

Midlothian Council

Annual Audit Plan



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Introduction

Summary of planned audit work

1. Claire Gardiner has been appointed by the Accounts Commission as external auditor of Midlothian Council for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second year of the five-year audit appointment. A brief biography of the audit team is provided at [Appendix 1](#).

2. This document summarises the work plan for our 2023/24 audit. The main elements of the audit include:

- 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 audit opinion on other statutory information published with the financial statements in the annual accounts, including the Management Commentary, the Annual Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return, the Whole of Government Accounts (WGA) return
- a review of Midlothian Council's arrangements for preparing and publishing statutory performance information
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and Midlothian Council

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the Midlothian Council. Key responsibilities are summarised below.

Auditor responsibilities

4. The auditor's responsibilities are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at the Midlothian Council. In doing this, we aim to support improvement and accountability.

Midlothian Council's responsibilities

6. Midlothian Council is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

7. Midlothian Council has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

8. We aim to add value by:

- tailoring audit work to the circumstances of Midlothian Council and the audit risks identified
- being constructive and forward looking
- providing independent conclusions
- attending meetings of the Audit Committee, and
- recommending and encouraging good practice.

9. In so doing, we will help the Midlothian Council promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts

Introduction

10. The annual accounts are an essential part of demonstrating Midlothian Council's stewardship of resources and its performance in the use of those resources.

11. We are required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We to plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Midlothian Council and its group are set out in below.

Exhibit 1

2023/24 Materiality levels for Midlothian Council and its group

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Midlothian Council's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£10.2 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality,	£6.1 million

this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.

Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£400,000
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

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

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

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments throughout the year.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>because of management's ability to override controls that otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Carry out substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Conduct focussed testing of accounting accruals and prepayments. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.
<p>2. Estimation in the valuation of land and buildings.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations.</p> <p>All non-current assets are revalued on a five-year rolling basis. Values may also change year on year, and it is important that the Midlothian Council ensures the financial statements accurately reflect the value of the land and buildings.</p>	<ul style="list-style-type: none"> • Council procedures and controls around valuation and accounting. 	<ul style="list-style-type: none"> • Review the information provided to the valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Complete a walkthrough of the valuation process to obtain an understanding of the process, including the methodologies and assumptions applied. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Examine management's assessment of any assets not revalued in 2023/24 against evidence of changes in other revalued assets. • Test the reconciliation between the financial ledger and the property asset register. • Perform sample testing of individual asset valuations and lives.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>Due to the inherent complexity and subjectivity risks regarding land, buildings and dwellings' valuations, a significant risk of material misstatement in the 2023/24 valuations has been identified.</p>		

Source: Audit Scotland

18. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have considered the risk that revenue may be misstated resulting in a material misstatement in the financial statements.

19. We have rebutted this risk as funding received from Scottish Government is clearly communicated and can be readily agreed to third party confirmations. In addition, Midlothian Council's other income streams comprise of a high volume of low value transactions, and we have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

20. We also considered the risk of fraud over expenditure, as most public bodies are net spending bodies, and the risk of fraud related to expenditure recognition may be greater than the risk relating to revenue recognition (in accordance with Practice Note 10: Audit of Financial Statements and Regularity of Public Sector Bodies in the UK). We have rebutted the presumption that a material risk exists within expenditure. This is on the basis that:

- Most expenditure is in areas considered low-risk due to the nature of the expenditure streams or where individual transactions are relatively small in scale and therefore are unlikely to result in material misstatements
- Evidence of external fraud from the National Fraud Initiative does not indicate material risk
- Experience in the sector, including a review of past misstatements, does not indicate material risk.

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

Other areas of audit focus

22. As part of our assessment of audit risks, we have identified one other area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses.

23. The area of specific audit focus is:

- **Valuation of pension liability:** The liability requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. Small movements in these can result in material changes to valuations. We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions and results including comparison with other councils. We will establish officer's arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Midlothian Council.

24. As part of our risk assessment, we have also identified the following areas where further work will be performed. These are not audit risks but areas we will keep under review:

- IFRS 16 takes effect for local government bodies from 2024/25. This will change the way in which Midlothian Council accounts for operating leases, including recognising assets and liabilities for the rights and obligations arising from leases previously classified as operating leases. We will assess Midlothian Council's preparedness for this and review any disclosure made in relation to the new standard in line with guidance.
- The statutory override relating to valuation of infrastructure assets is due to end for the 2024/25 financial statements. We will review the progress made by Midlothian Council in preparing for this.

Group Consideration

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

26. Midlothian Council has a group which comprises component entities, including subsidiaries, associates, and joint ventures. Our planned audit approach for the components is informed by our assessment of risk at Midlothian Council and our consideration of the size and nature of assets, liabilities, and transaction streams. In addition to Midlothian Council the group comprises four components which we

have assessed as not financially significant, our procedures with therefore be limited to agreement to agreement to component accounts and analytical procedures.

27. We will obtain sufficient appropriate audit evidence in relation to the consolidation process to support our group audit opinion.

Wider Scope and Best Value

Introduction

28. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

29. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether Midlothian Council is planning effectively to continue to deliver services. We will also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we will conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by Midlothian Council. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – Midlothian Council must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how Midlothian Council demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

30. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2023/24 Wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>The council's five-year financial strategy, which is considered regularly, identifies a cumulative funding gap of £21 million for the period 2024/25 to 2028/29.</p> <p>There is a risk to financial sustainability and that there is inadequate resource to maintain delivery and quality of services in the short to medium term.</p>	<ul style="list-style-type: none"> • Regular update of medium and longer term financial plans that take account of the significant financial challenges facing the council. • Well established procedures for the monitoring and reporting of the council's financial performance. • The application of Financial Management and Control Code of Practice. 	<ul style="list-style-type: none"> • Review of the council's annual budget setting arrangements. • Assess the adequacy of the council's medium and longer term financial plans. • Review and assessment of budget monitoring arrangements. • Assess the council's savings programme, including the reasonableness of future savings plans and the adequacy of progress reports to committee.
<p>2. IT Control Environment</p> <p>The expansion in the use of digital technology across the public sector increases the risk profile for public sector bodies and requires increased attention to the control environment.</p> <p>We recognise that the strategic aims with regards to IT at Midlothian Council are developing and we will consider how developments in this area mitigate against wider sector risks.</p>	<ul style="list-style-type: none"> • Ongoing development of strategic aims. 	<ul style="list-style-type: none"> • Review the IT control environment and communicate findings to members of the audit committee.

Source: Audit Scotland

31. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Best Value

32. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within our annual audit work. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties.

33. The arrangements to secure Best Value at Midlothian Council will be assessed over the period of the audit appointment and will include an annual evaluation of risks and improvement areas and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement. This work will be integrated with the wider scope audit areas discussed above.

34. As part of our annual work on Best Value, we conduct thematic reviews as directed by the Accounts Commission. In 2023/24, the thematic review across the sector will be on workforce innovation and will consider how councils are responding to the current workforce challenges through building capacity, increasing productivity, and innovation. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

35. At least once every five years, the Controller of Audit will report to the Accounts Commission on Midlothian Council's performance in meeting its Best Value duties. Midlothian Council is included in the programme for 2025/26.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

36. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

37. We will provide:

- an Independent Auditor's Report to Midlothian Council and the Accounts Commission setting out our opinions on the annual accounts
- Midlothian Council and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

38. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Accounts Commission. In determining the target reporting date, due regard is paid to the dates for approving the annual accounts set out in regulations of 30 September 2024.

39. We will be unable to achieve the target date outlined above. This is due to the legacy of the late completion of prior year audits due to Covid-19 and ongoing resourcing challenges within Audit Scotland. We are working to prioritise the delivery of high-quality audits in line with messaging from the Financial Reporting Council who has made it clear that audit quality takes precedence.

40. We are working towards completion of the audit by the later date of 30 November 2024. We will work towards delivering the audit and audit outputs by target dates over the period of the audit appointment. We acknowledge that our planned dates are determined by the availability of audit resource and not by the council, which proposes to present unaudited accounts for audit by 30 June 2024.

Exhibit 4 2020/21 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	31 March 2024	18 March 2024

Audit Output	Target date	Audit Committee Date
Best Value Management Report	24 June 2024	24 June 2024
Independent Auditor's Report	30 September 2024	25 November 2024
Annual Audit Report	30 September 2024	25 November 2024

Source: Audit Scotland



41. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.



Timetable

42. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

43. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	24 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	28 June 2024
Latest date for final clearance meeting with the Director of Finance	17 October 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	11 November 2024
Agreement of audited and unsigned annual accounts	11 November 2024
Issue of Annual Audit Report to those charged with governance.	11 November 2024
Signed Independent Auditor's Report	25 November 2024

 Key stage	 Provisional Date
Certified Non-Domestic Rates Return	To be confirmed
Certified Housing Benefit subsidy claim	To be confirmed
Latest date for WGA assurance (if required)	To be confirmed

Source: Audit Scotland

Audit fee

44. In determining the audit fee, we have taken account of the risk exposure of Midlothian Council and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The planned audit fee for 2023/24 is £289,950 (2022/23: £273,550).

45. In setting the fee for 2023/24, we have assumed that Midlothian Council has effective governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

46. It is the responsibility of the Midlothian Council to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

47. Claire Gardiner, your appointed auditor, is independent of Midlothian 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.

48. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

49. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of Midlothian Council.

Audit Quality

50. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

51. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 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. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

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

53. 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 regularly monitored by Audit Scotland's Quality and Ethics Committee.

54. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

The audit team involved in the audit of the Midlothian Council have significant experience in public sector audit.

<p>Claire Gardiner Audit Director cgardiner@audit-scotland.gov.uk</p>	<p>Claire has over 19 years of public sector auditing experience. Claire has worked across the breadth of the public sector on financial audits.</p>
<p>Patricia Fraser Senior Audit Manager pfraser@audit-scotland.gov.uk</p>	<p>Patricia has considerable public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.</p>
<p>Robert Dick Senior Auditor rdick@audit-scotland.gov.uk</p>	<p>Robert has 5 years of public sector audit experience covering local authorities and central government.</p>

55. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Audited Body

Annual Audit Plan 2023/24

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

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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