** Developer contributions are obtained from property developers, in line with legal agreements, and are required to address the transport, education, community, health care and affordable housing requirements that arise as a result of these developments within East Lothian. Management of these agreements is important to ensure that adequate funding is in place to support the capital programme in this regard.

**56.** In 2018/19 developer contributions, included within long-term liabilities, decreased overall by £8.6 million (27%) to £23.3 million (2018/19: £31.9m). This movement represents the net impact of developer contributions received (£16.6m) and applied, in year, to capital expenditure (£25.2m).

**57.** The majority of the developer contributions liability represents those contributions received but not yet utilised in respect of education provision in East Lothian (£21.9m). During 2018/19, £15.7 million of developer contributions were used for the acquisition of land for the construction of new schools' facilities in Wallyford, while the remaining contributions were utilised toward the construction of additional schools' facilities in the region, including a new primary school in Haddington (£5.2m).

**58.** Developer contributions will continue to have an important and significant role in the council's LDP and capital expenditure programme and, a consequential impact on the financial statements in future years. The council should consider enhancing the disclosures within the management commentary in the annual accounts to highlight their importance and to provide better information for the users of the accounts.

## Borrowing levels

**59.** At 31 March 2020, long term borrowing stood at £366.6 million, an increase of £22.7 million on the previous year's level of £343.9 million. During the same period, short term borrowing decreased from £19.1 million to £18.8 million. The council took out additional loans towards the end of March 2020 to ensure sufficient liquid funds to address the consequences of Covid-19.

**60.** Total external debt, which includes the council's long-term liabilities, was within the authorised limit and operational boundary set by the treasury management strategy. The current borrowing position is in line with the Prudential Code, and the council will continue to assess the affordability of future borrowing.

## Financial systems of internal control operated adequately with recommendations noted below

**61.** As part of our audit we identify and assess the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the body has systems of

recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**62.** Our findings were included in our management letter that was presented to the Audit and Governance Committee 16 June 2020. We concluded that, *“on the basis of audit work undertaken and for those key controls tested, we were able to conclude that appropriate and effective internal controls were in place for the General Ledger, Cash Receipting and Banking, Payroll, Council Tax, Non-Domestic Rates and Housing Rents. For those areas where we are unable to conclude, or take controls assurance (Trade Receivables, Trade Payables and Grant Payments), we plan to carry out additional substantive procedures during our financial statements audit, to enable us to gain the required assurances.”*

**63.** During our financial statements audit work we therefore extended our work on trade receivables, trade payables and grant payments. We noted that no further action has been taken to recover an outstanding balance of £119k that we identified during last year’s audit. A further outstanding balance of £102k at the end of 2019/20, in relation to care home fees, has increased to £115k post year-end. We understand that the council are currently dealing with this. Without routine review of outstanding trade receivables balances, there is a risk that aged balances are not being provided for or written-off, as appropriate.



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

**A review of aged receivables’ balances should be undertaken to confirm whether any debts should be written off or if further action needs to be taken to recover outstanding amounts.**

**64.** In 2018/19 we recommended that a reconciliation be carried out to confirm that the common repairs’ balances are correctly stated; whether any invoices need to be raised to recover amounts due from residents and; whether any provisions are required against balances owed. We found that that no reconciliation was undertaken during 2019/20 (£529k balance at 2019/20 year end) and that the majority of the high value debtors selected for testing were unchanged from the prior year. There is a risk that that common repairs’ balances are irrecoverable and should be provided for or written-off, as appropriate.



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

**A review of the common repairs’ balances should be undertaken to confirm whether any debts require to be written off or if further action needs to be taken to recover outstanding amounts.**

**65.** During the audit of year-end HMRC liabilities, an error of £125k was identified. This occurred due to the payroll system making incorrect postings into the nominal ledger arising from incorrect set up of certain employee ‘flags.’ This resulted in additional expenditures being posted to service lines instead of against suspense accounts to offset against amounts recovered from HMRC. The £125k error was agreed with officers and is noted in [Appendix 3](#), summary of uncorrected misstatements. We will also review the controls in this area as part of our 2020/21 audit.

**66.** As a result of Covid-19 the council made additional business support grant payments of £335,000 between 26 March 2020 and 31 March 2020. Internal controls remained in place during this time. As part of these payments, the council also ensured it had sufficient cash reserves through borrowing decisions made at the end of March to do this. We found no issues as part of our testing of grants.

## Internal audit has carried out four assurance exercises on payment streams impacted by Covid-19

67. We are pleased to report that Internal audit have completed, and reported to committee in public, four assurance exercises as follows:

- Supplier Relief;
- Rent Deferment;
- Non-Domestic Rates – Retail, Hospitality and Leisure 100% Relief;
- Residential Care – Financial Reassessments.

68. The main objective of the assurance exercises was to establish if the internal controls put in place provide an appropriate control environment. A paper summarising this work was presented to the September 2020 Audit and Governance Committee and was well received. The head of internal audit noted in the covering paper that, “...*the exercises are not a complete audit of these processes and they have not been assessed with an assurance level. However a conclusion on how appropriate the internal control processes are has been provided.*” There were no significant issues found from this work and recommendations noted in the reports have been agreed by management.

69. We welcomed sight of these reports which have been commissioned and carried out in a timely manner and, are publicly available on the council’s website. We have shared these reports with our colleagues to demonstrate how Internal Audit, which is part of the overall framework of internal control, has been engaged to focus on new risks that have arisen as a consequence of the public sector response to Covid-19.

## Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

70. The council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

71. We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Members’ Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

72. Appropriate arrangements are in place for the prevention and detection of fraud, error and irregularities. We are not aware of any specific issues that we need to bring to your attention.

## Good practice points

73. We have shared with our Performance Audit and Best Value colleagues the four assurance reports carried out by internal audit since the Covid-19 pandemic began including the covering paper reported to the Audit and Governance Committee as an example of good practice and for wider sharing of knowledge and good practice among colleagues (refer [paragraph 67](#)).

# Part 3

## Financial sustainability



### Main judgements

The Covid-19 global pandemic has had a significant impact on the short, medium and longer term finances of East Lothian Council. The impact of this has been evaluated by finance officers and updates on the financial implications relating to the current and on-going implications of managing the response to the COVID-19 have been circulated to members with the latest briefing in August 2020.

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

The council has made savings over the past few years. However, delivery of planned savings in 2020/21 has been significantly compromised by Covid-19. Many of the plans related to savings have effectively been placed on hold to enable the council to focus its attention and support on responding to the pandemic. Significant additional interventions and changes to the financial strategy may now be required to manage the financial position.

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

### The financial impact of the Covid-19 pandemic will be significant and areas of pressure have been identified

**74.** In March 2020, the council's approved three year budget included the delivery of £5.5m of planned savings. £3.2m was planned to be realised in 2020/21 through enhanced income streams or reduced staffing/turnover savings. Delivery of these planned savings in 2020/21 has been significantly compromised. Many of the plans related to savings have effectively been placed on hold to enable the council to focus its attention and support on responding to Covid-19.

**75.** The council's latest forecast (Covid-19 financial update, July 2020) suggests that the cost pressures facing the council may be approaching £17 million, approximately £15 million of which are Covid-19 related. Applying additional Scottish Government funding, the council's estimated share of additional national funding and flexibilities within existing funding streams, reduces the potential net overspend for the council to around £7.5 million (3.1%).

**76.** The finance team evaluated the impact of Covid-19 and provided an update to members in July and August 2020 on the current and on-going financial implications of managing the response to Covid-19. The reports set out the key financial pressure points which have emerged since March 2020 and identified approximately £14.9 million of net pressures facing the council for 2020/21. Finance officers provided a more detailed summary as part of the quarter one finance review at the August 2020 council meeting.

**77.** As a result a growing number of service areas are now classified as High financial risk, meaning that costs are unlikely to be contained within existing

budgets. Pressures include the loss of planned income, additional equipment and PPE (personal protective equipment) costs and, additional staffing costs.

**78.** Should no additional funding or wider flexibilities become available over the next few months, significant additional interventions will be required to manage the financial position. More details setting out any further required interventions and changes to the financial strategy will be reported to Council in October 2020.

### **Medium and longer term financial plans are in place and are being reviewed and updated**

**79.** The council has a five-year financial strategy in place covering the period 2020/21 to 2024/25. The strategy includes funding gap projections for the five-year period based on scenario planning. Spending plans for the three-year period from 2019/20 to 2021/22 were approved as part of the 2019/20 annual budget process and were used to update the five-year financial strategy, to reflect the latest assumptions. The estimated funding gaps for the five-year period range from £0.5 million to £31.7 million (being the worst case scenario).

### **Efficiency savings and Transformation Programme**

**80.** The council delivered an additional £5.2 million of efficiency savings during 2019/20, bringing the cumulative total to around £35 million since 2012.

**81.** Internal Audit's 2019/20 review of the Transformation Programme provided 'moderate assurance'. It concluded that the council has appropriate processes and procedures in place to ensure that the Transformation Programme highlights areas within the council where efficiencies can be achieved, however these procedures are not being consistently applied to all projects. Benefits arising from projects are not always communicated via business cases and are not being tracked or reported against individual project implementations. The report also noted that improvements could be made when reporting savings against individual projects.

**82.** The Transformation Programme had a target of achieving savings of £600,000 for 2019/20. Savings in excess of £1.3 million have been achieved over a period of four years. We will continue to monitor savings in this area as part of the council's commitment to ensuring continuous improvement and transformation of its services.

# Part 4

## Governance and transparency



### Main Judgements

**The council has appropriate and effective governance arrangements.**

**Revised governance arrangements were in place and operated effectively during the lockdown period and continued to support good governance and accountability.**

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

### Governance and transparency arrangements were appropriate

**83.** We commented on the council's governance arrangements in our management letter of June 2020 and our previous year's conclusion is still relevant, that "*overall the body has appropriate governance arrangements*", as there has been no significant change during 2019/20, with the exception of specific comments below on the response to the Covid-19 outbreak in March 2020. The governance and transparency arrangements we consider include:

- council and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption. This includes action in response to the National Fraud Initiative
- openness of council and committees
- reporting of performance and whether this is fair, balanced and understandable.

### Revised governance arrangements were in place and operated effectively during the lockdown period and continued to support good governance and accountability.

**84.** In response to the national lockdown, a paper was submitted to full council on 17 March 2020 proposing emergency recess procedures, "*..for the democratic decision-making process to continue in the event that East Lothian Council committee meetings are unable to be convened as a result of the current COVID-19 outbreak*" this included cancelling all scheduled, face to face committee meetings until further notice. Procedures put in place as a result of Covid-19 included:

- Delegation to the chief executive, in consultation with the three political group leaders, the decision to invoke the Covid-19 emergency recess procedures, as and when necessary.

- Delegation to the chief executive, in consultation with the three political group leaders, the application of specific provisions for the approval of certain types of business (a summary of all business carried out during the emergency recess to be brought to the next full council meeting).
- All reports will continue to be made available in the Members' Library.

**85.** The council agreed to end the Covid-19 emergency recess arrangements on 17 August 2020 and to re-commence council and committee meetings. A full paper was presented to the full Council on 25 August on this and measures for 2020/21. All meetings continue to be held virtually and in line with the committee timetable(s).

### **Good practice points - Covid-19 specific reports presented to those charged with governance expeditiously**

**86.** We noted that the Audit Scotland paper [COVID-19 Emerging Fraud Risks \(July 2020\)](#) was considered by council officers. It was then presented at the earliest opportunity by the Head of Internal Audit to the September 2020 Audit and Governance Committee. The committee were asked to note the position of East Lothian Council in regard to the actions taken and planned to be taken, to provide assurance over the areas highlighted in the report. The covering paper also used the recommended elements in the report to identify further information or scrutiny activity members wish to have reported back to future meetings of the Audit and Governance Committee.



# Part 5

## Best Value



### Main judgements

Performance is now more clearly reported against the council's strategic priorities and the council has streamlined its performance measures into a council 'top 50'. The council could further improve how it reports progress against its improvement activity. Deadlines for some of the council's improvement actions are being reviewed in light of reprioritisation as a result of Covid-19.

The council continues to work proactively with local networks to reach out to people and communities affected by equalities considerations. Improvements have been recommended for reporting performance against the Fairer Scotland duties.

The council reported performance in line with the 2018 SPI Direction. Service performance levels are in line with agreed targets.

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

Best value is assessed over the audit appointment, as part of the annual audit work.

### Best value assurance report follow up

**87.** Best value is assessed over the audit appointment, as part of the annual audit work. This year's best value audit work followed up the progress made by the council in response to the [East Lothian Council best value assurance report](#) (BVAR) published in November 2018. It should be noted that several improvement actions have been put on hold as the council prioritises its response to Covid-19. We will revisit progress against the recommendations again during the 2020/21 audit. The council will wish to ensure it can demonstrate the impact of these improvements.

### Reporting and monitoring against improvement plans has improved but further work is needed

**88.** The council responded to the recommendations in the BVAR report through its Council Improvement Plan 2018-2020. The council monitors performance through its annual Corporate Governance Self-evaluation and Annual Governance Statement (CGSAGS) with the most recent report presented to the Audit and Governance Committee in June 2020. The report states that significant progress has been made against all improvement actions, although several actions have been put on hold as they are not critical activity per business continuity plans.

**89.** The report states that the council has implemented amended governance arrangements, new ways of decision-making, leadership and implementation including virtual meetings, conference calls, and systems remote access and authorisation processes. A report on the council's response to Covid-19 went to the August 2020 full council meeting. The CGSAGS also recognises the importance of carrying out a post-incident review and highlighting any lessons learned.

**90.** This appetite to highlight any learning is a good example of a commitment to continuous improvement. However, the content of the CGSAGS report could be further improved to go beyond this. The corporate governance self-evaluation tends to list policy documents or assurance frameworks, rather than evaluate evidence of their effectiveness of delivering against improvement actions. The report contains comprehensive detail on what the council does / has in place, without evidencing what results have been achieved. The report against the council's improvement action plan focuses more on the number of actions completed, rather than the improved ways of working or delivery of services through improvement actions, such as implementation of the council's workforce plan.

**91.** The council has continued with its review of services using its How Good Is Our Service (HGIOS) framework. Fourteen services completed their HGIOS self-evaluation in 2018/19. Improvements identified through these are not reported or monitored within the council's overall improvement plan, as these are not deemed to be corporate improvements. It may be useful for elected members to see the improvement activity identified via HGIOS reviews pulled together into a summary. The council reports that key transformation projects, such as the payroll system and the on-line customer portal, are being completed. It also states that capacity has been created to support the delivery of major change, however the report is limited on what has been achieved through the council's transformation projects. The council had planned to review its Improvement to Excellence framework and new Council Plan performance reporting in Autumn 2020 but this has been postponed to 2021 as the response and recovery from Covid-19 takes precedence.



#### **Recommendation 4 (refer appendix 1, [action plan point 4](#))**

**The council's reporting and monitoring against its improvement plan could be further improved to update members on what has been achieved through its improvement actions.**

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#### **Good progress has been made streamlining performance indicators**

**92.** The council has streamlined and prioritised their performance indicators. The council now has a structure of ten top indicators, and then 50 council plan indicators organised across the council's four strategic objectives. The first annual report of these indicators was presented to the October 2019 Policy and Performance Review Committee and formed the basis of the Council's Annual Performance Report. The East Lothian Partnership Governance Group has adopted a set of 34 Key Performance Indicators for the East Lothian Plan.

#### **Continue to focus on improving education performance for all children and young people in East Lothian**

**93.** The BVAR report recommended that the council continue to focus on improving the education service. The council reports that it has made progress by adopting the Education Service Improvement Plan. Education Scotland completed an inspection of Knox Academy in February 2020. This followed up on earlier improvement letters in 2017 and 2018. Education Scotland concluded that the school had made good progress since the original inspection and no further visits in connection with that inspection were required. North Berwick High School received an inspection in June 2020 with leadership of change (very good), learning teaching and assessment (very good), ensuring wellbeing, equality and inclusion (good), raising attainment and achievement (very good). As part of the council's statutory obligations arising from the Scottish Government National Improvement Framework, the council have included raising attainment as a key educational priority. Raising educational attainment in line with East Lothian's comparator authorities is a long-term outcome that the council should ensure remains on its next Improvement Plan, and is subject to regular monitoring.

**94.** Since the BVAR was published in November 2018 there have been changes in key leadership roles including a new Chief Executive and a new Head of Education

and Children's Services. Leadership of the council is key to delivery of continuous improvement, and this is an area we will follow up in a subsequent audit.

## Fairness and Equalities

**95.** As part of our 2019/20 audit plan we said we would review arrangements for demonstrating best value in fairness and equalities.

**96.** East Lothian continues to work proactively with a local network to reach out to people and communities affected by equalities considerations. This includes a Champions Board which gathers information about the views and experiences of care experienced children and young people. The Children's Services Disability Team have undertaken extensive engagement work with parents, carers, siblings and disabled children to identify areas of concern in relation to access to services. The council have worked with parents to set up a Family Lead Information Point (FLIP), a group for parents and carers of children with additional support needs, to share knowledge of services and the support that is available. Community councils are encouraged to be inclusive in the ways that they work. Following each community council election, community councillors are offered equalities training and have an equalities manual which offers advice and support on equalities issues.

**97.** The council reports progress against its outcomes for equality through its Equalities Outcomes and Mainstreaming report. Performance is reported every two years and was last updated in April 2019. There are examples of achievements given in the report such as East Lothian Pride launching their first event at Cockenzie House, active LGBT pupil groups established in three of the high schools. and Euan's Guide (advice to families with children with disabilities). The report's performance measures show a mixed picture of progress, with several indicators no longer reported on or, suggestions of indicators given rather being measured.

**98.** The Fairer Scotland Duty came into force in April 2018, requiring councils to actively consider how they can reduce the inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions. Our BVAR commented on how the council and its partners had produced a poverty action plan after holding an East Lothian Poverty Commission in 2016. The council has produced two performance reports detailing progress against this plan, the most recent being in April 2019. The BVAR also reported on an initiative the council and partners had begun in 2014, called the Musselburgh Total Place initiative. This has now developed into the Musselburgh Family Focus project, the success of which will be evaluated through progress reports against the Child Poverty Action Plan. However, it has been six years since this initiative commenced with an absence of reporting what difference this has made and what impact it is having to improve this community's experience of poverty. Reporting against progress with Fairer Scotland duties is fragmented. The council is aware of this and is planning to update its Equality Plan in 2021. It is important the council ensures its performance reports are improved so that it is easier for elected members and the public to evaluate performance against its stated equalities outcomes.

**99.** East Lothian continues to work proactively with a local network to reach out to people and communities affected by equalities considerations. While the council has worked with partners to deliver some successful initiatives, reporting against equalities and Fairer Scotland duties is fragmented.



### **Recommendation 5 (refer appendix 1, [action plan point 5](#))**

**It is important the council ensures its performance reports are improved so that it is easier for elected members and the public to evaluate performance against its equalities outcomes.**

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## The council reports performance in line with the SPI Direction

**100.** The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities

**101.** East Lothian Council has a section of its website where the public can find information on council performance. The two most useful features for performance are a link to the council's annual performance report and a link to the Local Government Benchmarking Framework (LGBF) indicators site. This section of their website is limited as there is no overall narrative to explain that the council reports performance on an annual basis and via the annual performance report or how a member of the public can access further performance information. Structuring the performance report against the council's strategic goals is a welcome addition. The report also includes a summary of performance against the LGBF, so the council provides this balance as well as a focus on its priority indicators.

**102.** The council could do more to explain the rationale for its targets. It is likely it will need to review its targets in light of the additional demands arising from Covid-19. The council is currently reporting progress against its 2022 targets. However some targets are less than the figure achieved in the baseline year. The council have said these will be reviewed in 2021. We noted:

- The number of people participating in EL Works operated or funded employability programmes had a baseline of 520 but a target of 400 with no explanation.
- The percentage of people that have participated in council operated / funded employability programmes who have progressed into employment has a baseline 21.3% with a 19% target.
- Targets for education need further clarification:
  - Many of the targets are to achieve the Scottish average rather than relate to the education peer group.
  - For positive destinations for care experienced young people, 2018/19 performance looks worse than baseline but is marked as green.

## Service performance levels are in line with agreed targets

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

**104.** The most recent [National Benchmarking Overview Report 2018/19](#) by the Improvement Service was submitted to the Audit and Governance Committee in February 2020. The report is summarised, and the accompanying paper prepared by officers compares East Lothian against the other councils on performance. Key messages included:

- *East Lothian has a relatively high proportion of its total income from council tax and a relatively low proportion from fees and charges.*

- *East Lothian Council has one of the lowest levels of uncommitted general fund reserves.*
- *East Lothian has having the fifth highest level of borrowing to net annual revenue.*
- *East Lothian has one of the lowest levels of unfunded benefits as a percentage of net operating expenditure at around 0.5%.*
- *In 2019/20 East Lothian was one of 12 councils that increased Council Tax by the maximum permitted 4.8%.*

## East Lothian Mid Market Homes LLP

**105.** During 2019/20 a new subsidiary was added to the group financial statements of East Lothian Council. East Lothian Mid Market Homes (ELMMH) was established in 2019 as a partnership between the council (83%) and the Scottish Futures Trust (17%) to manage 50 new built properties in Dunbar for mid-market rental. The partnership commenced trading in July 2019 and is responsible for leasing the properties. There were no issues with the ELMMH audited accounts during 2019/20. The council have included the new ELMMH component into their overall group arrangements to ensure regular communication with and timely audit of this group component.

## Good practice points - National performance audit reports get good exposure at committee

**106.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 4](#).

**107.** As reported in previous years, the council has sound arrangements in place for considering and reporting to those charged with governance our national reports. National reports are presented in a timely manner to the Audit and Governance Committee with a thorough covering paper summarising the report and putting it into the East Lothian context. From a review of the papers and attendance at the Audit and Governance Committees during 2019/20, we conclude that these arrangements remain effective and member welcome the reports and the covering paper.

**108.** The most recent national report, the [Local Government in Scotland: Overview 2020 \(June 2020\)](#), was presented by the Head of Communities & Partnerships to the September 2020 Audit and Governance Committee. The overview report was accompanied with a detailed summary that captured the key national messages and how they related to East Lothian. The report was welcomed by officers and members.

# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Common Good / Trust Fund Review</b></p> <p>The ongoing council-wide review of the common good and trust funds review has lacked pace and progress. We have raised the need for this review in our prior year annual audit reports and are highlighting it here again in the action plan to raise the importance of progressing and completing the review. Statutory guidance on accounting for the Common Good requires a clear timescale to be set for review of common good assets and compilation of a publicly accessible register of those assets.</p> <p><b>Risk:</b> There is a risk that common good assets are not being identified and used effectively and efficiently and, in line with legislation (Community Empowerment Act 2015). There is a risk that trust funds held could become dormant due to lack of use and lack of wider knowledge in the community as to their existence. If charitable objectives are not being met, there is scope for OSCR to withdraw the charitable status of the funds.</p>	<p>We repeat our recommendation that the council should progress and conclude on their review of common good and trust funds including an exercise to consider whether there is scope to consolidate any/all of the 46 trusts. This should include a review of the method(s) used to promote the Dr Bruce Fund and other charitable trusts to ensure that the potential availability of these funds are known to the wider community refer <a href="#">paragraph 21</a>).</p>	<p><b>Management action</b> - A wider review of Trusts is on-going but has been delayed due to Covid-19 in support of business continuity priorities.</p> <p>Work has been progressing to review the Common Good, and an update report on the progress of the review is scheduled to be reported to Council in October 2020.</p> <p><b>Responsible officer(s):</b></p> <p>Chief Operating Officer Finance</p> <p>Service Manager Legal</p> <p>Service Manager – People and Governance</p> <p><b>Agreed date</b> - Update report to Council in October 2020 and progress on-going</p>
2	<p><b>Trade receivables review</b></p> <p>A review of aged receivables at year end found some outstanding amounts that had not been reviewed since raised from the prior year.</p> <p><b>Risk:</b> There is a risk that that irrecoverable balances are not being provided for or, written-off as appropriate.</p>	<p>The council should review aged receivables' balances to confirm whether any debts should be written off or if further action needs to be taken to recover outstanding amounts (refer <a href="#">paragraph 63</a>).</p>	<p><b>Management action</b> - Further work will be undertaken to review aged balances.</p> <p><b>Responsible officer</b> - Service Manager – Revenues and Welfare Support</p> <p><b>Agreed date</b> - March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>Common repairs' review</b></p> <p>In 2018/19 we recommended that a reconciliation be carried out to confirm that the common repairs' balances are correctly stated. We found that that no reconciliation was undertaken during 2019/20 and that the majority of the high value debtors selected for testing were unchanged from the prior year.</p> <p><b>Risk:</b> There is a risk that irrecoverable balances are not being provided for or, written-off as appropriate.</p>	<p>A review of the common repairs' balances should be undertaken to confirm whether any debts require to be written off or if further action needs to be taken to recover outstanding amounts (refer <a href="#">paragraph 64</a>).</p>	<p><b>Management action</b> - Officers will ensure that regular reconciliations are undertaken.</p> <p><b>Responsible officer</b> - Chief Operating Officer Finance</p> <p><b>Agreed date</b> - March 2021</p>
4	<p><b>Reporting outcomes against improvement actions</b></p> <p>The council monitors performance through its annual Corporate Governance Self-evaluation and Annual Governance Statement (CGSAGS) with the most recent report presented to the Audit and Governance Committee in June 2020.</p> <p>The corporate governance self-evaluation tends to list policy documents or assurance frameworks, rather than evaluate evidence of their effectiveness of delivering against improvement actions. The report contains comprehensive detail on what the council does / has in place, without evidencing what results have been achieved. The report against the council's improvement action plan focuses more on the number of actions completed, rather than the improved ways of working or delivery of services through improvement actions, such as implementation of the council's workforce plan.</p>	<p>The council's reporting and monitoring against its improvement plan could be further improved to update members on what has been achieved through its improvement actions (refer <a href="#">paragraph 88</a>).</p>	<p><b>Management action</b> - Officers will review how the Council Improvement Plan is monitored and reported to members.</p> <p><b>Responsible officer</b> - Service Manager Improvement, Policy and Communications</p> <p><b>Agreed date</b> - April 2021</p>
5	<p><b>Fairness and equalities</b></p> <p>East Lothian continues to work proactively with a local network to reach out to people and communities affected by equalities considerations. While the council has worked with partners to deliver some</p>	<p>It is important the council ensures its performance reports are improved so that it is easier for elected members and the public to evaluate performance across equalities (refer <a href="#">paragraph 99</a>).</p>	<p><b>Management action</b> - Officers will review the reporting of performance against equalities.</p> <p><b>Responsible officer</b> - Service Manager Improvement, Policy and Communications</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	successful initiatives, reporting against equalities and Fairer Scotland duties needs to be more joined up and less disperse.		Agreed date - April 2021



# Appendix 2

## Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 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. We carried out the following:</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><b>No risk identified</b></p> <p>We found no evidence of material misstatement caused by management override of controls during our audit.</p>
<p><b>2 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 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>	<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>	<p><b>No risk identified</b></p> <p>We found no evidence of material misstatement caused by fraud in recognising income during our audit.</p>
<p><b>3 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</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>	<p><b>No risk identified</b></p> <p>We found no evidence of fraud in carrying out our audit.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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><b>4 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>	<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>	<p><b>Reported in ISA 260 <a href="#">Exhibit 3</a> above</b></p> <p><b>Results:</b> Property assets are material and the impact of Covid-19 has increased the uncertainty over associated valuations.</p> <p>After consideration, we have included an 'Emphasis of Matter' paragraph in the Independent Auditor's Report to highlight this disclosure; it is important to users' understanding of the accounts.</p> <p>This relates solely to the impact of the Covid-19 pandemic. The audit opinion is not modified in respect of this matter.</p>
<p><b>5 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>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>	<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>	<p><b>Ongoing</b> – an update on 2019/20 financial management is provided in <a href="#">Part 2</a> of this report.</p> <p>Budget and savings plans will remain challenging. In 2019/20 there was an overspend by service areas in relation to the budgets set. The gap was met from reserves.</p>
<p><b>6 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</p>	<ul style="list-style-type: none"> <li>• Ongoing review against progress of implementing the service review.</li> </ul>	<p><b>Satisfactory - good progress has been made</b></p> <p>The review is now in phase 3 of implementation with new roles established, vacant posts filled, and new staff added to the service. Roles are currently being</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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>redefined with clearer distinctions on responsibilities and reporting lines.</p>

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Source: [East Lothian Council Annual Audit Plan 2019/20 \(exhibit 1\)](#)

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# Appendix 3

## Summary of uncorrected misstatements

**We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £42,000 and request they be corrected.**

The table below summarises the uncorrected misstatements that were identified during our audit testing and have not been corrected by management.

This error is below our performance materiality level (£2.5 million) as explained in [Exhibit 2](#). We are satisfied that this error does not have a material impact on the financial statements however we request that it be corrected.

#	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Service expenditure		(125)		
	Creditors			125	
<b>Net impact</b>					







**Notes:**

Entry 1 relates to additional expenditure being posted to service lines instead of against suspense accounts to offset against amounts recovered from HMRC.

# Appendix 4

## Summary of national performance reports 2019/20



		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up

# East Lothian Council

## 2019/20 Annual Audit Report

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