

# East Lothian Council

2020/21 Annual Audit Report



 AUDIT SCOTLAND

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

30 November 2021

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# Key messages

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## 2020/21 annual accounts

- 1 Our audit opinions on the annual accounts of the council, its group and the Dr Bruce Fund (section 106 charity administered by the council) are unmodified.
- 2 The Covid-19 pandemic had an impact on the auditing timetable for the 2020/21 financial statements and as a result concluding the audit was delayed to 30 November. This is acceptable under the provisions of the Coronavirus (Scotland) Act 2020.

## Financial management

- 3 The council has appropriate and effective financial management arrangements.
- 4 The Covid-19 pandemic had a significant impact on the 2020/21 budget. Total expenditure increased from £243.904 million to £255.558 million, although at year end there was an underspend of £12.5 million.
- 5 The council has appropriate budget setting and monitoring arrangements in place.

## Financial sustainability

- 6 The financial impact of the Covid-19 pandemic on the council will be challenging over the coming years.
- 7 Medium and longer term financial plans are in place and are being reviewed and updated to reflect the impact of the pandemic.

## Governance and transparency

- 8 The governance arrangements introduced in response to the pandemic are appropriate and operated effectively.
- 9 There is effective scrutiny, challenge and informed decision making.

## Best Value

- 10 The council has made limited progress in addressing the Best Value improvement plan actions due to Covid-19.
- 11 The Covid-19 pandemic has had a significant impact on council services.

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# Introduction

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1. This report summarises the findings arising from the 2020/21 audit of East Lothian Council (the council) and its group.
2. The scope of the audit was set out in our 2020/21 Annual Audit Plan presented to the 15 June 2021 meeting of the Audit and Governance Committee. This report comprises the findings from:
  - an audit of the annual accounts
  - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) namely, financial management, financial sustainability, governance and transparency and value for money.
3. The main elements of our audit work in 2020/21 have been:
  - an audit of the annual accounts of the council and its group including the statement of accounts of the Dr Bruce Fund (section 106 charity administered by the council) and the issue of independent auditors' reports setting out our opinions
  - a review of the council's key financial systems
  - consideration of the four audit dimensions including follow up work from the council's Best Value Assurance Report (BVAR) published in November 2018.
4. The global coronavirus pandemic has had a considerable impact on East Lothian Council during 2020/21. This has had significant implications for the services it delivers and the suspension of non-essential projects and activities, such as capital construction. Risks related to the pandemic were included in our Annual Audit Plan, and we have adapted our planned work to address any new emerging risks.

## Adding value through the audit

5. We add value to the council through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides

- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Responsibilities and reporting

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

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

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

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

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

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

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

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

## Auditor Independence

**13.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the

professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £253,490 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

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# 1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

Our audit opinions on the annual accounts of the council, its group and the Dr Bruce Fund (section 106 charity administered by the council) are unmodified.

The Covid-19 pandemic had an impact on the auditing timetable for the 2020/21 financial statements and as a result concluding the audit was delayed to 30 November. This is acceptable under the provisions of the Coronavirus (Scotland) Act 2020.

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## Our audit opinions on the annual accounts are unmodified

**15.** The accounts for the council and its group for the year ended 31 March 2021 were approved by the Audit and Governance Committee on 30 November 2021. As reported in the independent auditor's report:

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

## The draft accounts submitted to audit were of a high standard

**16.** The draft accounts submitted for audit were of a high standard, including the management commentary. Some additional narrative was subsequently added relating to the Local Development Plan and City Deal.

## The Covid-19 pandemic had limited impact on receipt of audit evidence

**17.** The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were not affected by the Covid-19 outbreak. The working papers provided with the unaudited accounts were adequate although the volume of working papers provided for some account areas made it difficult to follow the audit trail and further

information had to be requested. Finance staff provided good support to the audit team during the audit.

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

**18.** As a result of the continuing impact of Covid-19, the submission deadlines for Local Government audited annual accounts and annual audit reports have been set at 30 November 2021.

**19.** The unaudited annual report and accounts were received in line with our agreed audit timetable on 30 June 2021. Although later than first planned, the annual accounts were signed off in line with the revised timetable permitted to reflect the impact of Covid-19.

### **Our audit opinions on Section 106 charities were unmodified**

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

**21.** Our audit opinions on the section 106 charity, the Dr Bruce Fund, is unmodified.

**22.** The Dr Bruce Fund was set up to provide relief for the poor of Musselburgh. Since 2016/17, the Dr Bruce Fund has provided a small award to the same two individuals. In 2020/21, the award was increased by £5 per person with a total of £70 awarded (2019/20 £60; 2018/19: £60, 2017/18: £60, 2016/17: £50). We repeat our prior year recommendation that more could be done by East Lothian Council to promote the trust and its availability to the residents in Musselburgh in line with the trust's purpose. There is a continuing risk that the trust fund is not operating effectively to meet its objectives (e.g. lack of provision of grants annually) and the trustees are not discharging their duty correctly.

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## **Recommendation 1**

The council and the Dr Bruce Fund trustees should work together to ensure the Fund is reaching those individuals/groups for whom it was set up and is being actively managed and used for the purposes intended.

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### **There were no objections raised to the annual accounts**

**23.** The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations. There were no objections to the 2020/21 accounts.

## Whole of Government Accounts (WGA)

**24.** The council will submit a consolidation pack for the WGA audit in accordance with the WGA guidance once it is issued by the National Audit Office (NAO). We will complete the required assurance statement and will submit it to the NAO by the revised deadline as set out in the guidance.

### Overall materiality is £4.4 million

**25.** We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

**26.** The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

**27.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£4.4 million
Performance materiality	£2.6 million
Reporting threshold	£44,000

Source: 2020/21 East Lothian Council Unaudited Annual Accounts

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### Appendix 2 identifies the main risks of material misstatement and our audit work performed to address these

**28.** [Appendix 2](#) provides our assessment of the risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

## Significant findings on the annual accounts

**29.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have reported a number of issues from the work done on the identified risks of material misstatement. The significant findings are summarised in [Exhibit 2](#).

### Exhibit 2

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

Issue	Resolution
<p><b>1. Common Good (CG) review</b></p> <p>Following a review of title deeds by the council's legal team, a number of council assets (land and buildings) were identified as belonging to the common good. An external legal team was also involved in reviewing the titles and assets.</p> <p>£3.4 million was initially identified as CG assets within the council's balance sheet. Upon further detailed review, the figure rose to £17.0 million with two community centres comprising the majority of the value.</p> <p>Following further legal and finance reviews, management has separated out the property elements and confirmed that these buildings (£14.0 million) are in operational use by the council.</p> <p>In effect a finance lease has been in operation and will continue for the foreseeable future, and consequently the assets are accounted for as a finance lease on the balance sheet of the council.</p>	<p>The council concluded that £3.0 million of identified CG land and heritage assets were to be transferred from the council's balance sheet to the Common Good balance sheet.</p> <p>The notes for Property Plan and Equipment and the Common Good account have been updated to reflect movements.</p> <p>Narrative has been added in the CG account to explain that there are buildings at zero payment leases being used by the council and that a formal working arrangement for the council's use of these is to be developed.</p> <p><b>Recommendation 2</b></p> <p>A significant amount of CG assets have now been identified that were not previously identified using the council's annual corporate review arrangements, or through the council's formal five year valuation cycle. Processes should be reviewed and amended regarding the identification and confirmation of assets held. The formal valuation cycle itself is insufficient to gain the appropriate assurances that these assets are classified correctly.</p> <p>The council should continue to progress the CG review. Having recognised that the council is using common good assets for the provision of council services, an appropriate lease arrangement must be set up.</p> <p>(refer <a href="#">Appendix 1</a>, action plan, point 2)</p>
<p><b>2. Low Cost Home Ownership (LCHO)</b></p> <p>The council have a standard security agreement in place for 95 affordable homes.</p>	<p>The accounts have been amended to decrease property, plant and equipment and the revaluation reserve by £5 million.</p>

Issue	Resolution
<p>This is part of the various S.75 Developer Contribution agreements in place between developers and the council to provide affordable housing, an integral part of the Local Development Plan.</p> <p>The homes were identified as part of the revaluation process during 2020/21. This resulted in a £5 million upward revaluation included in the unaudited accounts. The homes however were not included on the council's asset register.</p> <p>Finance conducted a review of the arrangements for these low cost homes to ascertain the correct accounting treatment. We sought guidance from our technical team and determined that as the council does not have legal title to these assets, they should not be categorised as property, plant or equipment. We concluded that standard security over these dwellings has a nil value in the balance sheet and the 'benefit in kind' will only crystallise if the dwelling is sold on the open market and removed from the affordable housing pool. This is highly unlikely in view of the council's policy in this area; no dwellings from 2016 to present have been sold on the open market.</p> <p>As part of our audit we also noted there was no policy or process in place between Finance and the Place team to account for these LCHs although work is now underway to address this.</p>	<p><b>Recommendation 3</b></p> <p>The Finance and the Place teams need to establish a policy and associated procedures, including a detailed register of the low cost homes as part of the S.75 agreements, in order to effectively manage the process and ensure the policy objectives are being appropriately delivered.</p> <p>(refer <a href="#">Appendix 1</a>, action plan, point 3)</p>
<p><b>3a. Property, plant and equipment (PPE)</b></p> <p>There were a number of adjustments to the accounts in respect of PPE with the largest adjustment due to double counting certain assets. The assets has been labelled in the asset register as assets under construction but were in fact included in land and buildings, hence the assets were double counted when revalued.</p> <p>The value identified and adjusted for was £16.5 million. The council will be carrying out an 'out-of-cycle' valuation exercise planned for 31 March 2022 to ensure that all assets</p>	<p>The accounts have been amended resulting in a decrease to PPE of £16.5 million and a corresponding decrease to the revaluation reserve (£13.0 million) and the capital adjustment account (£3.5 million). There was no impact on usable reserves as a result of the adjustment.</p>

Issue	Resolution
<p>are valued in the correct cycle for valuations according to their asset category.</p>	
<p><b>3b. Property, plant and equipment (PPE)</b></p> <p>For two significant assets tested, we noted that the historic balances on the asset register had not been split between the different components before applying the formal valuation. The assets were being revalued for the first time and similar to the above point, has assets under construction in their title. At the point of transfer from assets under construction to land and buildings the componentisation policy was not applied. This resulted in the revaluation reserve being overstated.</p>	<p>The accounts were adjusted for and the impact was a decrease of £8.4 million to the revaluation reserve, and a corresponding increase to the capital adjustment account. Revaluation gains recognised in the surplus/deficit on provision of services was reduced by the same amount.</p> <p>Overall the carrying value of these assets is not misstated at the year end and there was no impact on the general fund balance.</p>

Source: 2020/21 Annual Audit

## Identified misstatements of £21.9 million were adjusted for in the accounts.

**30.** Total misstatements identified and adjusted for have increased net expenditure by £21.9 million. These mainly consist of adjustments to property, plant and equipment and the Common Good, as described in [Exhibit 2](#) above. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

**31.** None of the above adjustments had an impact on the surplus of provision of services or the useable reserves. The council have agreed to review and amend the processes in relation to their fixed asset register system, 'Asset Manager'.

### Unadjusted misstatements - Group accounts

**32.** We identified differences between group component draft accounts and the audited component accounts subsequently received by the council. The impact on the Group CIES is an increase of £54,000 in total comprehensive income, and the impact on the Group Balance Sheet is an increase in net assets of £90,000. Management have not adjusted for the items due to the individual component values involved.

**33.** It is our responsibility to request that all misstatements, other than those below the reporting threshold are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

### **Prior period adjustments**

**34.** In addition to the above adjustments a number of prior period adjustments were made to the 2019/20 figures in the audited accounts. Whilst we would expect prior period adjustments for material figures, this was not the case. Prior period adjustments for immaterial amounts undermines the credibility of the annual report and accounts from the prior year and requires additional audit work to be undertaken to verify the adjustments. The council have now included a new note (Note 39) with sufficient disclosure in the audited accounts for a reader to understand the nature and value of the adjustments. The restated 2019/20 figures had no net impact/movement on the CIES or the balance sheet.

### **Limited progress made on prior year recommendations**

**35.** The council has made limited progress in implementing our prior year audit recommendations mostly due to the impact of Covid-19 and the resulting business critical prioritisation of its activities. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

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## 2. Financial management

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

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### Main judgements

The council has appropriate and effective financial management arrangements.

The Covid-19 pandemic had a significant impact on the 2020/21 budget. Total expenditure increased from £243.9 million to £255.6 million, although at year end there was an underspend of £12.5 million.

The council has appropriate budget setting and monitoring arrangements in place.

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### The council operated within budget in 2020/21 and reported a £12.5 million underspend

**36.** The council approved its 2020/21 General Services budget in March 2020. The budget was set at net expenditure of £243.9 million which included planned savings of £3.2 million and planned use of £1.5 million of reserves. The 2020/21 end of year financial review presented to council in June 2021 reported an underspend of £12.5 million with an increase in usable reserves of nearly £14.0 million. In quarter four of 2020/21, the council received confirmation of additional national funding to support Covid-19 interventions. The council have earmarked a total of £8.9 million in a Covid fund for 2021/22.

**37.** Significant variances relative to budget include:

- Receipt of additional General Revenue Grant funding of £20.3 million, to meet the costs of the Covid-19 pandemic, £8.9 million of which has been carried forward to 2021/22 aligned to the council's approved Strategic Recovery and Renewal Framework.
- Council delegated IJB budgets delivered a surplus of £0.433 million. £3.3 million of additional funding has also been made available to the IJB mitigate the additional costs of Covid-19 but was unspent at year end. The total £3.7 million underspend was agreed to be carried forward 2021/22 as an earmarked reserve in the IJB accounts and is in line with Scottish Government guidance.
- The Council delivered a surplus of £4.4 million in Early Learning and Childcare revenue specific grant funding in 2020/21 and applied flexibility in line with national guidance. As a result, £2.2 million will support future related capital costs, £1.4 million will support rollout of the Early Learning

and Childcare Programme during 2021/2, and £0.7 million was transferred to support Covid-19 pressures in 2020/21 in Education & Children's Services.

**38.** The end of year financial review states that without the additional funding and permissible flexibilities, the council would have had an overspend of £11.5 million in 2020/21. The more significant under and overspends are summarised in [Exhibit 3](#).

### Exhibit 3 Summary of significant under/overspends against budget

Area	£m	Reason for variance
<b>Underspends by Directorate</b>		
Additional General Revenue Grant (GRG) Funding	£8.9	Carried forward to 2021/22 to deliver specific commitments, as directed by the Scottish Government, to support wider response and recovery interventions due to Covid-19.
Council Resources Directorate	£1.0	£0.6 million underspend in Finance and a £0.4 million underspend in Corporate due to staffing vacancies.
Education and Children's Services Directorate	£2.1	£4.1 million underspend in Education mainly due to additional support for learning relating to external placement and transport costs. This was offset by a £2.0 million overspend in Children's Services with the most significant pressures being external residential care, high tariff secure placements, and fostering.
Place Directorate	£2.3	£1.5 million underspend in Economic Development for Covid-19 Business Support scheme. The scheme will incur costs in 2021/22 and the funding has been carried forward as part of reserves. £0.8 million underspend in Communities and Partnerships arising from vacant posts.
<b>Overspends by Directorate</b>		
Health and Social Care Directorate	£0.5	Due to the level of demand for commissioned services such as care homes and care at home. There were also significant Covid-19 related costs, including loss of anticipated income, the purchase of spare care home beds, and ongoing sustainability payments to

Area	£m	Reason for variance
		external providers in line with national guidance.

Source: East Lothian Council 2020/21 End of Year Financial Review

## Housing revenue account operated within budget

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

**40.** The HRA delivered a surplus of £3.2 million against a planned surplus of £3.2 million. Income was £0.4 million lower than budget as a result of less house completions than planned, largely offset by £0.3 million savings from staffing and reductions in the bad debt provision and lower debt charges. There was an increase in void rents and the council charged fixed costs for property maintenance to the HRA. During 2020/21 capital spend on the HRA was £12 million under budget, mostly due Covid-19 lockdown periods preventing work from progressing.

**41.** The level of HRA reserves has been maintained at the 2019/20 balance of £2.0 million. and this has been achieved through flexibility in adjusting the funding contributed to in year capital expenditure to match the available statutory surplus for the year. This approach remains consistent with the Council's approved financial strategy.

## The council has appropriate budget setting and monitoring arrangements in place

**42.** The council's budget and savings plan is aligned to council priorities, as set out in its 2017-2022 strategic plan. The council has previously used scenario planning to calculate estimated funding gaps for the five-year period of its financial strategies. For the previous financial strategy (2020-2025), scenarios were used ranging from best to worst case, based on a limited number of key variables (revenue support grant, pay, non-pay inflation, budget pressures and council tax yield). The estimated funding gaps for the five-year period ranged from £0.5 million to £31.7 million.

**43.** The 2021-2026 financial strategy notes that credible future forecasting with any degree of certainty is difficult with so many exceptional and unpredictable external influences affecting the wider economy. The 2021-2026 financial strategy does not include scenario planning but notes that a one percent reduction in core revenue funding results in a £1.8 million annual reduction in funding or £5.4 million cumulatively over three years.

**44.** 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 service level. The reports contain good explanations for significant variances against budget and allow both members and officers to carry out scrutiny of the council's finances. The council has appropriate budget setting and monitoring arrangements in place.

**The Covid-19 pandemic had a significant impact on the 2020/21 budget. Total expenditure increased from £243.9 million to £255.6 million, although at year end there was an underspend of £12.5 million.**

**45.** The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

**46.** The Covid-19 pandemic had a significant impact on the council's 2020/21 budget. The council has reported a £12.5 million underspend for service expenditure relative to the approved budget in 2020/21. The end of year financial review notes that without the additional funding received and permissible flexibilities, there would have been a £11.5 million overspend.

**47.** The council did not furlough staff during 2020/21, nor did it apply the Scottish Government's flexibilities for the use of capital receipts to fund revenue pressures, extension of debt repayment periods or deferral of loans fund repayments. The option to apply certain flexibilities will be used during 2021/22 and beyond.

**48.** There was a reduction in council income of £2.4 million due to closures, reduced fees and charges. There were reductions in the collection rates for Council Tax (1.58%), Housing Rents (0.58%) and Non-Domestic Rates (0.88%). The reduction in collection rates for 2020/21 has not significantly affected the council's bad debt provision.

**49.** The council received an additional £25.5 million of Covid-19 specific funding from the Scottish Government, £19.5 million of which was Revenue Support Grant and £5.9 million related to specific grants.

**50.** The council also distributed £28.5 million of Covid-19 business support grants on behalf of the Scottish Government. We have reviewed the disclosure of agency income and expenditure in the 2020/21 accounts and have confirmed that it is reasonable, transparent and provides a reader with a good level of detail.

**There has been a significant increase in the level of General Fund reserves**

**51.** One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held increased from £21.1 million in 2019/20 to £35.1 million in 2020/21. £8.9 million of this movement relates to Covid-19 funding carried forward to 2021/22. The council received late confirmation of additional national funding, including some funding that was

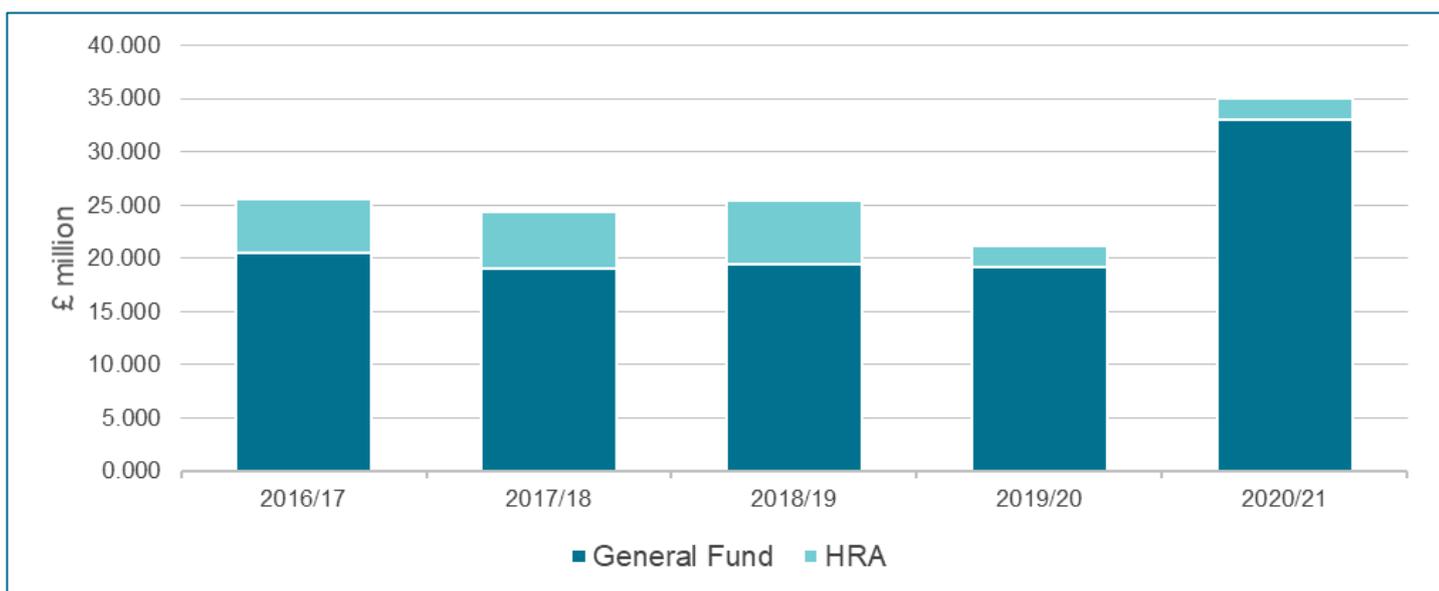
earmarked for 2021/22. This funding is included in earmarked reserves in a dedicated Covid-19 fund. The increase also includes a capital receipt for £0.6 million which has been earmarked to support the HRA.

**52.** The general fund is the largest usable reserve. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows. The council reviews the level of its uncommitted reserves when setting the budget each year. The council's reserves strategy recommends a minimum level of uncommitted general reserve balances which can be used to support any unforeseen / unquantifiable event.

**53.** As set out within the approved Financial Strategy, the council is required to hold a minimum level of uncommitted reserves equivalent to 2% of annual running costs. In 20/21 the uncommitted reserve was £3.1m. The level of uncommitted reserves remains low given the ongoing uncertainties with Covid-19, Brexit and the delivery of council services in general. The 2021-2026 Financial Strategy recommends that for 2021/22, at least, a higher general reserve balance should be maintained, including the additional £5.2 million of committed reserves comprising the Civil Emergency Fund (£2.0 million), the General Services Capital Fund (£2.3 million) and the additional £0.9 million balance to support the minimum level of uncommitted reserves.

**54.** From 2022/23, if the projected level of uncommitted reserves falls below the 2% minimum level, members must have a clear route for restoring the minimum level over the subsequent three years. [Exhibit 4](#) provides an analysis of the movements in the general fund and HRA over the last five years.

#### Exhibit 4 Analysis of general fund and HRA reserve balances in last 5 years



Source: East Lothian Council Audited Annual Accounts

## Planned efficiency savings were achieved

**55.** The 2020/21 budget included planned savings and contributions from reserves to address the budgeted funding gap. The council approved £3.2 million of savings in the 2020/21 budget.

**56.** The council achieved actual savings of £3.1 million (99% of those budgeted). Of this total, £1.0 million of savings were on a recurring basis (35%) and £2.0 million of corporate savings from underspends across staffing budgets. Officers have reported to members that there is a risk in delivering these savings on a recurring basis and the council are reviewing this position.

## Capital expenditure reduced in 2020/21 as the council paused their capital investment projects

**57.** Total capital expenditure in 2020/21 was £56.9 million, relative to a budget of £98.1 million, of which £35.7 million (63%) related to general services and £21.2 million (37%) to the HRA. The key reason for the underspend is almost entirely due to delays caused by Covid-19 lockdown periods and suspension of construction.

## Developer Contributions and Low Cost Home Ownership (LCHO)

**58.** Developer contributions are obtained from property developers, in line with legal agreements, and are required to address the transport, education, community, health care and affordable housing requirements that arise as a result of such developments. In 2020/21 there were developers' contributions of £22.2 million included within long term liabilities, a decrease on the prior year of £1.1 million (4.5%).

**59.** During 2020/21 we were alerted to the existence of 95 affordable homes that were part of the S.75 developer contributions agreements. The item arose due to the 2020/21 valuation exercise of operational land and buildings which resulted in a £5.0 million revaluation in relation to a particular category of low cost homes (refer [Exhibit 2](#), point 2). As part of our audit, we noted there was no policy or process in place between Finance and the Place teams to account for these low cost homes. Work is now underway to address this.

**60.** These homes are part of 'the affordable housing for home ownership scheme' run by the council. Specifically, they are part of the discounted sale

model<sup>1</sup> offered by the council. The scheme offers affordable homes to rent or buy. The homes are marketed at a discounted price below the open market value and are marketed to applicants who meet the council's discounted sale eligibility criteria. The percentage difference between the discounted price and the open market value price is secured by a standard security in favour of the council. The purpose of the standard security is to ensure that the property can remain affordable to future first time buyers with conditions attached to the property. The standard security is ranked after any granted by the mortgage provider. The home owner has full responsibility for maintenance and repairs of the dwelling and has legal title to the dwelling. On selling the property, the percentage discount will be paid back to the council which will be reinvested in affordable housing. If an eligible purchaser is not identified within a 13 week period then the council would have first refusal to buy the property.

**61.** During 2020/21 two affordable homes were unable to be sold to an eligible purchaser. The council facilitated the purchase of these properties by the recently established East Lothian Mid Market Homes LLP. The properties have therefore become affordable mid-market rental units. As part of the terms of sale, the East Lothian Mid-Market Homes LLP was required to enter into an agreement secured by a standard security with the council to ensure the properties would remain affordable. The proposals and arrangements were presented to Cabinet in January 2021 and a further paper lodged in the Members' Library in February 2021.

**62.** The consideration ELC has given to this LCHO transaction has ensured the original homes have remained within the affordable housing stock and further reinforces the council's commitment that these S.75 contributions 'in kind' are being used for the purposes as set out in the Local Development Plan supplementary guidance and as part of the council's longer term plans and objectives for affordable housing.

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### Recommendation 3

The Finance and Place teams need to establish a policy and associated procedures, including a detailed register of the low cost homes as part of the S.75 agreements, in order to effectively manage the process and ensure the policy objectives are being appropriately delivered.

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<sup>1</sup> Homes offered for sale by the council which is a standard dwelling sold by a developer in partnership with East Lothian Council, to an agreed identified client group, at a specified price below market value.

## Borrowing levels have remained static

**63.** At 31 March 2021, long term borrowing stood at £345.8 million, a decrease of £20.8 million on the 2020 level of £366.6 million. During the same period, short term borrowing increased from £18.8 million to £32.3 million. There has been an overall reduction in borrowing of £7.3 million.

**64.** Total external debt, which includes the council's long-term liabilities, was within the authorised limit and operational boundary set by the treasury management strategy.

## Financial systems of internal control operated effectively

**65.** Our management letter presented to the Audit and Governance Committee on 15 June 2021 concluded our findings from the review of systems of internal controls. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect the council's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

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

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

**67.** The risk profile of public bodies during 2020/21 has been significantly affected by the Covid-19 pandemic. This is likely to have increased the risk of fraud and error as control environments and internal controls have had to change to allow for services to operate effectively and respond to issues in a timely manner. We have reviewed the arrangements put in place by the council and concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities.

**68.** In addition, we have reviewed the arrangements in place to maintain standards of conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

## National Fraud Initiative

**69.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The council is proactive in investigating matches and reporting the outcomes of NFI activity to those charged with governance.

**70.** During 2020/21 the council had 3,104 individual matches. Internal audit has reviewed 906 of the highest risk matches. 577 matches have been fully

investigated and closed and a further 329 matches are currently in progress. Of the 577 matches:

- 482 cases identified no fraud or errors
- 87 cases identified errors in respect to blue badges with action being taken by the council
- 8 cases of overpayments/under recovery totalling £102,518 was identified which has been or is being recovered by the Council, with the exception of £22,287 from a company that has now ceased trading, although recovery efforts are being made.

**71.** A detailed report on the results will be presented to the Audit and Governance Committee on 30 November 2021.

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## 3. Financial sustainability

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

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### Main judgements

The financial impact of the Covid-19 pandemic on the council will be challenging over the coming years.

Medium and longer term financial plans are in place and are being reviewed and updated to reflect the impact of the pandemic.

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### The financial impact of the Covid-19 pandemic on the council will be challenging

**72.** The financial impact of the pandemic on East Lothian Council is likely to extend across several years and could include a reduction in income from business rates and council tax non-payments as well as a reduction in fees and charges from, for example, leisure, public transport and parking. Bodies may also face increased costs such as higher staff costs to cover the delivery of services.

**73.** In March 2021, the council's approved three year budget included the delivery of £9.2 million planned savings. £0.9 million was planned to be realised in 2021/22 through increased income, efficiencies and other savings. The quarter one financial review notes that it is unlikely that all budgeted income will be realised, and the council faces a wide range of financial uncertainties and further cost and demand pressures.

**74.** Additional, one-off Covid-19 funding in 2021/22 will mitigate some of the additional pressures but the recurring implications of Covid-19 will continue to present a significant risk to financial planning as the recovery phase continues. At the end of June 2021, the council reported a £0.2 million overspend for general services revenue.

**75.** The quarter one financial review estimates that the cost of supporting wider Covid-19 pressures and interventions in 2021/22 will exceed £11.0 million. This will be met largely by non-recurring funding. £10.4 million of additional general revenue grant funding has been provided and £0.37 million of funding has been provided for business support schemes.

## **Medium and longer term financial plans are in place and are being reviewed and updated to reflect the impact of the pandemic**

**76.** The council has a five-year financial strategy in place covering the period 2021/22 to 2025/26, approved in December 2020. The strategy is reviewed annually to ensure it remains relevant and appropriate. Spending plans for the three-year period from 2020/21 to 2022/23 were approved in March 2020 as part of the 2020/21 annual budget process. As noted previously, the council has not used scenario analysis in the current five-year financial strategy due to the exceptional and unpredictable external influences affecting the wider economy. A revised five-year strategy covering 2022/23 to 2026/27 will be presented to Council in December 2021.

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## 4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

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### Main Judgements

The governance arrangements introduced in response to the pandemic are appropriate and operated effectively.

There is effective scrutiny, challenge and informed decision making.

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### Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively

**77.** We have concluded that, overall, East Lothian Council has appropriate and effective governance arrangements in place which support effective scrutiny, challenge and decision making. This is informed by our regular attendance at the Audit and Governance Committee, review of Full Council and Cabinet papers and other committee papers, as appropriate. The meetings and business to be scrutinised were not disrupted by the pandemic and continued to operate using MS Teams and other virtual platforms.

### Performance reporting in the management commentary was of a good standard

**78.** The Management Commentary in the unaudited accounts submitted to audit provided information on the council, its main objectives and the principal risks faced during 2020/21. It is fair, balanced and an understandable analysis of the council's performance for the year. It adequately explains to stakeholders, in plain English, the performance of the council and is consistent with the performance shown in the financial statements.

**79.** In particular there is transparency in reporting the impact of Covid-19 on outturn and reserves. The Management Commentary also explains the Covid-19 agency payments made during the year and this is supported by comprehensive notes in the financial statements (Note 9 agency income and expenditure, and Note 34 grant income). We comment more on performance reporting in Part 5 of this report.

## Musselburgh Racing Associated Committee (MRAC)

**80.** The Musselburgh Racing Associated Committee (MRAC) was dissolved during 2020/21. Musselburgh Racecourse was transferred to Chester Race Company Ltd on 24 June 2020, and MRAC ceased to operate at the point of transfer. The final meeting of MRAC took place on 22 June 2020. A separate independent company, Musselburgh Racecourse Limited was set up and is responsible for the operation of the racecourse. The council still retains ownership of and responsibility for the racecourse but it has no ownership or control with regards to the new Musselburgh Racecourse Limited company. MRAC is included in the 2020/21 group accounts for the first three months of the financial year.

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# 5. Best Value

Using resources effectively and continually improving services.

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## Main judgements

The council has made limited progress in addressing the Best Value improvement plan actions due to Covid-19.

The Covid-19 pandemic has had a significant impact on council services.

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**81.** Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council is considered by the Accounts Commission at least once in this period. The BVAR report for East Lothian Council was published in November 2018.

## Council Improvement Plan

**82.** After publication of the BVAR, and based on the recommendations made therein, the council adopted a 2018-2020 Improvement Plan. The Improvement Plan has been revised and updated annually. The 2021/22 Improvement Plan was approved by the council in February 2021. The Plan notes that limited progress has been made against the improvement actions, as the council continued to operate in business continuity plan mode throughout 2020/21, with non-critical actions put on hold. Revised timescales and deadlines have been given to all the improvement actions with a target to be completed by 2022.

**83.** The council has completed its annual corporate governance self-evaluation exercise and presented this to the Audit and Governance Committee in June 2021. The self-evaluation has not identified any additional improvement actions over and above those already included in the 2021/22 Improvement Plan.

**84.** The council management team participated in a Covid-19 interim lessons learned structured debrief in June 2021. A further Interim Structured Debrief Workshop for all Elected Members was held in September 2021 to explore the experiences – positive and negative – and capture lessons to be learned, including review of council decision-making, leadership, managing risks and stakeholder engagement. Findings will be incorporated into an updated Improvement Plan.

## Statutory performance indicators (SPIs) are being met

**85.** The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. The Commission does not prescribe how councils should report this

information but expects them to provide the public with fair, balanced and engaging performance information.

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

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

**87.** The council's most recent annual performance report, 2019 Annual Performance and 'State of the Council,' report was published in October 2019. The 2020 Annual Report covering 2020/21 was not produced due to the council operating under a business-critical approach, which deprioritised the report. Despite this, the council have continued to monitor and report on SPI 1 and 2 measures through the Policy and Performance Review Committee (PPRC) during 2020/21, and all the papers are publicly available.

## **The Covid-19 pandemic has had a significant impact on council services**

**88.** The pandemic has had a substantial impact on performance measures, particularly for services which have been temporarily suspended, are operating at a reduced level, or have had to adapt to new ways of working. The council have continued to monitor key performance targets throughout the year with performance being regularly reported to the PPRC. The 2020/21 Quarter 4 and Annual Performance Report was presented to the PPRC in June 2021 providing members with information regarding the performance of council services during Quarter 4 and the Annual Performance Indicators for 2020/21 compared against the previous year. The 2021/22 Quarter 1 report and top 50 performance indicators for 2020/21 were presented to PPRC in September 2021.

**89.** Some services had to stop due to lockdown, with staff being diverted to business critical or new activity in response to the pandemic. The pandemic has also had a significant impact on quarterly and annual performance indicators as reported in September 2021. The report notes that the top 50 council plan indicators have different reporting timeframes and many rely on national data which are not yet available. The latest information provided to PPRC included 27 indicators where comparable data was available for 2020/21 and 2019/20. 19 (70%) of these indicators were either maintained or improved in performance over the last year, and eight (30%) showed a decline in performance. Some highlights from the reports include:

- Homelessness – cases fluctuated due to Covid-19, increasing to 169 (2019/20: 139). Performance remains within the council's overall target of 200 cases. Homelessness assessments completed in under 28 days is above target at 90% as a result of a new framework being implemented.

- Processing of new housing benefit claims – the number of changes in Housing Benefit has increased due to the impact on the economy and household incomes from Covid-19. New claims performance processing for 2020/21 averaged 20.84 days (target 26 days). Performance for processing changes in circumstances averaged 5.51 days (2019/20: 3.19 days) against a target of 6 days.
- Staff absence – sickness absence days for teachers fell to 2.90 (2019/20: 4.92) and for non-teaching staff 7.07 (2019/20: 9.46).

## National performance audit reports

**90.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, Audit Scotland a number of reports were issued which may be of interest to the body. These are outlined in [Appendix 3](#).

**91.** East Lothian Council has well established and satisfactory arrangements in place for considering and reviewing national reports including any locally agreed actions. The reports are presented with a covering paper to the relevant committee(s) and an opportunity for members to ask questions is also provided.

## Good practice points

**92.** The Policy and Performance Review Committee are provided with performance indicators from the Improvement Service's Covid-19 Weekly Dashboard, the council's Quarterly and Annual Performance Indicators, and the council plan top 50 scorecard, showing how the council and its services have been affected by the pandemic. Elected members are provided with information on the council's response to Covid-19 challenges and a baseline against which recovery can be measured.

# Appendix 1: Action plan 2020/21

## 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Dr Bruce Fund</b></p> <p>Minimal payments are being paid out of the Fund</p> <p><b>Risk</b> – There is a continuing risk that the trust fund is not operating effectively to meet its objectives (e.g. lack of provision of grants annually) and the trustees are not discharging their duty correctly.</p>	<p>The council and the Dr Bruce Fund trustees should work together to ensure the Fund is being actively managed and used for the purposes intended (refer paragraph <a href="#">22</a>).</p>	<p><b>Management action:</b></p> <p>A wider review of Trusts is ongoing but has been delayed due to Covid-19 in support of business continuity priorities. Any wider disbursement of funds will be considered in due course.</p> <p><b>Responsible officer:</b></p> <p>Executive Director for Council Resources</p> <p>Service Manager - Legal</p> <p><b>Agreed date:</b></p> <p>Ongoing</p>
<p><b>2. Common Good (CG) review</b></p> <p>Following a review by the council's legal team, a significant number of council assets (land and buildings) have now been identified as belonging to the common good. This was despite an annual corporate review arrangement and the council's formal five year valuation cycle both of which were intended to identify common good assets.</p> <p>Risk – there is a continuing risk that not all common good assets have been identified.</p>	<p>Processes for identifying and confirming assets held should be reviewed and amended. The formal valuation cycle itself is insufficient to gain the appropriate assurances that assets are classified correctly.</p> <p>The council should continue to progress the CG review. Having recognised that the council is using common good assets for the provision of council services, an appropriate lease arrangement must be set up (refer <a href="#">Exhibit 2</a>).</p>	<p><b>Management action:</b></p> <p>Work on review and consolidation is ongoing; COVID-19 demands limited progress.</p> <p><b>Responsible officer:</b></p> <p>Executive Director for Council Resources</p> <p>Service Manager - Legal</p> <p><b>Agreed date:</b></p> <p>Report will be brought to Council June 2022.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>3. Low Cost Home Ownership (LCHO)</b></p> <p>The Finance Team were not sighted on the existence of this category of affordable homes until it was presented to the council as a purchase option. It equates to a S.75 developer contribution.</p> <p>Risk – there is a risk that policy objectives are not met if the assets with which an ‘in kind’ developer contribution is linked, are not closely monitored over time.</p>	<p>The Finance and Place teams need to establish a policy and associated procedures, including a detailed register of the low cost homes as part of the S.75 agreements, in order to effectively manage the process and ensure the policy objectives are being appropriately delivered (refer <a href="#">Exhibit 2</a>).</p>	<p><b>Management action:</b></p> <p>Action is noted and will be progressed with relevant officers.</p> <p><b>Responsible officer:</b></p> <p>Service Manager – Corporate Accounting</p> <p><b>Agreed date:</b></p> <p>31 March 2022</p>

## Follow-up of prior year recommendations

Issue/risk	2019/20 Recommendation	2020/21 Update Agreed management action/timing
<p><b>4. Common Good / Trust Fund Review</b></p> <p>The ongoing council-wide review of the common good and trust funds review has lacked pace and progress. We have raised the need for this review in prior year annual audit reports and are highlighting it here again in the action plan to raise the importance of progressing and completing the review. Statutory guidance on accounting for the Common Good requires a clear timescale to be set for review of common good assets and compilation of a publicly accessible register of those assets.</p>	<p>We repeat our recommendation that the council should progress and conclude on their review of common good and trust funds including an exercise to consider whether there is scope to consolidate any/all of the 46 trusts. This should include a review of the method(s) used to promote the Dr Bruce Fund and other charitable trusts to ensure that the potential availability of these funds is known to the wider community.</p>	<p><b>In Progress</b></p> <p>Progress on the Common Good and Trust Funds Review during 2020/21 was affected by the council’s adoption of the ‘business continuity’ approach in response to Covid-19. This limited but did not stop activity and progress.</p> <p><u>Common Good</u> - The Council had a public consultation on clarification of the Common Good asset base. It is considered that this is a critical first step in the overall review process, as it will directly affect the assets identified and registered as being related to each Common Good fund.</p>

Issue/risk	2019/20 Recommendation	2020/21 Update Agreed management action/timing
<p><b>Risk:</b> There is a risk that common good assets are not being identified and used effectively and efficiently and, in line with legislation (Community Empowerment Act 2015). There is a risk that trust funds held could become dormant due to lack of use and lack of wider knowledge in the community as to their existence. If charitable objectives are not being met, there is scope for OSCR to withdraw the charitable status of the funds.</p>		<p>During 2021/22 the Council intends to continue progress through finalising the publicly accessible Common Good asset register; and considering the manner in which that asset register can be best used to support the Common Good governance arrangements as well as the achievement of the Common Good funds' objectives.</p> <p><u>Trust Funds</u> - Progress was more limited, affected primarily by the Covid-19 business continuity arrangements, as well as the loss of a staff member with Trust Funds experience.</p> <p>For 2021/22 the Council is actively assessing the options available for supporting a re-organisation of Trust Funds, without adversely affecting the Council's General Services and HRA management responsibilities.</p> <p>The Finance Service structure is also undergoing a consultation process, and the financial management provided for Trust Funds and Common Good is being considered as part of this process.</p> <p>We have raised a new recommendation in <a href="#">Exhibit 2</a> regarding the Common Good fund.</p> <p><b>Responsible officer:</b> Executive Director for Council Resources</p> <p><b>Revised date:</b></p>

Issue/risk	2019/20 Recommendation	2020/21 Update Agreed management action/timing
<p><b>5. Trade receivables review</b></p> <p>A review of aged receivables at year end found some outstanding amounts that had not been reviewed for over a year.</p> <p><b>Risk:</b> There is a risk that that irrecoverable balances are not being provided for nor written-off, as appropriate.</p>	<p>The council should review aged receivables' balances to confirm whether any debts should be written off or if further action needs to be taken to recover outstanding amounts.</p>	<p>Update report will be delivered during 2022</p> <p><b>Completed</b></p> <p>Since inheriting an accumulated balance of historic Sundry Accounts debt in May 2019, the Revenues Service has implemented a variety of processes to improve debt collection and management. As a result of the improvements, the number of accounts with a positive balance reduced from 5,513 in May 2019 to 3,964 at the end of 2020/21.</p> <p>Due to the time it can take to pursue some forms of debt (e.g. Adult Wellbeing Social Care debt), balances may remain static between years.</p> <p>During 2020/21 the Council, and its debtors, were affected by Covid-19 restrictions, amended working practices and competing priorities. This affected some debt collection activities.</p> <p>The Revenues Service will continue to act to collect historic debt and reduce the historic legacy balance.</p> <p><b>Responsible officer:</b> Service Manager – Revenues</p>
<p><b>6. Common repairs' review</b></p> <p>In 2018/19 we recommended that a reconciliation be carried out to confirm that the common repairs' balances are correctly stated. We found that no reconciliation was undertaken during</p>	<p>A review of the common repairs' balances should be undertaken to confirm whether any debts require to be written off or if further action needs to be taken to recover outstanding amounts.</p>	<p><b>In Progress</b></p> <p>Progress has been slow due to Covid-19 and access to paper-based files restricted.</p> <p>During 2020/21 a cross service working group has been set up and meets monthly. The group aims to</p>

Issue/risk	2019/20 Recommendation	2020/21 Update Agreed management action/timing
<p>2019/20 and that the majority of the high value debtors selected for testing were unchanged from the prior year.</p> <p><b>Risk:</b> There is a risk that irrecoverable balances are not being provided for nor written-off, as appropriate.</p>		<p>identify repair balances and agree an action plan. Senior Officers met in August 2021 to quantify the debt outstanding and decide what approach should be taken for each debt (e.g. refer write off, additional recovery action etc.).</p> <p>As well as quantifying the Common repairs' debt, the physical papers will also be scanned and indexed for easier future remote access.</p> <p>The progress made is encouraging. We recommend that the group continues their work to complete the common repairs' review.</p> <p><b>Responsible officer:</b> Executive Director for Council Resources</p> <p><b>Revised date:</b> 31 March 2022</p>
<p><b>7. Reporting outcomes against improvement actions</b></p> <p>The council monitors performance through its annual Corporate Governance Self-evaluation and Annual Governance Statement (CGSAGS) with the most recent report presented to the Audit and Governance Committee in June 2020.</p> <p>The corporate governance self-evaluation tends to list policy documents or assurance frameworks, rather than evaluate evidence of their effectiveness of</p>	<p>The council's reporting and monitoring against its improvement plan could be further improved to update members on what has been achieved through its improvement actions.</p>	<p><b>Outstanding</b></p> <p>Due to the impact of Covid-19 there has been no progress made against this point.</p> <p>The update on the Council Improvement Plan using a revised format will be prepared in the autumn (by November 2021).</p> <p>We continue to recommend that the council's reporting and monitoring against its improvement plan should be improved to update members on what has been achieved through its improvement actions.</p> <p><b>Responsible officer:</b></p>

Issue/risk	2019/20 Recommendation	2020/21 Update <b>Agreed management action/timing</b>
<p>delivering against improvement actions. The report contains comprehensive detail on what the council does / has in place, without evidencing what results have been achieved. The report against the council's improvement action plan focuses more on the number of actions completed, rather than the improved ways of working or delivery of services through improvement actions, such as implementation of the council's workforce plan.</p>		<p>Service Manager – Policy, Improvement &amp; Partnerships</p> <p><b>Revised date:</b> 31 March 2022</p>
<p><b>8. Fairness and equalities</b></p> <p>East Lothian continues to work proactively with a local network to reach out to people and communities affected by equalities considerations. While the council has worked with partners to deliver some successful initiatives, reporting against equalities and Fairer Scotland duties needs to be more joined up and less disperse.</p>	<p>It is important the council ensures its performance reports are improved so that it is easier for elected members and the public to evaluate performance across equalities.</p> <p>We recommend that implementation of the single framework is closely monitored to ensure adherence and success.</p>	<p><b>In Progress</b></p> <p>A draft <a href="#">Equalities Plan 2021-2025</a> and a <a href="#">draft poverty plan 2021-2023</a> have been published for consultation and the final drafts of the new Plans will be presented to Council in October 2021. A new single Equalities Performance framework will be adopted following approval / adoption of these new plans with new indicators and targets (November 2021).</p> <p>We recommend that implementation of the single framework is closely monitored to ensure adherence and success.</p> <p><b>Responsible officer:</b> Service Manager – Policy, Improvement &amp; Partnerships</p> <p><b>Revised date:</b> 31 March 2022</p>

# Appendix 2: Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>International Standards on Auditing require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p> <p>This risk includes the potential for management to influence the results in the financial statements through estimates and judgements. In response to Covid-19, some internal controls were amended to maintain processing levels and, in some instances, this may have increased the opportunity for management override.</p>	<p>Detailed testing of journal entries.</p> <p>Reviewed accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p><b>Results:</b></p> <p>We found no instances of material misstatement due to fraud caused by management override of controls.</p> <p><b>Conclusion:</b> Satisfactory</p>
<p><b>2. Risk of material misstatement caused by fraud in revenue recognition</b></p> <p>As set out in ISA (UK) 240, there is a presumed risk of</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p><b>Results:</b></p> <p>We found no instances of material misstatement caused by fraud in revenue recognition.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. ELC receives a significant amount of income from several sources, in addition to Scottish Government funding, including income from fees and charges. The extent and complexity of income means that there is an inherent risk of fraud.</p>	<p>Assessed high level controls in significant areas of income.</p>	<p><b>Conclusion:</b> Satisfactory</p>
<p><b>3. Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. The extent of ELC's expenditure means that there is an inherent risk of fraud.</p> <p>As a consequence of Covid-19 there are changes in the pattern of expenditure, and in the processing of transactions, with staff working from home. Both factors increase the risk of fraud and error.</p>	<p>Reviewed work on the National Fraud Initiative.</p> <p>Assessed high level key controls in significant areas of expenditure.</p> <p>Focused substantive testing of expenditure and housing benefit transactions.</p>	<p><b>Results:</b></p> <p>We found no instances of material misstatement caused by fraud in expenditure.</p> <p><b>Conclusion:</b> Satisfactory</p>
<p><b>4. Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk</p>	<p>Completed 'review of the work of an expert' in accordance with ISA 500 for the professional valuer(s) and actuary.</p> <p>Focused substantive testing of asset valuations and asset useful lives.</p>	<p><b>Results:</b></p> <p>Based on our audit testing, we were satisfied with the estimates and judgments in the accounts.</p> <p><b>Conclusion:</b> Satisfactory</p>

Audit risk	Assurance procedure	Results and conclusions
of misstatement in the financial statements.	<p>Focused substantive testing of provisions.</p> <p>Reviewed the work by ELC to ensure adequate review, presentation and disclosure of provisions / contingent liabilities.</p>	
<p><b>5. Presentation and disclosure of Covid-19 transactions, as principal or agent</b></p> <p>Depending on the nature of the arrangement, the council acts as principal or agent and, consequently, different accounting treatment applies.</p> <p>There is a risk that Covid-19 transactions are incorrectly presented and disclosed in the financial statements.</p>	<p>Confirmed arrangements put in place conform to Scottish Government guidance issued.</p> <p>Reviewed and assessed systems of internal control, as appropriate.</p> <p>Reviewed disclosure of agency transactions in accounts.</p> <p>Substantively tested principal transactions to ensure correct classification and treatment.</p>	<p><b>Results:</b></p> <p>Whilst several adjustments were made to the unaudited accounts to reflect the guidance we confirmed that, overall, the disclosure of Covid-19 transactions followed the Scottish Government and LASAAC guidance.</p> <p><b>Conclusion:</b> Satisfactory</p>

## Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>6. Financial sustainability</b></p> <p>The council operates in an increasingly challenging and uncertain financial and economic environment, where the demand for services is also increasing.</p> <p>The council are anticipating to achieve financial balance in 2020/21 however, this will largely be due to one-off interventions and additional non-recurring savings.</p> <p>For 2020/21 there are a higher number of services than normal that are categorised as High or</p>	<p>Reviewed ELC's progress towards delivery of its transformation and savings plans as part of our normal audit procedures.</p> <p>Reviewed financial monitoring reports and the council's financial position.</p> <p>Reviewed minutes of the Full Council, Cabinet, Audit and Governance Committee as appropriate.</p>	<p><b>Results:</b></p> <p>An update on 2020/21 is provided in Part 2 of this report. In summary, budget and savings plans remain challenging. The end of year financial review states that without the additional funding provided and the use of permissible flexibilities, the council would have had an overspend of £11.5 million in 2020/21.</p> <p><b>Conclusion:</b></p> <p>The Covid-19 pandemic had a significant impact on the 2020/21 budget. Total expenditure increased from</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Medium risk of not operating within approved budgets.</p> <p>Some Scottish Government Covid-19 funding will be provided for 2021/22, but this is currently significantly lower than that provided nationally in 2020/21. At the end of December 2020, in-year Covid-19 pressures, many of which are recurring, amounted to over £16 million. This will impact on future spending plans unless additional funding is provided.</p>		<p>£243.9 million to £255.6 million, although at year end there was an underspend of £12.5 million. Challenges remain and the financial impact of the Covid-19 pandemic on the council will be challenging over the coming years with medium and longer term plans being reviewed and updated to reflect the impact of the pandemic.</p>

Source: 2020/21 East Lothian Council Annual Audit Plan

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# Appendix 3: Summary of national performance reports 2020/21

April 2020

[Affordable housing](#)

June 2020

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July 2020

[The National Fraud Initiative in Scotland 2018/19](#)

January 2021

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February 2021

[NHS in Scotland 2020](#)

March 2021

[Improving outcomes for young people through school education](#)

# East Lothian Council

## 2020/21 Annual Audit Report

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