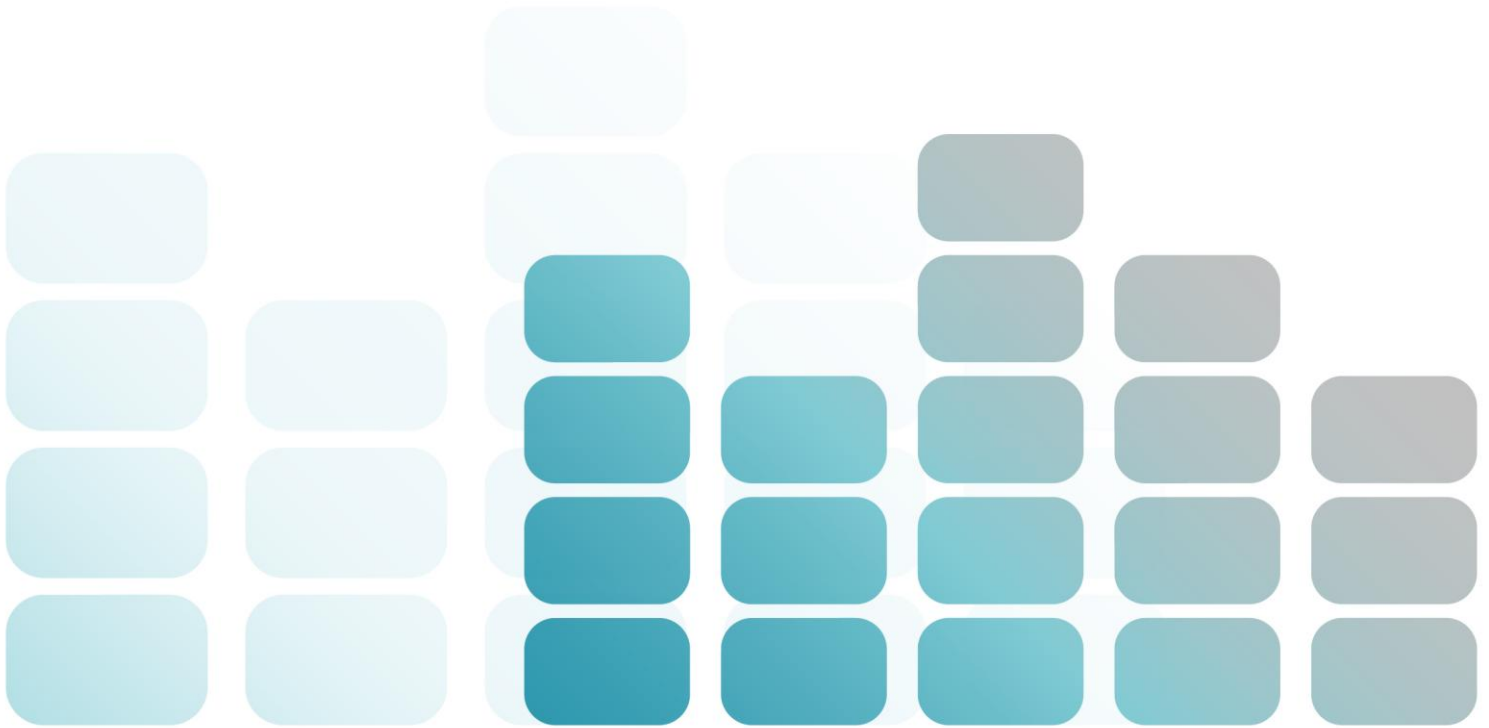


East Lothian Council - Draft

Annual Audit Plan 2025/26



Prepared for East Lothian Council
March 2026

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Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Introduction

Purpose of the Annual Audit Plan

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

Appointed auditor and independence

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

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

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

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 (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, namely the Management Commentary and the Annual Governance Statement.
- 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 and the Whole of Government Accounts return.
- A review of the council's arrangements for preparing and publishing statutory performance information.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

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

Auditor's responsibilities

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

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

The council's responsibilities

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

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

Audit of the annual accounts

Introduction

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

Materiality

10. 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.

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

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

Exhibit 1

2025/26 Materiality levels for the council and its group

Materiality	The council	Group
<p>Materiality – based on an assessment of the needs of users of the financial statements and the nature of the council operations, the benchmark used to determine materiality is gross expenditure based on the audited 2024/25 financial statements. Materiality has been set at 2 per cent of the benchmark.</p>	£9.70 million	£9.80 million

Materiality	The council	Group
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65 per cent of planning materiality.	£6.30 million	£6.37 million
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£0.485 million	£0.490 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

14. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2, page 8](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in Exhibit 2.

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

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

Risk of material misstatement	Planned audit response
<p data-bbox="113 407 715 481">Fraud caused by management override of controls</p> <p data-bbox="113 499 715 683">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 data-bbox="721 407 1481 443">The audit team will:</p> <ul data-bbox="721 461 1481 1187" style="list-style-type: none"><li data-bbox="721 461 1481 539">• Evaluate the design and implementation of controls over journal entry processing.<li data-bbox="721 544 1481 701">• 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.<li data-bbox="721 705 1481 784">• Test journals entries, focusing on those that are assessed as higher risk.<li data-bbox="721 788 1481 866">• Evaluate significant transactions outside the normal course of business.<li data-bbox="721 871 1481 1028">• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.<li data-bbox="721 1032 1481 1187">• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.

Risk of material misstatement	Planned audit response
<p>Valuation of property, plant and equipment</p> <p>The council held £1,368 million of property, plant, and equipment (PPE) at 31 March 2025, of which £1,116 million was land and building assets, including £438 million of council dwellings.</p> <p>The current value of council dwellings is required to be measured using Existing Use Value – Social Housing (EUV–SH). Other land and building assets are valued at existing use value where an active market exists, or on a depreciated replacement cost (DRC) basis where no active market is available. As a result, valuations involve a significant degree of judgement and reliance on specialist assumptions.</p> <p>For 2025/26, CIPFA/LASAAC has updated the Code of Practice to reflect HM Treasury’s reforms to public-sector asset valuations. Under the revised approach, local authorities will now move to quinquennial (five-yearly) valuations, usually through a rolling programme of valuations, with annual indexation applied in the intervening years to ensure asset values remain materially accurate. There is an increased risk of material misstatement due to greater reliance on management judgement and estimation, particularly in selecting appropriate indices and determining when additional valuations are necessary in between formal valuations.</p>	<p>For assets subject to revaluation in year, 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 assess this for completeness and accuracy. • 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 2025/26 valuation process, and challenge these where required. <p>For assets not subject to revaluation in year, the audit team will:</p> <ul style="list-style-type: none"> • Assess management’s process for determining the materiality of indexation, including their assessment of the impact and the basis for their conclusions. • Review management’s rationale and documentation supporting the decision not to apply indexation were deemed immaterial. • Review the indices applied by management to assets not subject to valuation in 2025/26 and assess if these are reasonable and have been correctly applied. • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Review the appropriateness of the key data and assumptions used in the 2025/26 indexation process, and challenge these where required.

Risk of material misstatement	Planned audit response
<p>Estimation of the pension balance</p> <p>The council recognised a pension balance of £10 million at 31 March 2025.</p> <p>The council is a member of Lothian Pension Fund which is a defined benefit pension scheme. Lothian Pension Fund is subject to formal valuation every three years, and this sets out each member's share of the scheme's overall pension balance and contributions for the next three years. The last formal valuation was carried out at 31 March 2023.</p> <p>An estimation of the council's share of the overall pension balance is required in each intervening year between formal valuations, and these are carried out by Hymans Robertson. There is a significant degree of subjectivity in the estimation of the pension balance as the estimation is based on specialist assumptions, and changes in the assumptions can result in material changes to the estimation.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the pension balance 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 management for the estimation of the pension balance, and challenge these where required. • 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.

Source: Audit Scotland

Key audit matters

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

17. 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.

18. The matters determined to be key audit matters will be communicated in the Annual Audit Report. Exhibit 2 outlines the significant risks of

material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

Group audit

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

Exhibit 3

Outcome of risk assessment procedures on the group audit

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
East Lothian Council	Consolidated on a line-by-line basis	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland
East Lothian Land Ltd	Consolidated on a line-by-line basis	No, not material to group financial statements	Yes - analytical procedures at group level	Greaves West & Ayre
East Lothian Mid-Market Homes LLP	Consolidated on a line-by-line basis	No, not material to group financial statements	Yes - analytical procedures at group level	Whitelaw Wells
East Lothian Council Trust Funds	Consolidated on a line-by-line basis	No, not material to group financial statements	Yes - analytical procedures at group level	Audited by Audit Scotland as part of East Lothian Council annual accounts
East Lothian Council Common Good	Consolidated on a line-by-line basis	No, but is material to group financial statements	Yes – audit procedures performed by group audit team	Audited by Audit Scotland as part of East Lothian Council annual accounts
East Lothian Integration Joint Board	Accounted for on equity basis	No, not material to group financial statements	Yes - analytical procedures at group level	Audit Scotland

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Edinburgh Innovation Park Joint Venture	Accounted for on equity basis	No, not material to group financial statements	Yes - analytical procedures at group level	To be confirmed
East Lothian Investments	Accounted for on equity basis	No, not material to group financial statements	Yes - analytical procedures at group level	Greaves West & Ayre
Enjoy East Lothian Ltd	Accounted for on equity basis	No, not material to group financial statements	Yes - analytical procedures at group level	Azets
Brunton Theatre Trust	Accounted for on equity basis	No, not material to group financial statements	Yes - analytical procedures at group level	Whitelaw Wells
Lothian Valuation Joint Board	Accounted for on equity basis	No, not material to group financial statements	Yes - analytical procedures at group level	Audit Scotland

Source: Audit Scotland

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

Wider scope audit

Introduction

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

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

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

Significant wider scope risks

23. The risk assessment process has identified significant risks in the wider scope areas as outlined in [Exhibit 4](#), and this includes the planned audit procedures in response to the risks.

Exhibit 4

Significant wider scope risks

Description of risk	Planned audit response
<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 2, the council is projecting a break-even position for 2025/26. The forecast outturn for 2025/26 is in line with the overall budget after taking account of planned reserve movements. Without planned use of reserves, there would be a forecast overspend of £9.1 million.</p> <p>Whilst the in-year position reported is positive with no requirement for any unplanned use of reserves at this stage, the Council continues to operate in a challenging financial environment. The council has identified a budget gap of £70.6m for the five years to 2023/31.</p> <p>There is a risk that in the longer term, the council is unable to deliver the savings required or generate alternative revenue streams to balance its budget whilst meeting its strategic priorities or fulfilling its statutory duties.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Review and evaluation of the council's annual budget setting arrangements • Review and assessment of budget monitoring arrangements • Review of the council's medium to longer-term financial planning • On-going review of the council's financial position and delivery of planned savings.

Digital technology

Delays in delivering key digital programmes and continued reliance on legacy IT increase the risk that internal controls may not operate effectively, reducing operational efficiency and resilience. These delays may also suggest areas where project management and project delivery arrangements could be further strengthened, particularly in relation to governance, resourcing, monitoring, and oversight of major digital programmes, with potential implications for achieving value for money.

There is a risk that delays in digital transformation, coupled with reliance on outdated systems, may adversely affect operational efficiency, the robustness of key financial controls, and the council's ability to achieve value for money.

The audit team will:

- Assess the assurances obtained by the council over project management and project delivery for major system upgrades, including governance structures, roles and responsibilities, and oversight arrangements
- Review how progress updates on major digital projects are reported to the Council, considering the adequacy of reporting on project risks, mitigation actions, and the council's escalation processes where risks or issues arise
- Evaluate management's arrangements for assessing the financial implications of delays, such as additional costs, contract variations, and resourcing pressures, and how these are factored into decision-making and budget monitoring.

Source: Audit Scotland

Best Value audit

Introduction

24. 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.

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

26. At least once over the five-year appointment, the Controller of Audit will report to the Accounts Commission on the council's performance in meeting its Best Value duties. The Controller of Audit reported on the council in July 2025. We will follow up on the council's progress addressing the recommendations from the Controller of Audit and the Accounts Commission's findings as part of our audit work.

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

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

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

Significant Best Value risks

29. No significant Best Value risks were identified from the risk assessment process. Audit work on the wider scope areas will help support conclusions around Best Value.

Shared risk assessment and joint scrutiny

30. The Shared Risk Assessment process is the vehicle for scrutiny bodies to share intelligence and agree scrutiny risks at councils. Appointed auditors have a role in co-ordinating scrutiny through Local Area Networks (LAN). As part of our audit work, we engage with contacts in other scrutiny bodies through LAN meetings to understand information on performed and planned scrutiny to facilitate engagement with the council and inform risk assessment discussions.

31. The LAN meeting for the council took place in early March and we will incorporate the outcomes of this meeting into our ongoing risk assessment procedures. The outcome of this meeting will be communicated to the council's Chief Executive.

Reporting arrangements, timetable and audit fee

Audit outputs

32. The outputs from the 2025/26 audit include:

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

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

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

35. The audit team will be unable to achieve the target date of 30 September 2026 for issuing the Independent Auditor's Report and Annual Audit Report. This is due to prioritising the quality of our audit work over meeting target dates, as required by the Accounts Commission, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence. The audit team are working towards completion of the audit by the later date of 10 November 2026 and working towards delivering the audit by target dates over the course of the five-year audit appointment.

Audit timetable

36. Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 5](#) includes a timetable for the

audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the council and reported to those charged with governance, where required.

Exhibit 5

2025/26 audit timetable

Audit activity	The council target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan		12 March 2026	24 March 2026
Annual Accounts:			
• Consideration of unaudited annual accounts			August 2026
• Submission of unaudited annual accounts and all working papers to audit team	30 June 2026		
• Latest date for audit clearance meeting	28 October 2026	28 October 2026	
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report		2 November 2026	10 November 2026
• Agreement of audited and unsigned annual accounts	2 November 2026	2 November 2026	
• Approval by those charged with governance and signing of audited annual accounts	10 November 2026		10 November 2026
• Signing of Independent Auditor's Report and issue of Annual Audit Report		10 November 2026	
Issue of Best Value Management Report		September 2026	September 2026
Certification of Non-Domestic Rates Return		31 December 2026	
Certification of Housing Benefit Subsidy Claim		31 December 2026	
Certification of Whole of Government Accounts		31 December 2026	

Source: Audit Scotland

Audit fee

37. The council's audit fee is determined in line with Audit Scotland's fee setting arrangements. The agreed audit fee for the 2025/26 audit is set out in [Exhibit 6](#).

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

Exhibit 6

Audit fee

Fee component ¹	Fee (£)
External auditor remuneration	256,220
Pooled costs, such as travel and subsistence costs	8,840
Contribution to the performance audit programme	61,630
Adjustment for average audit price increase	180
Total 2025/26 fee	326,870

Source: Audit Scotland

¹ Information on the components that make up the total fee can be found in Audit Scotland's [Audit management and quality guidance](#).

Other matters

Internal audit

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

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

Audit quality

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

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

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

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

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

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

East Lothian Council

Annual Audit Plan 2025/26



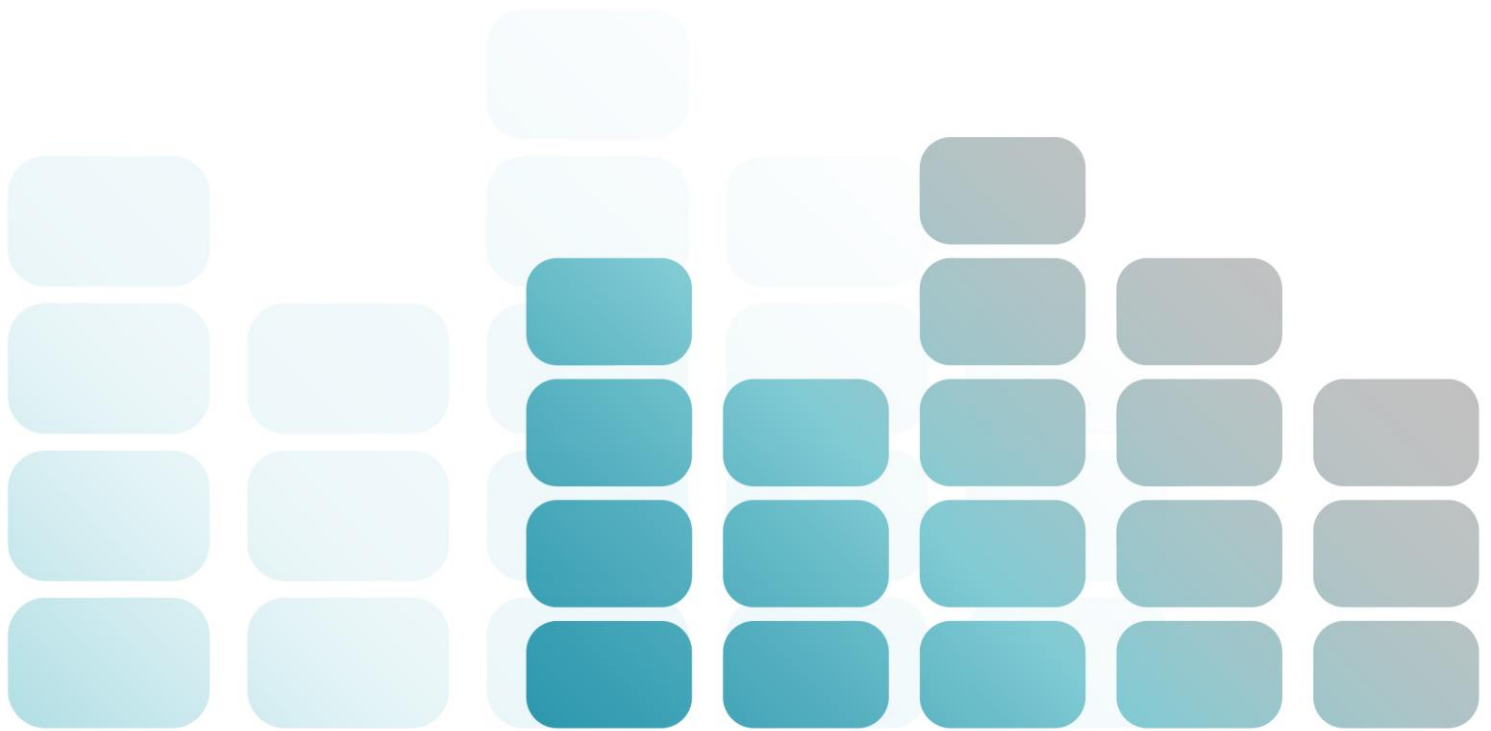
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Dr Bruce Fund (SC019149)

Annual Audit Plan 2025/26 - Draft



Prepared for the Dr Bruce Fund
March 2026

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Introduction

Purpose of the Annual Audit Plan

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

Appointed auditor and independence

2. Mark Ferris, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of the Dr Bruce Fund, hereafter referred to as 'the trust', for the period from 2022/23 until 2026/27. The 2025/26 financial year is therefore the fourth of the five-year audit appointment.

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

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

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 (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, namely the Trustees' Report.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of the trust 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 trust's arrangements in place for the wider scope areas.

Trustees' responsibilities

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

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements that give a true and fair view and other information.

- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.

Audit of the annual accounts

Introduction

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

Materiality

10. 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.

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

12. The materiality levels determined for the audit of the Dr Bruce Fund are outlined in [Exhibit 1](#).

Exhibit 1

2025/26 Materiality levels for the trust

Materiality	Dr Bruce Fund
Materiality – based on an assessment of the needs of users of the financial statements and the nature of the trust operations, the benchmark used to determine materiality is net assets based on the audited 2024/25 financial statements. Materiality has been set at 2 per cent of the benchmark.	£343
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional	£257

Materiality**Dr Bruce Fund**

judgement, performance materiality has been set at 75 per cent of planning materiality.

Reporting threshold – all misstatements greater than the reporting threshold will be reported. £17

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

14. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2, page 7](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in Exhibit 2.

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

Exhibit 2

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p>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 and other adjustments. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk. • Evaluate significant transactions outside the normal course of business.

Risk of material misstatement	Planned audit response
	<ul style="list-style-type: none"> • 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.

Source: Audit Scotland

Key audit matters

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

17. 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.

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

Wider scope and Best Value

Introduction

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

20. Due to the nature and size of the trust and its limited financial activity, it is considered a less complex body for the wider scope audit. Therefore, the wider scope audit does not consider all four wider scope areas and is instead limited to concluding on the financial sustainability of the trust.

21. Financial sustainability means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering the trust's medium to longer-term planning for service delivery. A conclusion on the financial sustainability of the trust will be reported in the Annual Audit Report.

Best Value

22. Under the Code of Audit Practice, the duty on auditors to consider the arrangements an audited body has in place to secure Best Value applies to audited bodies that fall within section 106 of the Local Government (Scotland) Act 1973, which the trust does.

23. Consideration of the arrangements the Dr Buce Fund has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements the trust has in place will be reported in the Annual Audit Report.

Significant wider scope and Best Value risks

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

Reporting arrangements, timetable and audit fee

Audit outputs

25. The outputs from the 2025/26 audit include:

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

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

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

28. The audit team will be unable to achieve the target date of 30 September 2026 for issuing the Independent Auditor's Report and Annual Audit Report. This is due to prioritising the quality of our audit work over meeting target dates, as required by the Accounts Commission, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence. The audit team are working towards completion of the audit by the later date of 10 November 2026 and working towards delivering the audit by target dates over the course of the five-year audit appointment.

Audit timetable

29. Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 3](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will

be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the trust and reported to those charged with governance, where required.

Exhibit 3

2025/26 audit timetable

Audit activity	The trust target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan		12 March 2026	24 March 2026
Annual accounts:			
• Consideration of unaudited annual accounts			August 2026
• Submission of unaudited annual accounts and all working papers to audit team	30 June 2026		
• Latest date for audit clearance meeting	28 October 2026	28 October 2026	
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report		2 November 2026	10 November 2026
• Agreement of audited and unsigned annual accounts	2 November 2026	2 November 2026	
• Approval by those charged with governance and signing of audited annual accounts	10 November 2026		10 November 2026
• Signing of Independent Auditor's Report and issue of Annual Audit Report		10 November 2026	

Source: Audit Scotland

Audit fee

30. The trust's audit fee is determined in line with Audit Scotland's fee setting arrangements. The audit fee for the 2025/26 audit is £2,500.

31. In setting the audit fee, it is assumed that the trust has effective governance arrangements in place and the complete annual accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the

audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Audit quality

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

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

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

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

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

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

Dr Bruce Fund (SC019149)

Annual Audit Plan 2025/26 - Draft



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