

Midlothian Council

Introduction to EY

Audit committee – 20 September 2016

Introduction to EY

In May 2016 the Accounts Commission appointed EY as your external auditor for the period 2016/17 to 2020/21. Across Scotland, including the Council, we have been appointed auditors to three local authorities, one pension fund, three integrated joint boards and eight further education colleges. Building on our vast experience of local government audit, assurance, tax and transaction services across the rest of the UK, EY will deliver a high quality, efficient, effective and informative audit service to you.

Your audit team will consist of members of the our Government and Public Sector Assurance team based in Scotland, and will be staffed predominantly from our Edinburgh and Glasgow offices. Our team is led by Stephen Reid who is one of our three assurance partners with responsibility for our UK-wide Government and Public Sector practice. Stephen is supported directly in this role in Scotland by Keith Macpherson and John Boyd. Together Stephen, Keith and John bring many years personal experience working with the public sector, and local government in particular. For example Stephen currently represents ICAS on the Local Authority (Scotland) Accounts Advisory Committee (LASAAC), while in 2015, Keith Macpherson spent seven months on secondment at Audit Scotland supporting the Accounts Commission's review of the current code of practice governing local authorities' arrangements for scrutiny, monitoring and transparency arrangements for *Following the Public Pound*.

In England, our contract with Public Sector Audit Appointments Ltd (PSAA) gives us extensive experience of providing external audit services to over 180 local government bodies, of varying sizes and complexity. The PSAA's audit quality assessment of EY is at <http://www.psaa.co.uk/audit-quality/principal-audits/ernst-young-llp-audit-quality/>. We will draw on our Government and Public Sector technical and quality national infrastructure in delivering our services to you.

EY's audit quality arrangements comply with the International Standard on Quality Control 1 (ISQC1). Our commitment to quality begins at the top of our global organisation. Setting the right tone at the top is a key responsibility of our senior leadership team. Through our vision and values through to our quality assurance reviews and training programme, we are dedicated in delivering high quality audit services. The Financial Reporting Council inspects the quality of our audit work on an annual basis. Their most recent findings are reported at <https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-May-2016-Ernst.pdf>

EY Quick Facts

- ▶ We are 212,000 people based in 728 offices in 150 countries, organized into 28 Regions and four Partnership areas.
- ▶ Operating from four key locations in Scotland: Edinburgh, Glasgow, Inverness and Aberdeen.
- ▶ Provider of assurance, transaction advisory, tax and core business services.
- ▶ Largest Accountancy firm in Scotland¹
- ▶ Significant supplier of external audit services to local government and the NHS through our PSAA contract.
- ▶ Leading PSAA quality assessment scores for our audit work in 2015 and 2014.
- ▶ Highest percentage of audits graded 'Good with limited improvements required' in the FRC's 2016 quality report on Big 4 firms
- ▶ Ranked 13th in the Sunday Times, *25 Best Big Companies to Work For*.
- ▶ Named one of the 2015 Top 10 employers for Working Families.

¹ = Source: The CA Magazine and ICAS website , October 2015, fee earning staff

Our responsibilities

We carry out our audit in accordance with the Accounts Commission's Code of Audit Practice, issued in May 2016, ("the Code") and the requirements of International Standards on Auditing (ISA). The Code outlines the principles and standards to be followed by auditors and their responsibilities. Our responsibilities extend beyond the **statutory audit of the financial statements**. The Code now requires auditors to focus their work on the four dimensions of wider-scope public audit: **financial sustainability, financial management, governance and transparency, and value for money**. The audit work on the dimensions will help meet stakeholder expectations of audit and also help to shape auditors' work in support of the Accounts Commission's new framework for the audit of Best Value.

Statutory audit of the financial statements

We are required to give an opinion as to whether the financial statements:

- Give a true and fair view of the financial position of the Council and its expenditure and income; and
- Have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

We review and report on: other information published within the financial statements, including the remuneration report, and the Council's financial position.

Financial sustainability

The Code requires auditors to consider the medium and longer term outlook to determine if the Council is planning effectively to continue to deliver its services. Our work will include consideration of:

- the effectiveness of the financial planning systems in identifying and addressing risks to financial sustainability;
- the appropriateness and effectiveness of the arrangements put in place to address any identified funding gaps;
- whether the Council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Governance and transparency

The Code requires us to review, conclude and report on the adequacy of governance arrangements at the Council. In particular, auditors are required to consider whether:

- governance arrangements are appropriate and operating effectively;
- there is effective scrutiny, challenge and transparency on decision-making and financial and performance reports;
- the quality and timeliness of financial and performance reporting is appropriate.

Best Value

Financial management

We are required to conclude on the effectiveness of financial management arrangements. This includes considering whether an entity has sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively, including those concerned with the prevention and detection of fraud.

Value for money

We are required to conclude on whether the Council can demonstrate value for money in the use of resources including the extent to which there is an alignment between spend, outputs and outcomes delivered. We are also required to consider whether the body can demonstrate that outcomes are improving and that there is a sufficient focus on improvement at an appropriate pace.

Transition arrangements

We understand the importance of ensuring smooth transition from your incumbent external auditors to minimise the disruption to the Council and ensure that we build upon their knowledge and understanding of working with you for the last five years. We are implementing a transition plan, working with management, your former external auditors and other assurance providers to ensure a timely and robust handover. The table below provides a summary of the progress of our transition.

Activity	Status
<p>May 2016</p> <p>Accounts Commission appointments for 2016/17 – 2020/21 1 announced</p>	✓
<p>August 2016</p> <p>Initial Meetings with Chief Executive and Section 95 Officer</p>	✓
<p>September / October 2016</p> <p>Meeting with incumbent external auditors, Internal Audit and other assurance providers</p>	✓
<p>September / October / November 2016</p> <p>Meetings with Chair of the Audit Committee / Leader of Council and Leader of Opposition</p>	SCHEDULED
<p>October / December 2016</p> <p>Detailed planning sessions with Senior Management</p>	IN PROGRESS
<p>December 2016</p> <p>Annual audit plan presented to the Audit Committee</p>	IN PROGRESS

Management and members

Over the coming months we will work closely with management to develop our knowledge and understanding of the Council. We have and will continue to engage with Council members including the Chair of the Audit Committee and Leader of the Council and the Opposition to inform our audit planning to ensure our audit approach is focused on the Council's key priorities and risks.

Other assurance providers

We have agreed a handover meeting with your incumbent external auditor to help build upon their knowledge and understanding of the Council and where appropriate, review key audit working papers to inform our planning. In addition, will work with your internal auditors and liaise with other assurance providers, through the Shared Risk Assessment, to identify areas where we can place reliance on their work and thus maximise the use of assurance resource.

Our audit team and approach

Our team

Stephen Reid will sign the audit opinion on your financial statements. Stephen will also have overall responsibility for ensuring that you receive a high quality audit, which not only provides robust assurance, but which delivers value to the Council.

Keith Macpherson will support Stephen in setting the direction of our audit and in identifying the key risk areas which will form the focus of our audit work for the year. This includes our audit responsibilities in respect of the 'wider scope audit' as set out in the Code of Audit Practice 2016 (<http://www.audit-scotland.gov.uk/report/code-of-audit-practice-2016>).

John Boyd will be the senior manager primarily responsible for the day to day management of the audit, including supervision of the on site audit team, and direct liaison with your finance team in respect of the annual financial reporting process.

To provide consistency of audit team members, Stephen, Keith and John will also be involved in the audit of the Midlothian Integrated Joint Board.

Our broader local government experience

Beyond our Assurance service line, across Scotland and the UK, EY provides an extensive range of advisory, tax and transaction and infrastructure project support to both national and local government. Recognising the financial challenges facing councils, we have established a number of strategic partnerships to enable local authorities to achieve significant cost reductions, providing us with strong relationships across the sector. We will use our overall knowledge of the sector to bring additional value to you through our discussions, and utilise our specialist expertise where appropriate in delivering robust and quality audit opinions.

Public sector audit – your management team



Stephen Reid
Partner – Government and Public Sector Assurance, Scotland

Tel: (0131) 777 2839
Mobile: 07795 355 906
Email: sreid2@uk.ey.com



Keith Macpherson
Head – Government and Public Sector Audit, Scotland

Tel: (0141) 226 9357
Mobile: 07831 136 496
Email: kmacpherson@uk.ey.com



John Boyd
Senior Manager, Government and Public Sector Audit

Tel: 0141 226 7341
Mobile: 07870 738 834
Email: jboyd1@uk.ey.com

Stephen leads our Government and Public Sector assurance practice for Scotland and the North East of England, covering both external and internal audit services, as well as public sector technical accounting services and forensic investigations. Stephen has over 20 years' experience in the delivery of external and internal audit, advisory and other assurance services across all of the public, not-for-profit and private sectors. He has worked with Audit Scotland throughout his career. His experience includes:

- » ICAS member on Local Authority (Scotland) Accounts Advisory Committee (LASAAC), developing and promoting proper accounting practice for Scottish local government.
- » Leading the external audit service to Newcastle City and Northumberland County councils, Dundee City, East Lothian and East Dunbartonshire councils and Strathclyde Partnership for Transport.
- » Contributing to Best Value and shared risk assessments in local government supporting and developing a coordinated assurance approach.

Stephen leads our public sector independent director programme, which has been designed to support non-executives in delivering good governance and oversight of management in service delivery.

Keith coordinates and directs our relationship with Audit Scotland, as part of his wider role in heading up our external audit public sector services.

Keith brings 15 years' experience covering external and internal audit services to local government, central government, further and higher education, charity and corporate audit clients. In 2015 he spent seven months on secondment at Audit Scotland working on the follow-up work for the Following the Public Pound Code, and advising on Audit Scotland's recently published higher education audit.

Keith's experience includes:

- » Management and delivery of external audit services to Dundee City, West and East Dunbartonshire, Argyll & Bute, South Ayrshire and East Renfrewshire councils.
- » Supporting Best Value audit work at a number of clients, working in association with Audit Scotland, in undertaking assessments and reporting on councils arrangements to deliver best value.

Within EY, Keith is a member of our quality and technical network, liaising with colleagues nationally to ensure the quality, effectiveness and efficiency of our audits.

John brings 10 years' experience across Scotland's public sector including local government, health, central government and education covering both external and internal audit services. His experience includes:

- » In local government North Lanarkshire, Fife, East Dunbartonshire, Stirling and Orkney Islands councils, including supporting Best Value audit work at a number of his clients, undertaking assessments of the arrangements to deliver best value within the public sector.
- » John's broader public sector experience includes further education, health and central government. John worked with a number of further education colleges during recent mergers.
- » He has also delivered internal and external audit services to a range of clients such as Scottish Enterprise, Skills Development Scotland, NHS Forth Valley a

John has a role in supporting the consistency and interpretation of technical accounting issues as they affect the local government sector, including consideration of Audit Scotland local government technical guidance.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2016 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ey.com

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office. Ernst & Young LLP is a multi-disciplinary practice and is authorised and regulated by the Institute of Chartered Accountants in England and Wales, the Solicitors Regulation Authority and other regulators. Further details can be found at <http://www.ey.com/UK/en/Home/Legal>.