

East Lothian Council

2024/25 Annual Audit Report



Prepared for East Lothian Council and the Controller of Audit
November 2025

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Key messages

Audit of the annual accounts

- 1 All audit opinions state that the annual accounts of East Lothian Council and its group administered by the council were free from material misstatement for the year ended 31 March 2025.
- 2 The management commentary, annual governance statement and remuneration report were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

Wider scope audit

- 3 The council has appropriate budget setting and monitoring arrangements in place but continues to face significant challenges to identify and agree the required future savings to balance its budget.
- 4 Usable reserves increased or remained stable, except for the Capital Fund where receipts were applied to fund capital expenditure in the year. The level of General Fund reserves has increased with the majority of the fund being earmarked for specific purposes.
- 5 Edinburgh Innovation Hub (EIH) is consolidated as a joint venture between the council and Queen Margaret University. Given the level of public funding invested in the joint venture, it is important that the council ensures appropriate arrangements are in place to secure assurance over financial stewardship, which would ordinarily be achieved through an independent audit process.
- 6 Our review of the council's financial systems for 2024/25 identified that limited progress has been made in addressing previously reported internal control weaknesses.
- 7 The council has an assurance gap for IT systems that are hosted externally.
- 8 The new finance management system was scheduled to go live in October 2025 with the implementation of different modules/functions being rolled out on a phased basis. Implementation has been delayed and is now anticipated

in 2026. It is important that the revised implementation timescales are clearly set out to avoid further delays and additional costs being incurred.

- 9** Medium-term financial plans reflect the council's strategic priorities. The council faces significant challenges in addressing a budget gap of £73.782 million over the next five years.
- 10** Improving the council's financial sustainability must be a priority objective for the financial governance of the council. It is important for the council to focus on financial resilience including key indicators and measures.
- 11** The council has clearly articulated its vision and priorities and has sound governance arrangements in place for how it conducts business.

Best Value audit

- 12** The council has a clear vision and plan to support the transformation of its services, which aims to deliver a portfolio of change over a five-year period and support the financial sustainability of the council.
- 13** The council has robust governance arrangements in place for projects in its transformation programme. It has a dedicated transformation team but is experiencing staffing issues on some projects due to staff turnover and staff vacancies linked to the temporary nature of these projects.
- 14** The council has effective arrangements in place for reporting progress on the projects in its transformation programme to its senior leadership team and plans to enhance reporting to elected members. The council presented its first annual progress report on transformation to full council in August 2025.
- 15** Audit work assessed the arrangements the council has in place for preparing and publishing SPI and concluded the arrangements in place were appropriate.
- 16** The council has updated its approach to reporting performance against the Council Plan, the council's strategic plan 2022-2027. The council reviews and reports its performance using a number of measures that are clearly aligned to the priorities and outcomes set out in the Council Plan.
- 17** The council's overall performance has remained similar to its prior year results and has increased compared with the Scottish average.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of East Lothian Council's annual accounts and the wider scope areas specified in the [Code of Audit Practice \(2021\)](#).
2. The Annual Audit Report is addressed to East Lothian Council, hereafter referred to as 'the council' and the Controller of Audit, and will be published on [Audit Scotland's website](#) in due course.

Appointed auditor and independence

3. John Boyd, of Audit Scotland, has been appointed as external auditor of the council for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, John Boyd and the audit team are independent of the council and its group in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the council, including no provision of non-audit services.

Acknowledgements

4. We would like to thank the council and its staff, particularly those involved in preparation of the annual accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope and responsibilities

Scope of the audit

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

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

Responsibilities and reporting

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

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts, and concluding on the council's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the council from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at [Appendix 1](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The council's responsibilities

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

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

National performance audit reporting

11. The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports. These cover a range of matters, many of which may be of interest to the council and the Audit and Governance Committee. Details of national and performance audit reports published over the last year can be seen in [Appendix 3](#).

Audit of the annual accounts

Main judgements

Our audit opinions on the annual accounts of East Lothian Council and its group administered by the council are unmodified, i.e. the financial statements and related reports are free from material misstatement.

The management commentary, annual governance statement and remuneration report were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

Audit opinions on the annual accounts are free from material misstatement

12. The council approved the annual accounts for East Lothian Council and its group for the year ended 31 March 2025 by the Audit and Governance Committee on 25 November 2025. In addition to the council the group accounts consolidate the financial results of the council and its subsidiaries and its investments in associates and interests in joint ventures. These include: East Lothian Land Ltd, East Lothian Mid-Market Homes LLP, Common Good Funds, Trust Funds, East Lothian Investments, Enjoy East Lothian Ltd, Brunton Theatre Trust, East Lothian Integration Joint Board, Edinburgh Innovation Park Joint Venture Ltd and Lothian Valuation Joint Board.

13. The Independent Auditor's Report is included in the council's annual accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.

Unaudited annual accounts were received in line with the year-end timetable however did not include revaluation adjustments

14. The unaudited annual accounts were received on 26 June 2025 and in accordance with the agreed audit timetable. The accounts did not include revaluation adjustments in year which resulted in revised unaudited accounts being issued on 10 September 2025. We received good support during the course of the financial audit from the core finance team.



Audit Fee

15. The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £323,280. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Materiality

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

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

18. Materiality levels for the audit of the council and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual accounts and summarised in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for East Lothian Council and its group

| Materiality | The council | Group |
|---|----------------|----------------|
| Materiality – set at 2 per cent of gross expenditure | £9.8 million | £9.875 million |
| Performance materiality – set at 65 per cent of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required. | £6.3 million | £6.4 million |
| Reporting threshold – set at 5 per cent of materiality. | £0.490 million | £0.493 million |

Source: Audit Scotland

Significant findings and key audit matters

19. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the council is the Audit and Governance Committee.

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

21. In determining key audit matters, auditors consider:

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

22. The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters

| Significant findings and key audit matters | Outcome |
|--|---|
| <p>1. IFRS 16 - Leases</p> <p>Effective from 1 April 2024, IFRS 16 requires Local Authorities to recognise a Right of Use (RoU) asset and corresponding lease liability for all lease types (property, land, vehicles, plant, equipment). On transition, leases are accounted for retrospectively, with the cumulative impact recognised at 1 April 2024.</p> <p>Following the implementation of IFRS 16 Leases from 1 April 2024, some updates were required in the unaudited annual accounts to ensure full compliance with the disclosure requirements as follows:</p> <ul style="list-style-type: none">• Depreciation charge for right-of-use assets by class of underlying asset.• Additions to right-of-use assets requires these to be brought onto the balance sheet at 1 April under IFRS 16, rather than additions in year.• Amendment required to the leases disclosure to include opening balances and movements in year by class of underlying asset. | <p>The council has now reflected all the required IFRS 16 disclosures within the revised annual accounts.</p> |

Significant findings and key audit matters**Outcome**

- for operating leases, lease income; to separately disclose income relating to variable lease payments that do not depend on an index or a rate.

2. Revaluation of land and buildings

In accordance with the Code of Practice on Local Authority Accounting, the council is required to ensure that the carrying value of property, plant and equipment reflects current value at the end of the reporting period.

Although a revaluation of land and buildings was commissioned for 2024/25, the updated valuation information was not available at the time the unaudited accounts were prepared and published. The revaluation exercise identified a £41.920 million increase in the carrying value of these assets compared to the figures disclosed in the unaudited accounts.

The council has now updated the annual accounts to reflect the revised figures from the revaluation exercise undertaken in 2024/25.

3. Funding advanced to Edinburgh Innovation Park Joint Venture

Although the consolidated balances of the Edinburgh Innovation Hub were not material to the council's group accounts as at 31 March 2025, individual classes of transactions and balances within the joint venture were material. Targeted audit procedures were performed to gain assurance over material expenditure.

Audit testing identified that the council advanced funding to the Edinburgh Innovation Park Joint Venture (JV) in excess of the £6 million agreed in the Joint Venture Agreement.

At 31 March 2025, the amount owed by the JV to the council was £4.736 million. This amount had not been recognised as a debtor in the council Financial Statements.

The council has updated the accounts to reflect excess funding provided to the Edinburgh Innovation Park Joint Venture. A receivable of £4.736 million has been recognised as an inter-entity debtor as at 31 March 2025. This was processed through the following journal entries:

Dr Joint Venture Debtor: £4.736 million

Cr Capital Fund Reserves: £4.736 million

Source: Audit Scotland

Qualitative aspects of accounting practices

23. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the council's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

24. The appropriateness of accounting policies adopted by the council was assessed as part of the audit. These were considered to be appropriate to the circumstances of the council, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

25. Accounting estimates are used in number of areas in the council's financial statements, including the valuation of land and buildings assets and the valuation of the pension liability. Audit work considered the process management of the council has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

Disclosures in the financial statements

26. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as financial instruments and valuation of the pension liability. The audit identified a number of disclosure adjustments required which are detailed in [exhibit 4](#) below.

Group audit

27. East Lothian Council is part of a group and prepares group financial statements. The group is made up of 11 components, including East Lothian Council which is the parent of the group.

28. As outlined in the Annual Audit Plan, audit work was required on a number of the group's components for the purposes of the group audit, and this work was performed by a combination of the audit team and the components' audit teams. Group financial audit questionnaires were issued to component auditors, where required, to outline the expectations and requirements in performing the audit work for the purposes of the group audit. The audit work performed on the group's components is summarised in [Exhibit 3](#).

Exhibit 3**Summary of audit work on the group's components**

| Group component | Component Auditor and audit work required | Summary of audit work performed |
|---|--|--|
| East Lothian Council | Audit Scotland Fully scope audit of the council's annual accounts. | Consolidated on a line-by-line basis. Audit team confirmed correct accounting treatment. The outcome of audit work performed is reported within the Annual Audit Report, with details of significant findings and key audit matters reported in Exhibit 2. |
| East Lothian Land Ltd | Greaves West & Ayre None | Consolidated on a line-by-line basis. Audit team confirmed correct accounting treatment. |
| East Lothian Mid-Market Homes LLP | Whitelaw Wells None | Consolidated on a line-by-line basis. Audit team confirmed correct accounting treatment. |
| East Lothian Council Trust Funds | Audit Scotland Audited by Audit Scotland as part of East Lothian Council annual accounts | Consolidated on a line-by-line basis. Audit team confirmed correct accounting treatment. |
| East Lothian Council Common Good | Audit Scotland Audited by Audit Scotland as part of East Lothian Council annual accounts | Consolidated on a line-by-line basis. Audit team confirmed correct accounting treatment. |
| East Lothian Integration Joint Board | Audit Scotland None | Accounted for on equity basis. Audit team confirmed correct accounting treatment. |
| Lothian Valuation Joint Board | Audit Scotland None | Accounted for on equity basis. Audit team confirmed correct accounting treatment. |
| Edinburgh Innovation Park Joint Venture | Audit Scotland None | Accounted for on equity basis. Audit team confirmed correct accounting treatment and performed local procedures. |
| East Lothian Investments | Greaves West & Ayre None | Accounted for on equity basis. Audit team confirmed correct accounting treatment. |

| Group component | Component Auditor and audit work required | Summary of audit work performed |
|------------------------|---|---|
| Enjoy East Lothian Ltd | Azets None | Accounted for on equity basis. Audit team confirmed correct accounting treatment. |
| Brunton Theatre Trust | Whitelaw Wells None | Accounted for on equity basis. Audit team confirmed correct accounting treatment. |

Source: Audit Scotland

Significant matters discussed with management

29. All significant matters identified during the audit and discussed with the council's management have been reported in the Annual Audit Report.

Audit adjustments

30. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £0.490 million are outlined in [Exhibit 4](#).

Exhibit 4

Audit adjustments

| Details | Financial statements lines impacted | Group Comprehensive Income and Expenditure Statement (CIES) | | Group Balance Sheet | |
|--|-------------------------------------|---|-------|---------------------|--------|
| | | Dr | Cr | Dr | Cr |
| Audit adjustments to financial statements | | £000 | £000 | £000 | £000 |
| 1. Revaluation of assets | | | | | |
| Dr: Property, Plant and equipment | | | | 41,920 | |
| Cr: Cost of services – revaluation loss / impairment | | | 6,380 | | |
| Cr: Revaluation Reserve | | | | | 35,540 |
| 2. Reclassification of short term investments | | | | | |
| Dr: Cash and cash equivalents | | | | 5,000 | |

| Details | Financial statements lines impacted | Group Comprehensive Income and Expenditure Statement (CIES) | Group Balance Sheet |
|--|-------------------------------------|---|---------------------|
| Cr: Short term investments | | | 5,000 |
| 3. Recognition of intercompany debtor with Edinburgh Innovation Park Joint Venture | | | |
| Dr: Debtors and prepayments | | 4,736 | |
| Cr: Capital Fund (Capital receipts reserve) | | | 4,736 |
| 4. Revision to East Lothian Mid-Market Homes accounts * | | | |
| Dr: Creditors | | 2,153 | |
| Dr: Gross Expenditure | | 13 | |
| Cr: Debtors | | | 75 |
| Cr: Property, Plant and equipment | | | 2,091 |
| 5. Overstatement in a school valuation due to incorrect occupancy rate adjustment. | | | |
| Dr. Cost of Services | | 385 | |
| Dr. Revaluation Reserve | | | 6,282 |
| Cr. Property, Plant and equipment | | | 6,667 |
| Total adjustments | | 398 | 6,380 |
| Net impact on financial statements* | | <u>5,982</u> | <u>5,982</u> |
| Audit adjustments in disclosures | | | |
| 1. Adjustments required to Remuneration Report to include required disclosures on trade union activities and revisions required to exit package information. | | | |
| 2. Adjustments required to Note 8 to reclassify £7.7 million from other service income to Government Grants and Contributions. | | | |
| 3. Adjustments to Note 8 required due to miscoding between contribution to Integration Joint Board and employee benefit expenses £2.7 million. | | | |

| Details | Financial statements lines impacted | Group Comprehensive Income and Expenditure Statement (CIES) | Group Balance Sheet |
|--|-------------------------------------|---|---------------------|
| 4. Adjustments to Note 11 Agency Income and Expenditure required to reflect the amount disclosed in respect of the City Region Deal - Edinburgh Innovation Park. The figure disclosed was understated by £3.3 million. | | | |
| 5. Note 15 Capital Commitments narrative. General Fund Capital Commitments understated by £3.3 million and HRA overstated by £2 million. | | | |
| 6. Adjustment to Note 26 required due to misclassification between trade and other receivables and prepayments £0.735 million. | | | |
| 7. Adjustment required to Note 36 in relation to grant income credited to services. Figure disclosed is understated by £14.4 million. | | | |
| 8. Adjustments to Note 38 Cash Flow Statement- Other Disclosures to incorporate short term investments of £5 million. | | | |
| *Group audit adjustment only | | | |

Source: Audit Scotland

31. In addition to the corrected misstatements outlined in [Exhibit 4](#), there were other misstatements identified greater than the reporting threshold. The value, nature, and circumstances of the uncorrected misstatements were considered, individually and in aggregate, by the audit team, and it was concluded these were not material to the financial statements. As a result, these did not have any impact on the audit opinions given in the Independent Auditor's Report.

32. It is the auditor's responsibility to request that all misstatements greater than the reporting threshold are corrected, even if they are not material. Management of the council have not processed any audit adjustments to correct these misstatements. However, the final decision on whether an audit adjustment is processed to correct a misstatement rests with the Audit and Governance Committee as those charged with governance. Details of the uncorrected misstatements can be seen in [Appendix 2](#).

Significant risks of material misstatement identified in the Annual Audit Plan

33. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 5](#).

Exhibit 5

Significant risks of material misstatement to the financial statements

| Risk of material misstatement | Planned audit response | Outcome of audit work |
|---|---|---|
| <p>Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate 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 entries, focusing on those that are assessed as higher risk. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. | <p>Audit work performed found:</p> <ul style="list-style-type: none"> • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. <p>Conclusion: no evidence of fraud caused by management override of controls.</p> |
| <p>Valuation of property, plant and equipment</p> <p>East Lothian Council held £1,288 million of property, plant, and equipment (PPE) at 31 March 2024, of which</p> | <p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the valuation process. • Review the information provided to the valuer and | <p>Audit work performed found:</p> <ul style="list-style-type: none"> • The design and implementation of controls over the valuation process were appropriate. |

| Risk of material misstatement | Planned audit response | Outcome of audit work |
|--|--|--|
| <p>over £1,100 million was land and building assets.</p> <p>East Lothian Council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</p> | <p>assess this for completeness and accuracy.</p> <ul style="list-style-type: none"> • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required. • Review management's assessment that the value in the balance sheet of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required. | <ul style="list-style-type: none"> • The information provided to the valuer was accurate and complete. • The valuer had sufficient competence, capability, and objectivity to perform their work. • Management are involved in the valuation process and have an appropriate level of oversight. • The data and assumptions used in the 2024/25 valuation process were appropriate. • Management's assessment of assets not subject to a valuation process in 2024/25 was reasonable and concluded there was unlikely to be a material difference to the current value at the year-end. <p>Conclusion: no issues identified.</p> |
| <p>Estimation of the pension liability</p> <p>East Lothian Council had a pension liability of £11.8 million at 31 March 2024.</p> <p>East Lothian Council is a member of Lothian Local Government Pension Scheme (LGPS) which is a defined benefit pension scheme. Lothian LGPS is subject to formal valuation every three years, and this sets out each member's share of the scheme's overall pension liability and contributions for the next three years. The last formal valuation was carried out at 31 March 2023.</p> | <p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the pension liability estimation process. • Review the information provided to the actuary and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the actuary. • Obtain an understanding of the management's involvement in the estimation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used by | <p>Audit work performed found:</p> <ul style="list-style-type: none"> • The design and implementation of controls over the pension liability estimation process were appropriate. • The information provided to the actuary was accurate and complete. • The actuary had sufficient competence, capability, and objectivity to perform their work. • Management are involved in the estimation process and have an appropriate level of oversight. • The data and assumptions used in the estimation process were appropriate. |

| Risk of material misstatement | Planned audit response | Outcome of audit work |
|---|---|---|
| <p>An estimation of East Lothian Council share of the overall pension liability is required in each intervening year between formal valuations, and these are carried out by Hymans Robertson LLP. There is a significant degree of subjectivity in the estimation of the pension liability as the estimation is based on specialist assumptions, and changes in the assumptions can result in material changes to the estimation.</p> | <p>management for the estimation of the pension liability, and challenge these where required.</p> <ul style="list-style-type: none"> Audit Scotland uses PwC as an auditor's expert to inform the planned audit procedures outlined above. Therefore, the audit team will also review the information provided by PwC and reflect this in the planned audit procedures where required. | <ul style="list-style-type: none"> The information provided by PwC was reviewed and this reflected in the planned audit procedures, where required. <p>Conclusion: the recognition of unfunded and funded elements of the pension liability, is not materially misstated.</p> |
| <p>Risk of fraud in the completeness of expenditure</p> <p>In December 2024, the Council's Financial Review 2024/25 forecast that before applying the planned use of reserves there is a projected overspend for the year of £8.5 million. The council's planned use of general fund reserves for 2024/25 is £1.830 million and planned use of earmarked reserves totalling £1.540 million. Taking the above into account, the unplanned overspend is currently forecast to be £3.7 million for 2024/25.</p> <p>Management have implemented an action plan with the aim of reducing the level of overspend faced but there remains a significant risk that East Lothian Council will be unable to balance the 2024/25 budget and further one-off measures will be required at the year end to ensure the</p> | <p>The audit team will:</p> <ul style="list-style-type: none"> Evaluate the design and implementation of controls over expenditure. Undertake substantive audit testing at a significant risk level on non-pay expenditure transactions recorded in period 1 and 2 of 2025/26 to confirm costs have been recognised in the appropriate period. Review expenditure accruals for indication of understatement. | <p>Audit work performed found:</p> <ul style="list-style-type: none"> The design and implementation of controls over expenditure were appropriate. Through substantive audit testing that non-pay expenditure transactions recorded in period 1 and 2 of 2025/26 have been recognised in the appropriate period. Expenditure accruals were correctly recognised. <p>Conclusion: no issues identified.</p> |

| Risk of material misstatement | Planned audit response | Outcome of audit work |
|--|------------------------|-----------------------|
| <p>funding of the overspend including the utilisation of non-earmarked reserves. This creates an increased risk of material misstatement in the accounts. Our risk is focused on those expenditure streams where there is greatest opportunity for manipulation including non-pay expenditure.</p> | | |

Source: Audit Scotland

Whole of Government Accounts (WGA) return

34. The council is part of the WGA boundary and therefore prepares a return that is used by HM Treasury to prepare the WGA. The National Audit Office (NAO) is the auditor for the WGA and issues instructions outlining audit procedures auditors must follow when auditing a WGA return. The threshold for requiring audit procedures to be performed on the WGA return was set at £2 billion.

35. The council is below this threshold and therefore only limited audit procedures are required, with a submission of an assurance statement to the NAO. The council has submitted the cycle one return, based on the unaudited annual accounts and are on track to submitted the cycle two return based on the audited annual accounts in December 2025.

Prior year recommendations

36. The council has made progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the body and are outlined in [Appendix 1](#).

Wider scope audit

Conclusion

The council has appropriate budget setting and monitoring arrangements in place but continues to face significant challenges to identify and agree the required future savings to balance its budget.

Usable reserves increased or remained stable, except for the Capital Fund where receipts were applied to fund capital expenditure in the year. The level of General Fund reserves has increased with the majority of the fund being earmarked for specific purposes.

Edinburgh Innovation Hub (EIH) is consolidated as a joint venture between the council and Queen Margaret University. Given the level of public funding invested in the joint venture, it is important that the council ensures appropriate arrangements are in place to secure assurance over financial stewardship, which would ordinarily be achieved through an independent audit process.

Our review of the council's financial systems for 2024/25 identified that limited progress has been made in addressing previously reported internal control weaknesses.

The council has an assurance gap for IT systems that are hosted externally.

The new finance management system was scheduled to go live in October 2025 with the implementation of different modules/functions being rolled out on a phased basis. Implementation has been delayed and will now take place in 2026. It is important that the revised implementation timescales are clearly set out to avoid further delays and additional costs being incurred.

Medium-term financial plans reflect the council's strategic priorities. The council faces significant challenges in addressing a budget gap of £73.782 million over the next five years.

Improving the council's financial sustainability must be a priority objective for the financial governance of the council. It is important for the council to focus on financial resilience including key indicators and measures.

The council has clearly articulated its vision and priorities and has sound governance arrangements in place for how it conducts business.

Audit approach to wider scope

Wider scope

37. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

38. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the council has in place for each of these is reported in this chapter.

Significant wider scope risks

39. Audit work has been performed in response to the significant wider scope risks identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 6](#).

Exhibit 6

Significant wider scope risks

| Significant risk | Planned audit response | Outcome of audit work |
|---|---|---|
| <p>Financial sustainability</p> <p>East Lothian Council continues to operate in an increasingly complex and challenging environment, aiming to provide the best possible service within the resources available.</p> <p>As at Quarter 3, the council was projecting an unplanned overspend of £1.1 million for 2024/25, with a reported cumulative budget gap of £79.718 million over the period 2025/26 to 2029/30.</p> <p>Management have implemented a programme of reviews to contribute towards addressing the financial pressures. However, there is a risk that the council plans do not deliver the required savings to address the projected shortfall.</p> | <p>The audit team will:</p> <ul style="list-style-type: none"> • Review the council's annual budget setting arrangements. • Review and assess budget monitoring arrangements. • Review of the council's medium to longer term financial planning including how the council aligns savings plans and transformation activity with strategic priorities. • Review the council's financial position and delivery of planned savings. | <p>Audit work performed found:</p> <ul style="list-style-type: none"> • The council's annual budget setting and monitoring arrangements were appropriate. • The council's medium and longer term financial planning aligns with their strategic priorities. • The council faces significant challenges in addressing a budget gap of £73.782 million over the next five years. • The council recognise the financial challenges facing the organisation. • The council continues to undertake scenario |

| Significant risk | Planned audit response | Outcome of audit work |
|------------------|------------------------|---|
| | | planning and transformational reviews to support medium and long term financial plans. Conclusion: The council will need to significantly change what they deliver over the next 5 years with the focus being on ensuring that statutory duties can be met within the budget envelope. There will be difficult decisions to take on whether the council can continue to deliver services and if so, what those services will actually look like. |

Source: Audit Scotland

Conclusions on wider scope audit

Financial Management

The council reported an underspend in 2024/25

40. The council approved its 2024/25 General Services revenue and capital budgets in February 2024, setting the revenue budget at £303.996 million and identifying a funding gap of £17.289 million. The end-of-year financial review, presented to the council in June 2025, reported an initial overspend of £4.4 million. However, after accounting for the planned use of reserves and one-off mitigation measures, the final position reflected an underspend of £1.2 million largely due to one-off mitigations including VAT rebates and insurance prepayments.

41. Changes to the council’s budget position were reported quarterly through financial review and budget monitoring reports presented to the Council throughout the year. These reports provide a comprehensive level of detail on the forecast outturn position.

The council has appropriate budget setting and monitoring arrangements in place

42. The council’s budget and savings plans are aligned to the council’s objectives, priorities, and strategic goals, as set out in the 2022-2027 Council Plan.

43. The full council receives regular 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 a service level. The reports contain good explanations for significant variances against budget to allow both members and officers to carry out scrutiny of the council's finances. The council continues to face significant challenges to identify and agree the required future savings to balance its budget.

44. During 2024/25, the council approved £7.925 million in planned efficiency savings. Of this, £5.906 million (74.5 per cent) were successfully delivered, while £2.019 million (25.5 per cent) were not fully achieved but are expected to be realised in 2025/26.

45. The council introduced cost control measures in 2022/23, with further mitigation actions approved on 29 August 2024. These measures remained in place throughout 2024/25 and will continue into 2025/26. Key actions include:

- recruitment – posts will only be filled if there would be an obvious detrimental impact on the three agreed short term Council Plan priorities from not doing so and sign-off has been given by Corporate Management Team (CMT) and Executive Management Team (EMT). The council recognises this may result in ongoing disruptions to service delivery and the closure of council facilities.
- all council managers must operate within approved budget levels, preserving underspends where possible.
- where a service is overspent or at risk of overspending, urgent financial recovery actions will be required in order to bring spending in line with approved budget levels.
- use of agency staff should be kept to a minimum and should be kept under close review.
- council officers will continue to work with partner bodies including the Integration Joint Board (IJB) to minimise the risk of overspends.
- in-year financial review papers will continue to be reported to council rather than Cabinet.

46. The council has appropriate budget setting and monitoring arrangements in place, with the above control measures under review through the quarterly budget monitoring process.

Usable reserves increased or remained stable, except for the Capital Fund where receipts were applied to fund capital expenditure in the year. The level of General Fund reserves has increased with the majority of the fund being earmarked for specific purposes

47. One of the key measures of the financial health of a council is the level of reserves held. The General Fund is the largest usable reserve and is used to fund the delivery of services.

48. The level of usable reserves held by the council increased from £55.507 million in 2023/24 to £58.066 million in 2024/25, a net increase of £2.559 million, see [exhibit 7](#). The General Fund balance is £36.129 million, however £27.623 million has been earmarked for a specific priorities which includes a £17 million transformation fund. This leaves a residual £8.506 million of uncommitted general reserves. Against an expenditure budget of £303.996 million for 2024/25 this unearmarked element represents a 2.8 per cent reserve.

49. While this meets the council's minimum reserve threshold of 2.5 per cent, it remains below the Scottish average of 3.2 per cent, indicating limited flexibility to absorb future financial risks or unforeseen pressures.

Exhibit 7

East Lothian Council usable reserves

| Reserve | 31 March 2021 £'million | 31 March 2022 £'million | 31 March 2023 £'million | 31 March 2024 £'million | 31 March 2025 £'million |
|------------------------------|--|--|--|--|--|
| General fund | 28.328 | 29.685 | 26.414 | 34.169 | 36.129 |
| Housing revenue account | 2.009 | 1.748 | 1.487 | 1.535 | 2.017 |
| Capital fund | 2.446 | 4.603 | 14.607 | 14.013 | 11.338 |
| Capital grants unapplied | - | - | - | 3.106 | 5.898 |
| Insurance fund | 2.306 | 2.684 | 2.684 | 2.684 | 2.684 |
| Total usable reserves | 35.089 | 38.720 | 45.192 | 55.507 | 58.066 |

Source: East Lothian Council annual accounts 2020/21 to 2024/25

50. Councils can hold reserves for a number of reasons. Some reserves are earmarked for identified expenditure which will, or may occur over the short, medium or longer term. In addition to these reserves, there are uncommitted reserves which help manage unforeseen circumstances.

51. The Local Authority Accounting Panel (LAAP) provides guidance on the establishment and maintenance of local authority reserves and balances. The LAAP Bulletin does not prescribe a minimum level of reserves which should be held by a council. It is for the council to consider an appropriate level of reserves taking account of their strategic, operational and financial risks. However, it does state that reserves should not be held without a clear purpose.

52. We are satisfied that the council undertakes regular reviews of its reserves to ensure they remain at an appropriate level. However, the continued use of reserves to support recurring expenditure presents sustainability challenges. Looking ahead, the council will need to make difficult decisions to address these pressures, with a clear financial strategy and robust management of reserves essential to maintaining long-term financial sustainability.

General Services Capital expenditure was less than originally budgeted in 2024/25

53. The council approved the general services 2024/25 capital programme in February 2024. The general services programme for 2024/25 originally totalled £117 million, and the housing capital programme amounting to £31.6 million.

54. At each council meeting, capital programme monitoring reports are presented to members. Throughout the year these reports detailed the various movements in the general services programme budget. Revisions were made to the general services programme resulting in a revised budget of £118 million.

55. At the June 2025 council meeting, the general services outturn capital programme spend was reported as £95.7 million for 2024/25, resulting in an underspend of £22.3 million. A substantial portion of this underspend has already been reprofiled into future years as part of the council's 2025/26 capital planning process

56. The housing capital programme outturn was reported as £32.471 million for 2024/25, against the budget of £31.579 million, resulting in an overspend of £0.892 million.

Edinburgh Innovation Hub

57. Edinburgh Innovation Hub (EIH) is consolidated as a joint venture between the council and Queen Margaret University. The joint venture is currently under development and aims to support innovation led businesses through providing a range of services including commercial and laboratory space.

58. EIH is consolidated into the council's group accounts as a joint venture. While the balances as at 31 March 2025 were not material to the group overall, our review identified that individual classes of transactions and balances within the joint venture structure were material. EIH claimed exemption from an independent audit for the 2024/25 financial year. As a result, we performed targeted audit procedures to obtain assurance over the material levels of expenditure incurred.

59. As detailed in exhibit 2 above, audit testing identified that the council advanced funding to the Edinburgh Innovation Park Joint Venture in excess of the £6 million agreed in the Joint Venture Agreement. At 31 March 2025, the amount owed to the council was £4.736 million but had not been recognised as a debtor within the annual accounts.

Recommendation 1

Given the level of public funding invested in the joint venture, it is important that the council ensures appropriate arrangements are in place to secure assurance over financial stewardship, which would ordinarily be achieved through an independent audit process.

Our review of the council's financial systems for 2024/25 identified that limited progress has been made in addressing previously reported internal control weaknesses

60. In line with our responsibilities under the Code of Audit Practice, we assessed the adequacy of the systems of internal control established by management. This included evaluating whether the council:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud, or corruption
- complies with established policies, procedures, laws, and regulations.

61. Our audit work included walkthroughs and testing of 13 material systems, such as the general ledger, accounts payable and receivable, revenues and benefits, social care, housing management, payroll, and associated feeder systems (e.g. PECOS and TOTAL).

62. As reported in prior year annual audit reports, our review of the council's financial systems continues to highlight ongoing inconsistencies and inefficiencies in the operation of internal controls.

63. While some improvements have been noted, ongoing inconsistencies and inefficiencies continue to present a risk to the robustness of the council's internal control environment. We identified that regular and documented user access reviews had not been undertaken across several key financial systems. The absence of these reviews increases the risk of unauthorised or inappropriate access to financial data.

64. As a result of our findings, we did not place reliance on these internal controls for our audit of the 2024/25 annual accounts. Instead, we increased our substantive audit testing of income and non-pay expenditure to obtain the required assurance to support our audit opinion.

Recommendation 2

The council should implement regular and documented user access reviews across all key financial systems. These reviews should be conducted at defined intervals to ensure that access rights remain appropriate, reflect current roles and responsibilities, and mitigate the risk of unauthorised or inappropriate access to financial data. Evidence of these reviews should be retained to support the control environment and provide assurance over system integrity.

The council has an assurance gap for IT systems that are hosted externally

65. Last year we noted that the council does not receive formal assurances regarding the IT control environment for systems which are externally hosted. Audit work in 2024/25 identified that this extends across the following systems:

- PECOS – purchase to pay system cloud hosted by Elcom
- iTrent – payroll system cloud hosted by MidlandsHR
- Mosaic – social care system cloud hosted by Access Group

66. The council has not received any assurances around the operation of these controls at the third-party provider. Management is satisfied that there have been no issues around service performance or availability of information to support the preparation of the financial statements and there is no adverse impact on the system of internal control or governance arrangements in respect of the use of these systems.

Recommendation 3

The council should ensure there is appropriate oversight of its continuity and security of IT operations, and ensure the necessary assurances are obtained for externally hosted systems.

The implementation of the council's new finance management system has been delayed until 2026

67. The council's current core finance management system, Microsoft Dynamics Great Plains, has been in place since 2005 with the current support contract for this system was due to end in Summer 2026. At the June 2024 meeting of the Digital Transformation Board, approval was given to purchase the Connected Intelligence Anywhere (CIA) system from Technology One.

68. The new finance management system was scheduled to go live in October 2025 with the implementation of different modules/functions being rolled out on a phased basis. Implementation has been delayed and will now take place in 2026.

Recommendation 4

It is important that that the revised implementation timescales are clearly set out to avoid further delays and additional costs being incurred.

69. The audit work performed on the arrangements the body has in place for securing sound financial management found that these were generally effective however, recurring issues were noted in relation to internal control inconsistencies and inefficiencies and assurance gaps on general IT controls. This judgement is evidenced by the body:

- having clear and up-to-date policies and procedures, for example, financial regulations and scheme of delegation, in place that ensure effective financial management.

- having clear and up-to-date policies in place for preventing and detecting fraud and other irregularities, and participation in fraud prevention and detection activities such as the National Fraud Initiative (NFI).
- having suitably qualified and experienced staff leading the finance function, which has sufficient skills, capacity, and capability to effectively fulfil its role.
- having effective arrangements in place for the scrutiny of arrangements that support sound financial management, and effective scrutiny and challenge provided by the Audit and Governance Committee.

Financial Sustainability

Medium-term financial plans reflect the council's strategic priorities. The council faces significant challenges in addressing a budget gap of £73.782 million over the next five years.

70. In February 2025 the council presented a of robustness of estimates and adequacy of reserves. The statement included a summary of the factors that had been taken into account in assessing the robustness of budget estimates, key risks, general balances and earmarked reserves as well as consideration of the Housing Revenue Account.

71. It concluded that while the budget proposals for the forthcoming financial year were considered to be competent, the funding gap for the period beyond this remained significant and presented a risk to the council's capacity to set balanced budgets in future years. It also highlighted that unallocated general balances, which the council holds to offset the impact of unforeseen risks and emergencies, remained low relative to the overall risk environment.

72. In June 2025, the Financial Review 2024/25 reported that as at the end of quarter one, before applying the planned use of reserves there is a forecast overspend for the year of £7.7 million. The 2025/26 budget includes a planned use of £9.980 million from capital reserves. As at Quarter 1, there are no overspends forecast and no unplanned use of reserves required.

73. While no unplanned use of reserves is required at this stage, reliance on one-off reserves is not sustainable and must be addressed in future budget models. At the council meeting in August 2025, the budget gap across the coming years 2026/27 to 2030/31 before taking any measures to balance was £73.782 million, as detailed in [exhibit 8](#).

Exhibit 8

Identified budget gap 2026/27 to 2030/31

| | £'million | £'million | £'million | £'million | £'million | £'million |
|------------|-----------|-----------|-----------|-----------|-----------|----------------|
| Budget gap | £17.940 | £17.528 | £14.129 | £11.549 | £12.636 | £73.782 |

Source: East Lothian Council: Budget Development 2026-27 Onwards

74. To address the budget gap, the council will need to review what services it can afford to continue to deliver and how these services will be provided. The council will need to significantly change what they deliver over the next 5 years with the focus being on ensuring that statutory duties can be met within the budget envelope. There will be difficult decisions to take on whether the council can continue to deliver services and if so, what those services will actually look like.

Improving the council's financial sustainability must be a priority objective for the financial governance of the council. It is important for the council to focus on financial resilience including key indicators and measures

75. The Chartered Institute of Finance and Public Accountancy (CIPFA) introduced a Financial Management Code for implementation by 31 March 2021. This provides "guidance for good and sustainable financial management in local authorities. By complying with the principles and standards within the code, authorities will be able to demonstrate their financial sustainability". A key goal of the FM Code is to improve and evidence the financial resilience of organisations by embedding enhanced standards of financial management.

76. The council continues to face a highly challenging financial environment as it develops its five-year budget strategy for the period 2026-2031. While the council has taken steps to mitigate financial pressures through planned savings and incremental increases in Council Tax, the medium-term financial outlook remains significantly constrained.

77. The most recent budget development reports reported to council in August 2025 indicate a projected cumulative funding gap of £73.8 million over the five-year period to 2030/31, of which £9.2 million relates to the Integration Joint Board (IJB). Even after factoring in previously approved savings measures and assumed annual Council Tax increases of 5 per cent, a substantial residual budget gap of £43.5 million remains. Notably, £10.4 million of this shortfall is forecast to arise in the 2026–27 financial year alone.

78. To support financial planning, the council has undertaken scenario modelling to assess the potential impact of varying economic conditions and policy developments. Under the central (neutral) planning scenario, the council forecasts a cumulative funding gap of £73.8 million over the five-year period. However, under a more adverse scenario, characterised by higher pay inflation,

constraints on council tax increases, and delays in the delivery of planned savings, the funding gap could escalate to in excess of £91 million. This would represent a significant threat to the council's financial sustainability and its ability to maintain service delivery at current levels.

79. The council has approved a five-year capital investment programme amounting to £248 million. This figure incorporates both slippage from prior years and the reinstatement of previously paused projects. The capital programme is largely driven by population growth, with a substantial proportion of investment directed towards the expansion and enhancement of the education estate. However, in recognition of increasing borrowing costs and a reduction in available capital grant funding, the council acknowledges the need to reassess the overall affordability and prioritisation of its capital plans to ensure long-term financial sustainability.

80. To ensure the sustainability of both revenue and capital plans, the council has committed to a set of budget development principles. These include minimising reliance on one-off resources, aligning financial planning with strategic priorities, and investing in transformation and efficiency initiatives. The council is also progressing work to develop a 30-year business plan for the Housing Revenue Account, which will support long-term capital planning and inform future rent strategies.

81. The council's financial strategy for 2026–2031 is being developed in a context of significant uncertainty and risk. While the council has taken steps to manage these pressures through savings, tax increases, and transformation initiatives, the scale of the challenge ahead will require continued focus, early decision-making, and robust financial governance to ensure long-term sustainability.

82. Key financial information considered in forming the judgement on the council's arrangements for securing financial sustainability is outlined in [Exhibit 9](#).

Exhibit 9

Key financial information

| Budget setting | 2022/23 (£m) | 2023/24 (£m) | 2024/25 (£m) | 2025/26 (£m) |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| Budget gap | 13.290 | 17.158 | 17.289 | 17.651 |
| Planned to be met via: | | | | |
| • Savings and flexibilities | 0.393 | 4.402 | 9.750 | 2.343 |
| • Use of reserves | 8.690 | 7.378 | 2.935 | 5.852 |
| • Additional council tax | 4.207 | 5.378 | 1.204 | 9.456 |
| • Council tax freeze grant | | | 3.400 | |

| | | | | |
|---------------------------------------|--------|--------|--------|---|
| Savings delivered | 0.393 | 3.527 | 5.906 | - |
| Use of / (contribution to) reserves | 5.986 | 9.700 | 2.935 | - |
| Total usable reserves carried forward | 45.192 | 55.507 | 53.329 | |
| General Fund: | | | | |
| • Earmarked | 19.214 | 26.569 | 27.623 | - |
| • Uncommitted | 7.200 | 7.600 | 8.506 | - |

Source: The council's 2024/25 annual accounts and council papers

Recommendation 5

The council should continue to assess the projected level of savings generated, the level of reserves held and how this continues to support financial resilience and sustainability over the medium term.

Vision, Leadership and Governance

The council has clearly articulated its vision and priorities

83. The Council Plan 2022-2027 was approved by the council on 23 August 2022. The Council's vision over the 5 years is '***an even more prosperous, safe and sustainable East Lothian, with a dynamic and thriving economy that enables our people and communities to flourish.***'

84. The council agreed to focus on delivering a smaller number of priorities than originally approved in the Council Plan 2022-27. This has resulted in three priorities which are aligned to the Council Plan's overarching and thematic objectives:

- Ensure the financial sustainability of the council through the delivery of approved savings and transforming the way we deliver services
- Target resources on statutory services and focus on the highest risks and those most in need
- Deliver key infrastructure, economic development and environmentally sustainable projects within available council resources and maximising external funding

85. The council has updated its approach to Council Plan performance reporting, as detailed at paragraphs 104 – 107 below.

A new Chief Executive was appointed during 2024/25

86. The council has an experienced management team in place that has been relatively stable in recent years. In November 2024 the then Chief Executive, announced her intention to retire in February 2025. The new Chief Executive took up his role in April 2025.

87. The Executive Director – Place, retired in November 2024, with the position remaining unfilled during 2025. In October 2025 there was a restructuring exercise undertaken at the Executive Director level. The Executive Director – Place role was formally deleted with the Executive Director Council Resources role being amended to Depute Chief Executive Resource and Economy (Chief Financial Officer).

The council has sound governance arrangements in place for how it conducts business

88. The council's governance arrangements have been set out in the Annual Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate. This is informed by our regular attendance at the Audit and Governance Committee and review of council and other committee papers as appropriate.

89. The Audit and Governance Committee's role is to support the council in establishing, maintaining, and improving effective governance, risk management, and internal control arrangements.

90. The audit work performed on the arrangements the council has in place around its Vision, Leadership and Governance found that these were effective and appropriate. This judgement is evidenced by the council:

- having a Corporate Plan in place, supported by Operational Plans, that clearly set out its vision, strategy, and priorities and reflect the pace and depth of improvement required to realise these in a sustainable manner.
- involving service users, delivery partners, and other stakeholders in the development of its vision, strategy, and priorities to ensure these align to their needs.
- having clear financial and performance reporting in place, both internally and externally, that is linked to its Operational Plans.
- having effective governance arrangements in place in general, as reflected in the Annual Governance Statement included in the annual accounts.

Equalities and fairness

91. We noted in our Annual Audit Plan 2024/25 that auditors are required to carry out a review of the 'fairness and equality' characteristic at least

once during the audit appointment. We completed this work as part of the 2024/25 audit.

92. The council demonstrates a clear commitment to fairness and equality through a comprehensive framework of strategies, policies, and reporting mechanisms. The council has embedded equality considerations into its strategic planning, service delivery, and employment practices, aligning with the requirements of the Equality Act 2010, and other relevant legislation.

93. This is reflected in the publication of key documents such as the Equality Plan 2021–2025, the Poverty Plan 2024–2028, and the Procurement Strategy 2023–2028, all of which incorporate equality objectives and align with statutory duties. The council has also made effective use of Integrated Impact Assessments (IIAs), which are consistently applied to ensure equality considerations are integrated into policy development and decision-making processes.

94. A positive organisational culture is further supported by the requirement for all staff to complete annual equality training, with content regularly updated to reflect legislative changes.

95. Our review identified the following areas where the council needs to take action to ensure continued compliance with equalities and fairness as detailed below:

- while the council tracks various performance indicators through its Policy and Performance Review Committee, there is limited alignment between these indicators and the specific equality outcomes and actions outlined in the Equality Plan. This makes it challenging to assess progress and impact.
- the Equality Mainstreaming and Outcomes Report for 2023–2025 has been delayed beyond the statutory two-year reporting requirement, impacting on the council's ability to assess progress and identify areas for improvement.
- the council's Equality Training Plan 2015-18 is the most current training plan. We understand this has not been updated since it was originally published. There is a risk that this does not reflect the most up to date guidance.

Recommendation 6

To ensure the council continues to demonstrate its commitment to equalities and fairness the council should review the timing of its reporting and ensure the training materials available remain fit for purpose.

Use of Resources to Improve Outcomes

96. The audit work performed on the arrangements the council has in place around its Use of Resources to Improve Outcomes found that these were effective and appropriate. This judgement is evidenced by the council:

- being able to demonstrate a clear link between the use of resources and delivery of its priorities.
- having arrangements in place to benchmark its performance to identify areas of improvement.
- being able to demonstrate improvements in performance against benchmarks and relative to other comparable organisations.

Best Value audit

Conclusion

The council has a clear vision and plan to support the transformation of its services, which aims to deliver a portfolio of change over a five-year period and support the financial sustainability of the council.

The council has robust governance arrangements in place for projects in its transformation programme. It has a dedicated transformation team but is experiencing staffing issues on some projects due to staff turnover and staff vacancies linked to the temporary nature of these projects.

The council has effective arrangements in place for reporting progress on the projects in its transformation programme to its senior leadership team and plans to enhance reporting to elected members. The council presented its first annual progress report on transformation to full council in August 2025.

Audit work assessed the arrangements the council has in place for preparing and publishing SPI and concluded the arrangements in place were effective and appropriate.

The council has updated its approach to Council Plan performance reporting. The council reviews and reports its performance using a number of measures that are clearly aligned to the priorities and outcomes set out in the Council Plan.

The council's overall performance has remained similar to its prior year results and has increased compared with the Scottish average.

The council should ensure that as the new approach to performance reporting is embedded it continues to comply with the requirements of the Statutory Performance Information Direction.

Audit approach to Best Value

97. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit. As part of the annual audit, auditors are required to take a risk-based approach to assessing and reporting on whether the council has made proper arrangements for securing Best

Value, including follow up of findings previously reported in relation to Best Value.

Themes prescribed by the Accounts Commission

98. The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on the council. The thematic review for 2024/25 is on the subject of service transformation and involves considering how the council is redesigning services to maintain outcomes and deliver services more efficiently.

99. Conclusions and judgements on the council's approach to service transformation are outlined in a separate Management Report which is available on the Audit Scotland website. A summary of the conclusions and judgments made in the report is outlined below.

- The Accounts Commission's [Local government in Scotland Financial bulletin 2023/24](#) notes that councils need to intensify transformation activity, progressing at scale and pace to ensure their financial sustainability.
- East Lothian Council has a clear vision and plan to support the transformation of its services, which aims to deliver a portfolio of change over a five-year period and support the financial sustainability of the council. It has a defined transformation programme in place that clearly sets out what transformation activity is underway. In addition, there are several projects, led at service level, that the council consider to be transformational. The council should ensure that each of these projects meet the objectives set out within its transformation strategy.
- The council faces a projected funding gap of over £17 million for 2025/26, rising to over £79 million by 2029/30. It estimates that the current portfolio of transformation projects will deliver recurring savings of £6.1 million over the five-year period to 2029/30. While recognising that transformation is a key enabler to financial sustainability, the council's financial and transformation strategies make it clear that it is only part of the council's solution to closing its funding gap. Other measures include cost reduction through energy efficiency, investment in early intervention and prevention and developing and growing income streams. The council's collective change activity needs to be sufficiently ambitious to respond to the scale of its financial challenges.
- Over half of the council's current 15 transformation projects are in the delivery stage and detailed information has been compiled for each of these. The council has allocated earmarked reserves totalling £18.5 million to support and enable transformation and in 2024/25, £1.486 million was spent from this reserve.

- The council has robust governance arrangements in place for projects in its transformation programme. It has a dedicated transformation team but is experiencing staffing issues on some projects due to staff turnover and staff vacancies linked to the temporary nature of these projects. Also, there are constraints on the availability of some staff carrying out business-as-usual work to contribute to the transformation programme due to heavy workloads. This presents a significant risk to the progress of the council's transformation programme.
- The council has effective arrangements in place for reporting progress on the projects in its transformation programme to its senior leadership team and plans to enhance reporting to elected members. An overview of all significant transformation activity is not currently compiled. This creates a risk that elected members are not fully sighted on the progress of all key transformation activity across the council as a whole.
- The majority of the council's current transformation programme is council led and does not involve working with partners. The council is at an early stage of progressing opportunities to work with partners in service-led transformation activities outside its current transformation programme.
- The council has shared examples of where it is listening to its communities in relation to transformation projects. Integrated Impact Assessments (IIAs) are being carried out during the development of transformation projects where the council believe they are appropriate and there are examples of community engagement taking place in relation to these.
- The council has had a transformation programme in place since 2016. In the context of the growing financial challenges facing the council, the focus of this programme has shifted in recent years. A new framework was introduced in 2024 and is being developed which better captures, monitors and reports on the financial and non-financial benefits of transformation projects. The council is due to present its first annual progress report on transformation to full council in Autumn 2025.

100. The audit recommendations from the thematic report, together with the management responses, are included in [Appendix 1](#) of this report.

Statutory performance information (SPI) and service performance

101. The Accounts Commission issued a [Statutory Performance Information Direction](#) which requires the council to report its:

- SPI 1: performance in improving services and progress against agreed desired outcomes, and

- SPI 2: a self-assessment and audit, scrutiny, and inspection body assessment of how it has responded to these assessments.

102. Auditors have a statutory duty to satisfy themselves that the council has made proper arrangements for preparing and publishing statutory performance information in accordance with the Direction and report a conclusion in the Annual Audit Report.

103. Audit work assessed the arrangements the council has in place and concluded the arrangements in place were appropriate.

The council has updated its approach to Council Plan performance reporting

104. The [Best Value: Revised Statutory Guidance 2020](#) sets out that councils should be able to demonstrate a trend of improvement over time in delivering its strategic priorities.

105. In December 2024, a Review of Performance Reporting and Indicators report was presented to the Policy and Performance Review Committee (PPRC). The report outlined the statutory duties placed upon the council as well as the new Statutory Performance Information Direction guidance. The report committed the council to review the new Direction and Guidance and identify any gaps in the current performance reporting. In June 2025, the PPRC approved a report on a Performance Framework Refresh. The report outlined the proposed refreshed approach to Council Plan performance PPRC reporting, to ensure reports comply with any statutory requirements and follow good public performance reporting practices.

106. This has resulted in the council adopting a performance reporting hierarchy model, which refers to how different aspects of an organisation's performance are structured and presented in reports, typically from a high-level overview to more granular details. This hierarchy helps organise and communicate information about performance against key objectives, focusing on different levels of management and their responsibilities as follows:

- **strategic level:** provides a broad overview of overall performance, focusing on key strategic objectives and organisational goals set out in the Council Plan and subsequent strategic priorities approved by the council in February 2024. Strategic level reports will be presented to PPRC annually in June of each year and will replace the current top 10/50 indicators reports.
- **tactical level:** Heads of Service areas, analysing performance against defined targets and metrics for the group of services they are responsible for. Head of Service level reports will be presented to PPRC at least quarterly and will replace the current quarterly reports.
- **operational level:** focus on individual projects, tasks, and processes, providing detailed information on performance outcomes and any potential areas for improvement. Reporting of these will remain in line with the current reporting regime.

107. Both strategic and head of service reports will present performance updates structured around the council's strategies and priorities as follows:

- Ensure the financial sustainability of the council through the delivery of approved savings and transforming the way we deliver services (contributes to the long-term objective: Grow our Capacity)
- Target resources on statutory services and focus on the highest risks and those most in need (sits under the long-term objective: Grow our People)
- Deliver key infrastructure, economic development and environmentally sustainable projects within available council resources and maximising external funding (contributes to the long-term objectives: Grow our Economy and Grow our Communities).

The council's overall performance has remained similar to its prior year results and has increased compared with the Scottish average

108. The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework brings together a wide range of information about how all Scottish councils perform in delivering services, including the cost of services and how satisfied citizens are with them. The council notes that the use of the LGBF allows it to self-assess its performance across years, and to compare performance with peers against an agreed suite of performance indicators, which will assist in achieving best practice and efficiencies.

109. The most recent National Benchmarking Overview Report 2023/24: <https://www.improvementservice.org.uk/benchmarking/reports> was presented to the PPRC in June 2025 to provide a summary of the council's performance in 2023/24.

110. The full Local Government Benchmarking Framework includes 109 indicators. There are 75 indicators which relate to the performance of services in delivering outputs and outcomes; 22 indicators relate to the cost of delivering services; and 12 indicators measure satisfaction. All cost indicators have been adjusted for inflation to provide a real cost comparison on trend data.

111. For 2023/24, only 91 indicators have comparable data to measure a percentage change of status from the previous year. In 2023/24, 26 (29 per cent) of indicators improved, 45 (49 per cent) remained static, and 20 (22 per cent) declined.

| | Improved status | No change | Declined |
|---------------------|-----------------|-----------|-----------|
| Cost | 9 | 6 | 5 |
| Performance | 17 | 28 | 15 |
| Satisfaction | - | 11 | - |
| Grand total | 26 | 45 | 20 |

112. Comparison of the council's indicators against the Scottish average shows that 48 (53 per cent) of the indicators are performing better than the Scottish average. The council's quartile performance when ranking each performance indicator from 1 (highest performance/ lowest cost) to 32 (lowest performance/ highest cost) improved slightly during 2023/24. Just under a third (31 per cent) of the council's indicators are in quartile 1 and fewer than one in four (only 18.4 per cent) are in quartile four. Overall, 60.9 per cent of indicators are within the first two quartiles (top 50 per cent).

| Quartile | 2022/23 | % | 2023/24 | % |
|------------|---------|------|---------|------|
| Quartile 1 | 27 | 30.0 | 27 | 31.0 |
| Quartile 2 | 23 | 25.6 | 26 | 29.9 |
| Quartile 3 | 23 | 25.6 | 18 | 20.7 |
| Quartile 4 | 17 | 18.9 | 16 | 18.4 |

Progress against previous Best Value findings and recommendations

113. Best Value findings and recommendations have been made in previous years' Annual Audit Reports, Management Reports on themes prescribed by the Accounts Commission, and Controller of Audit Reports on the council's performance in meeting its Best Value duties.

114. Details of previous recommendations and progress the council is making against these can be seen in [Appendix 1](#). *The council has implemented the previous recommendations made.*

Conclusions on Best Value

The council's arrangements and performance in meeting Best Value and community planning duties are effective

115. The audit work performed on the arrangements the council has in place for securing Best Value and its community planning arrangements found these were effective and appropriate. This judgement is evidenced by:

- the council having well established and effective governance arrangements in place, with the Best Value being a key aspect of the governance arrangements
- the arrangements the council has in place around the four wider scope audit areas, which are effective and appropriate, contribute to it being able to secure Best Value
- progress the council is making to embed sustainability into corporate and operational plans and enhance reporting arrangements around sustainability.

Appendix 1

Action plan 2024/25

2024/25 recommendations

| Matter giving rise to recommendation | Recommendation | Agreed action, officer and timing |
|--|---|---|
| <p>1. Edinburgh Innovation Hub</p> <p>Edinburgh Innovation Hub (EIH) is consolidated as a joint venture between the council and Queen Margaret University.</p> <p>Risk: There is a risk that there is not appropriate independent oversight of the financial transactions within the joint venture.</p> | <p>Given the level of public funding invested in the joint venture, it is important that the council ensures appropriate arrangements are in place to secure assurance over financial stewardship, which would ordinarily be achieved through an independent audit process.</p> <p>Page 27</p> | <p>Accepted</p> <p>External audit arrangements are in place for the joint venture and scrutiny arrangements are currently provided as part of the City Region Deal governance structure. Once operational, EIH will report to the council's audit and governance committee at least annually to enable effective financial stewardship.</p> <p>Depute Chief Executive – Resources and Economy</p> <p>June 2026</p> |
| <p>2. Internal control</p> <p>Our review of the council's financial systems continues to highlight ongoing inconsistencies and inefficiencies in the operation of internal controls.</p> <p>Risk: there is a risk that this may result in inefficient, inconsistent processes and ultimately control weaknesses.</p> | <p>The council should implement regular and documented user access reviews across all key financial systems. These reviews should be conducted at defined intervals to ensure that access rights remain appropriate, reflect current roles and responsibilities, and mitigate the risk of unauthorised or inappropriate access to financial data. Evidence of these reviews should be retained to support the control environment and provide assurance over system integrity.</p> <p>Page 27</p> | <p>Accepted</p> <p>The Council Management Team takes IT security seriously and recently approved a review of systems administration across the council. The review is currently underway and aims to strengthen and improve consistency, including ensuring that there are appropriate user access controls in place for all systems.</p> <p>Council Leadership Team</p> <p>July 2026</p> |

| Matter giving rise to recommendation | Recommendation | Agreed action, officer and timing |
|--|--|---|
| <p>3. Assurance gap</p> <p>The council does not receive formal assurances regarding the IT control environment for systems which are externally hosted.</p> | <p>The council should ensure there is appropriate oversight of its continuity and security of IT operations, and ensure the necessary assurances are obtained for externally hosted systems.</p> <p>Page 28</p> | <p>Accepted</p> <p>Management will explore options for including assurance over continuity and security arrangements as part of our specification of requirements for future contracts to ensure that we have an understanding of what potential new suppliers are willing to commit to.</p> <p>Service Manager - IT</p> <p>April 2026</p> |
| <p>4. Implementation of the new financial system</p> <p>The new finance management system was scheduled to go live in October 2025.</p> <p>Implementation has been delayed and will now take place in 2026.</p> | <p>It is important that that the revised implementation timescales are clearly set out to avoid further delays and additional costs being incurred.</p> <p>Page 28</p> | <p>Accepted</p> <p>This project remains a key priority for the finance service and significant efforts are underway to ensure successful implementation of the replacement system in the first half of next year.</p> <p>Head of Finance</p> <p>June 2026</p> |
| <p>5. Financial sustainability</p> <p>The council continues to face a highly challenging financial environment as it develops its five-year budget strategy for the period 2027-2031.</p> | <p>The council should continue to assess the projected level of savings generated, the level of reserves held and how this continues to support financial resilience and sustainability over the medium term.</p> <p>Page 32</p> | <p>Partially Accepted</p> <p>This action was implemented in February 2025.</p> <p>Head of Finance</p> <p>Implemented</p> |
| <p>6. Equalities and fairness</p> <p>Our review identified areas where the council needs to take action to ensure continued compliance with equalities and fairness.</p> | <p>To ensure the council continues to demonstrate its commitment to equalities and fairness the council should review the timing of its reporting and ensure the training materials available remain fit for purpose.</p> <p>Page 34</p> | <p>Accepted</p> <p>Officers will work to ensure that future reporting timelines are aligned with Equality legislation (April), with the next Mainstreaming Outcomes report due in April 2027. A review of training materials will also be taken forward.</p> <p>Head of Corporate Support</p> <p>April 2027</p> |

| Matter giving rise to recommendation | Recommendation | Agreed action, officer and timing |
|---|---|---|
| 2024/25 recommendations from the BV thematic report | | |
| <p>1. Ensuring transformation plans are sufficiently ambitious</p> <p>The council faces a projected funding gap of over £17 million for 2025/26, rising to over £79 million by 2029/30. It estimates that the current portfolio of transformation projects will deliver recurring savings of £6.1 million over the five-year period to 2029/30. Whilst we recognise that transformation alone will not offer the full solution to the council's funding gap, the level of financial savings from the council's collective change activity should be commensurate with the scale of its financial challenges.</p> | <p>While we recognise that transformation activity is designed to have wider benefits beyond financial savings, the council should ensure its plans for transformation are sufficiently ambitious to respond to the financial challenges it faces.</p> | <p>The Council is prioritising its resources to support a range of projects focused on key enablers of change. It has also prioritised the delivery of transformation as a key council objective.</p> <p>An update will be provided to Council in August 2025.</p> <p>Transformation & Digital Portfolio Manager</p> <p>August 2025 / ongoing</p> |
| <p>2. Including all significant transformation activity in transformation strategy</p> <p>Officers have told the audit team about other significant transformation projects that are being taken forward by services that are not included in the current transformation programme.</p> | <p>There are a number of projects, led at service level, that the council consider to be transformational. The council should take the opportunity, when conducting the annual review of its Transformation Strategy (2024-2029), to ensure all significant transformation activity is reflected as well as ensuring that each project meets the objectives set out within its transformation strategy.</p> | <p>Officers will consider options for incorporating service led transformation activity within future reporting, with a view to capturing resource commitment and benefits delivered.</p> <p>Transformation & Digital Portfolio Manager</p> <p>August 2026</p> |

| Matter giving rise to recommendation | Recommendation | Agreed action, officer and timing |
|--|--|--|
| <p>3. Reporting on transformation</p> <p>Officers have committed to sharing detailed reporting on the progress of its transformation programme with elected members as part of its annual report, starting from Autumn 2025.</p> <p>Officers have told the audit team about other significant plans for change that are being taken forward by services that are not included in the transformation programme. There is a risk that officers and members do not have a full overview of the range of transformation activity taking place within the council.</p> | <p>The council should ensure it delivers on its commitment to report on transformation to elected members. This should include regular reporting on planned and realised financial and non-financial benefits from its transformation work in line with what is set out in the Transformation Strategy. The council should put in place arrangements to report to elected members on the full range of transformation activity being progressed.</p> | <p>A report will be presented to Council in August providing an update on progress made towards delivering the council's transformation strategy.</p> <p>This report will also consider how wider transformation activity can be incorporated into future updates to Council.</p> <p>Transformation & Digital Portfolio Manager</p> <p>August 2025</p> |
| <p>4. Resourcing transformation</p> <p>The demands of the council's business-as-usual activities are limiting the wider organisation's ability to respond to the increased demand for transformation staff resource. These pressures present a risk to the progress of the council's transformation programme.</p> | <p>The council should ensure that its workforce has capacity to deliver on its transformation ambitions. This includes balancing workforce planning with the resource needs of wider business groups and recruiting additional roles for transformation if required.</p> | <p>The Council has allocated significant resources within earmarked reserves to support transformation activity, and this will remain under review to ensure that there is sufficient capacity to deliver on our ambitions in the context of acute funding constraints.</p> <p>Transformation & Digital Portfolio Manager</p> <p>December 2025</p> |
| <p>5. Measuring the impact of transformation</p> <p>The council is monitoring and reporting on the financial and non-financial benefits from its transformation projects. It recognises that benefits reporting is an area requiring further work to</p> | <p>The council should continue to improve its methodology for measuring financial and non-financial benefits from its transformation projects.</p> | <p>The council recognises the importance of ensuring that the benefits of transformation are captured and reported. While the financial savings delivered are already being reported through regular finance updates, future reporting will also capture the non-financial benefits delivered.</p> |

| Matter giving rise to recommendation | Recommendation | Agreed action, officer and timing |
|--------------------------------------|----------------|---|
| improve accuracy and consistency. | | Transformation & Digital Portfolio Manager August 2025 |

Follow-up of prior year recommendations

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update |
|--|---|--------------|
| <p>1. Revaluation of land and buildings</p> <p>In accordance with the Code of Practice in Local Authority Accounting, the council is required to ensure the carrying value of property, plant and equipment <i>“does not differ materially from that which would be determined using the current value at the end of the reporting period”</i>. Following the publication of the unaudited accounts, the council undertook a revaluation exercise which resulted in a £52 million reduction in the carrying value of assets.</p> <p>Our audit testing of the revaluation found errors in the work performed. This included: inconsistencies between the underlying data used (floor space / land areas) by the valuer and the councils’ records; inconsistent information on the use of assets; and errors in valuation calculations. There had been limited management challenge and review to confirm completeness and accuracy of the valuation prior to audit inspection.</p> | <p>While recognising the council engage with an independent valuer to undertake a valuation of land and buildings, the valuation is underpinned by data provided by the council. It is important that the council ensure complete and accurate information is provided to the valuer in a timely manner to support the valuation and that there is appropriate challenge and review to ensure the valuations are reasonable. This should be done in sufficient timeframes to support the preparation of the unaudited accounts.</p> <p>Management response:</p> <p>Officers will ensure that all floor plans are reviewed and revised as appropriate and that accurate records are held. A full valuation of all operational and non-operational assets will be carried out for the 2024/25 Accounts by an independent valuer. This information will be reviewed with an internal RICS member and samples will be taken and reviewed to gain management assurance of the figures received.</p> <p>Responsible officer:</p> <p>Executive Director of Council resources</p> <p>Agreed date:</p> <p>June 2025</p> | Implemented. |

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update |
|--|--|---|
| <p>Risk: A risk that the council does not have a complete and accurate record of assets held and that this could result in material errors in the valuation of land and buildings.</p> | | |
| <p>2. Statutory override</p> <p>The statutory override relating to valuation of infrastructure assets is due to end for the 2024/25 financial statements.</p> <p>Risk: A permanent solution has not yet been agreed and CIPFA believe that this will continue be an area of enhanced scrutiny for local government auditors.</p> | <p>The council should proactively work with CIPFA and the wider local government sector to arrive at appropriate solution for the implementation of accounting for infrastructure assets.</p> <p>Management response:</p> <p>Officers consider that the time and expense required to value infrastructure assets would not represent best value in the use of public resources and we will continue to make this case to CIPFA alongside colleagues from other local authorities.</p> <p>Responsible officer:</p> <p>Executive Director for Council Resources</p> <p>Agreed date:</p> <p>April 2025</p> | <p>Ongoing.</p> <p>Finance circular 6/2025 confirms that the temporary statutory override has now been further extended until March 2027.</p> |
| <p>3. Trade Union disclosure</p> <p>The Trade Union (Facility Time Publication Requirements) Regulations 2017 require employers to publish a range of information both on their website by 31 July and in their annual accounts.</p> | <p>The council needs to ensure that it captures all required information to fully comply with the Trade Union Regulations 2017.</p> <p>Management response:</p> <p>We will aim to include this disclosure as part of our future reporting.</p> <p>Responsible officer:</p> <p>Service Manager – People and Council Support</p> <p>Agreed date:</p> <p>July 2025</p> | <p>Not implemented.</p> <p>The adjustment was omitted from the unaudited accounts but has been incorporated into the revised accounts presented to the Audit and Governance Committee.</p> |
| <p>4. Budget setting</p> <p>The 2023/24 end of year financial review presented to the council in June 2024</p> | <p>Given the financial pressures and ongoing reliance on using reserves to deliver services it is vital the council identify the</p> | <p>See 2024/25 matter arising 5 above.</p> |

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update |
|---|---|--|
| <p>reported a deficit on the provision of services of £12.273 million.</p> | <p>measures required to deliver against their savings plans.</p> <p>Management response:</p> <p>Officers will continue to develop and progress workstreams needed to realise savings plans over the coming year, and progress will be reported through regular finance updates to Council.</p> <p>Responsible officer:</p> <p>Council Management Team</p> <p>Agreed date:</p> <p>Ongoing</p> | |
| <p>5. Capital programme</p> <p>Capital programmes can be delayed through their complexity, pressing demands and involvement of third parties. As part of the mitigation measures agreed by the council uncommitted expenditure was paused or reprofiled.</p> | <p>The council should establish clear indicators to support its assessment of the ongoing affordability of the capital programme.</p> <p>Management response:</p> <p>Indicators are disclosed as part of our treasury management strategy and reporting and we will work to improve the visibility of these in informing the judgements taken around the affordability of capital plans and borrowing.</p> <p>Responsible officer:</p> <p>Executive Director for Council Resources / Head of Finance</p> <p>Agreed date:</p> <p>April 2025</p> | <p>Implemented.</p> |
| <p>6. Internal control</p> <p>We identified instances where there was a lack of corporate understanding of end to end transaction processes, controls and dependencies. As a result there is a risk that this may result in inefficient, inconsistent processes and ultimately control weaknesses.</p> | <p>As the council implements the new financial system it is important that management can assure itself that it has addressed legacy issues around corporate understanding of end to end processes and control weaknesses.</p> <p>Management response:</p> <p>The new system will define high-level (in-system) business processes, that will be supplemented with process mapping to capture new end-to-end processes.</p> <p>Responsible officer:</p> | <p>See 2024/25 matter arising 2 above</p> |

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update |
|--|---|---|
| | <p>Executive Management Team</p> <p>Agreed date:</p> <p>December 2025</p> | |
| <p>7. Reserves</p> <p>As at 31 March 2024, the council had a total General Fund balance of £34.169 million. Of this £26.569 million has been earmarked for a specific priority with a residual balance of £7.600 million of uncommitted general reserves.</p> | <p>The council should ensure that there is a clear risk assessment and scrutiny of the level of reserves held and how this supports financial resilience and sustainability over the medium term.</p> <p>The council should consider the adequacy of minimum unallocated reserves in the context of revenue overspends and benchmark data.</p> <p>Management response:</p> <p>This is set out within the financial strategy and risks are reported through the corporate risk register. We will continue to do this.</p> <p>Responsible officer:</p> <p>Head of Finance</p> <p>Agreed date:</p> <p>Ongoing</p> | <p>See 2024/25 matter arising 5 above.</p> |
| <p>8. Financial resilience</p> <p>The council is facing a significant funding gap to meet the growing infrastructure and service requirements aligned to rapid population growth.</p> | <p>Given the scale of the financial challenges the council must continue to develop financial resilience indicators and resilience measures, with a greater emphasis on its reserves position.</p> <p>Management response:</p> <p>The financial strategy sets the minimum level of unallocated balance for our general reserves and this level is reviewed on an annual basis. Movement in this balance due to budget variances is the key indicator that we use to assess financial resilience and this is reported to Council throughout the year.</p> <p>Responsible officer:</p> <p>Head of Finance</p> <p>Agreed date:</p> <p>Ongoing</p> | <p>See 2024/25 matter arising 5 above.</p> |

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update |
|---|--|--|
| <p>9. Digital technology</p> <p>The capacity of the council's IT team remains challenging with vacancies in key areas leading to skills gaps and workforce pressures. This has resulted in a number of key plans not being progressed or tested.</p> | <p>The council needs to prioritise digital transformation to improve service delivery and generate savings over the medium and longer term. The council needs to strengthen their digital strategy, cyber security, business continuity management and associated policies to address prior year audit recommendations.</p> <p>Management response:</p> <p>The current transformation portfolio includes priority digital by default projects, including Finance System Replacement, Housing Management System Replacement, Website replacement, Roll-out of Microsoft 365, Development of an Enterprise IT Systems strategy and roadmap. We are also undertaking a project to identify manual effort that could be reduced/eliminated by using automation/systems.</p> <p>Responsible officer:</p> <p>Executive Director for Council Resources / Service Manager for IT</p> <p>Agreed date:</p> <p>Ongoing</p> | <p>Ongoing</p> <p>A service review is currently being progressed within IT to support enhanced capacity and resilience</p> <p>A new Strategic Digital Lead post is currently being progressed to strengthen the digital capacity.</p> <p>A new project team has been established which will report to the DTB to strengthen digital planning across the organisation.</p> <p>Strategic Digital Lead</p> <p>May 2027</p> |
| <p>10. Council priorities</p> <p>In February 2024, the council approved proposals to re-prioritise the Council Plan recognising the context and factors that influenced the objectives had since changed.</p> | <p>The council agreed to focus on delivering a smaller number of priorities than originally approved in the Council Plan 2022-27. The council needs to set clear performance outcome targets for each of its refreshed priority areas to ensure resources are allocated appropriately. As resources are aligned to the priority areas, the council also needs to be clear on what is an acceptable level of performance in non-priority areas.</p> <p>Management response:</p> <p>As part of the review of performance reporting we will review the top 10 indicators and clarify alignment with the reprioritised council plan, aligning to requirements of the revised Statutory</p> | <p>Implemented.</p> |

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update |
|--|---|----------------------------|
| | <p>Performance Information Direction expected in 2025.</p> <p>Responsible officer:</p> <p>Transformation & Digital Portfolio Manager</p> <p>Agreed date:</p> <p>December 2025</p> | |
| <p>11. Committee attendance</p> <p>In June 2024 as both were not quorate, the Audit & Governance Committee and the Policy and Performance Review Committee meetings had to be cancelled or rescheduled.</p> | <p>Elected members should ensure attendance at Committee meetings to enable the Committee to fulfil its delegated functions</p> <p>Management response:</p> <p>Officers to proactively contact members to confirm attendance in advance of each meeting. The hybrid meeting facility to be offered for all formal Council meetings to support member attendance. In consultation with political groups, consideration will be given to assess if membership requires to be reviewed and amended as part of the annual review of Standing Orders.</p> <p>Responsible officer:</p> <p>Head of Corporate Support</p> <p>Agreed date:</p> <p>February 2025</p> | <p>Implemented.</p> |
| <p>12. Decision making</p> | <p>It is essential elected members work together as a collective body to make the strategic decisions and difficult choices to ensure the council's future financial sustainability.</p> <p>Management response:</p> <p>The council agreed to establish a cross party budget working group and this has been running since 2022. The approach to this is subject to regular review and remains a key budget development principle within the approved financial strategy. Officers will continue to facilitate cross party working aligned to the Council decision over the next year.</p> | <p>Implemented.</p> |

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update |
|--------------------------------------|--|--------|
| | Responsible officer: Executive Management Team Agreed date: Ongoing | |

Progress against 2023/24 Best Value findings and recommendations

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update on progress |
|--|---|--|
| 1. Action plan The council's workforce action plan has 40 actions capturing a range of workforce challenges however they are not SMART. Risk – There is a risk actions cannot be evaluated to allow progress to be measured, monitored and reported. | The council should build on its workforce planning to date by expanding the range of data and intelligence it draws upon, with SMART action plans setting out how council level and service level actions are being progressed. Management response Management to review the current workforce plan and actions and develop further SMART actions. Responsible officer Executive Director for Council Resources Date June 2025 | Implemented. An ELC Workforce Plan Implementation group was established in August 2025. A Workforce Action Plan was revised in August 2025 incorporating SMART actions. This was presented at Cabinet for approval in September 2025. In addition, the Local Government Association (LGA) are running training sessions with the Corporate Management Team in November 2025. |
| 2. Service workforce planning The council does not have standard guidance, templates or toolkits to support services in developing a consistent approach to workforce planning. | The council should prepare guidance and templates to assist services in identifying supply and demand issues and consider the emerging objectives and actions within their areas whilst ensuring there is a consistent approach to workforce planning across the council. Management response | Ongoing. Service level planning guidance and templates have been created and approved by the Workforce Plan Implementation group. HR will be providing service managers with reports to assist them |

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update on progress |
|---|---|---|
| <p>Risk – There is a risk that service workforce planning is not consistent and does not support the 2023-2027 Workforce Plan</p> | <p>Management to further develop service plan guidance to provide clearer alignment with corporate workforce plan.</p> <p>Responsible officer</p> <p>Executive Director for Council Resources</p> <p>Date</p> <p>April 2025</p> | <p>with identifying roles and risk and critical roles, contract type/FTE/PT/agency workers. The LGA recommended this was the data to include for strategic workforce planning at a service level.</p> <p>The guidance/template will be rolled out from January 2026 working with each Head of Service management team to ensure they have adequate time and support to do this.</p> <p>Responsible: Head of Corporate Support (Strategic Lead for workforce planning)</p> <p>April 2026</p> |
| <p>3. Digital transformation</p> <p>The council has completed a limited number of corporate digitalisation projects.</p> <p>Risk – There is a risk the council is not using digital technology to shape its future workforce.</p> | <p>The council should increase the pace of roll-out of its digital transformation projects and develop measures to capture and monitor the impact of digital technology on workforce productivity and service outcomes. It should also set out how it expects digital technology to shape its future workforce.</p> <p>Management response</p> <p>The Council has prioritised investment and focus to date on key corporate systems and platforms. The Council's Digital Transformation Board is overseeing the prioritisation of projects, but much of this is dependent on financial resources being made available to support the development and implementation of digital opportunities in a managed and sustainable way.</p> <p>Responsible officer</p> | <p>Point closed and being tracked through matter arising 9, 2023/24 above on digital technology.</p> <p>Progress is monitored via the Digital Transformation Board (DTB) that meets regularly throughout the year. Projects prioritised for delivery by the Service are:</p> <ul style="list-style-type: none"> • Cloud Migration (Revenues system) • Housing Management System • Lets & Bookings System replacement • Finance System Replacement |

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update on progress |
|--|--|---|
| | <p>Executive Director for Council Resources</p> <p>Date</p> <p>On-going</p> | <ul style="list-style-type: none"> • Website Replacement • M365 Roll Out |
| <p>4. Digital exclusion</p> <p>The council has set out its intention to address digital exclusion.</p> <p>Risk – There is a risk that the workforce are not appropriately supported.</p> | <p>The Council should further develop the workforce plan to allow it to monitor progress in addressing digital exclusion in its workforce.</p> <p>Management response</p> <p>Management will review the workforce action plan and consider further areas for addressing digital exclusion and how this can be monitored.</p> <p>Responsible officer</p> <p>Executive Director for Council Resources</p> <p>Date</p> <p>June 2025</p> | <p>Ongoing</p> <p>A paper was presented at CMT in June 2025 on this topic. Progress will be monitored via an annual review completed by OD involving services where digital inclusion is more challenging. This was reported in the most recent Workforce Action Plan.</p> <p>Responsible: Head of Corporate Support (Strategic Lead for workforce planning)</p> <p>August 2026</p> |
| <p>5. Remote and hybrid working</p> <p>The council has developed a detailed measurement framework in 2020 to capture the impact of its employees working more remotely but has not applied this.</p> <p>Risk – There is a risk the council cannot quantify the benefits for staff including wellbeing, and any savings achieved or improvements to services.</p> | <p>The council should build on the work it conducted in 2020 to review the effectiveness of its WorkSmart policy. This should capture the benefits for staff including wellbeing, and any savings achieved or improvements to services.</p> <p>Management response</p> <p>Management already capture significant management information to monitor the effectiveness. Management will consider how this can be consolidated, captured and monitored through the review of workforce plan SMART actions.</p> <p>Responsible officer</p> <p>Executive Director for Council Resources</p> <p>Date</p> <p>June 2025</p> | <p>Ongoing</p> <p>A questionnaire has been developed to enable managers to provide feedback on home / hybrid working arrangements. This will provide some insight into how well these arrangements are working and identify what may need to change before any further review of the arrangements take place.</p> <p>Responsible: Head of Corporate Support (Strategic Lead for workforce planning)</p> <p>August 2026</p> |

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update on progress |
|---|---|---|
| <p>6. Succession planning</p> <p>Almost 25 per cent of the council's employees are over 55 years old.</p> <p>Risk – There is a risk that the council plans do not address future succession planning challenges.</p> | <p>The council needs to put clear plans in place to address future succession planning challenges.</p> <p>Management response</p> <p>Management will continue to build upon the range of existing initiatives to explore further options to support succession planning.</p> <p>Much of the challenge requires a national approach, and management will continue to support national workforce discussions.</p> <p>Responsible officer</p> <p>Executive Management Team</p> <p>Date</p> <p>April 2025</p> | <p>Ongoing</p> <p>The intention of the 2026 Workforce Plan would be to address this at a service and corporate level.</p> <p>Responsible: Head of Corporate Support (Strategic Lead for workforce planning)</p> <p>August 2026</p> |
| <p>7. Trade unions</p> <p>The council and trade unions did not meet between June 2023 and June 2024 after the trade unions went into dispute with the council. A Recognition Agreements was signed by all parties in March 2024.</p> <p>Risk – There is a risk that the council and trade unions do not have a constructive working relationship and future workforce planning is impacted.</p> | <p>To support the successful implementation of future workforce planning it is important that the council and trade unions have a constructive working relationship in line with the Joint Trade Union Recognition Agreement signed in March 2024.</p> <p>Management response</p> <p>Management will continue to support and promote constructive discussions with the Joint Trade Unions aligned to the Recognition Agreement.</p> <p>Responsible officer</p> <p>Executive Director for Council Resources</p> <p>Date</p> <p>On-going</p> | <p>Implemented.</p> |
| <p>8. Performance management framework</p> <p>The council does not have a comprehensive overview of performance measures and targets which measures the</p> | <p>The Council should develop a workforce planning performance management framework, linked to its Workforce Plan to inform future workforce planning.</p> <p>Management response</p> | <p>Ongoing</p> <p>The intention of the 2026 Workforce Plan would be to address this at a service and corporate level.</p> |

| Matter giving rise to recommendation | Recommendation, agreed action, officer and timing | Update on progress |
|--|---|--|
| <p>overall effectiveness of the council's workforce planning.</p> <p>Risk – There is a risk that the council does not have the data to inform decisions about staffing levels, skills requirements and resource allocation.</p> | <p>Management will review the workforce action plan to ensure it captures clear performance management information to inform future planning.</p> <p>Responsible officer Executive Director for Council Resources</p> <p>Date June 2025</p> | <p>Responsible: Head of Corporate Support (Strategic Lead for workforce planning)</p> <p>August 2026</p> |

Appendix 2

Summary of uncorrected misstatements

| Details | Financial statements lines impacted | Statement of Comprehensive Net Expenditure (SoCNE) | | Statement of Financial Position (SoFP) | |
|---|--|--|------|--|------|
| Uncorrected misstatements | | Dr | Cr | Dr | Cr |
| | | £000 | £000 | £000 | £000 |
| 1. Overstatement of short-term debtors in balance sheet | | | | | |
| Dr. Income | | 857 | | | |
| Cr. Short Term Debtors - Trade and Other Receivables | | | | | 857 |
| 2. Overstatement of expenditure due to missed prepayment | | | | | |
| Dr. Short term debtors – trade and other receivables | | | | 618 | |
| Cr. Expenditure | | | 618 | | |

Appendix 3

Supporting national and performance audit reports

| Report name | Date published |
|---|------------------|
| Local government budgets 2024/25 | 15 May 2024 |
| Integration Joint Boards: Finance and performance 2024 | 25 July 2024 |
| The National Fraud Initiative in Scotland 2024 | 15 August 2024 |
| Transformation in councils | 1 October 2024 |
| Alcohol and drug services | 31 October 2024 |
| Fiscal sustainability and reform in Scotland | 21 November 2024 |
| Public service reform in Scotland: how do we turn rhetoric into reality? | 26 November 2024 |
| Auditing climate change | 7 January 2025 |
| Local government in Scotland: Financial bulletin 2023/24 | 28 January 2025 |
| Transparency, transformation and the sustainability of council services | 28 January 2025 |
| Sustainable transport | 30 January 2025 |
| A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study | 20 February 2025 |
| Additional support for learning | 27 February 2025 |
| Integration Joint Boards: Finance bulletin 2023/24 | 6 March 2025 |
| Integration Joint Boards finances continue to be precarious | 6 March 2025 |
| Council Tax rises in Scotland | 28 March 2025 |

East Lothian Council

2024/25 Annual Audit Report



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot