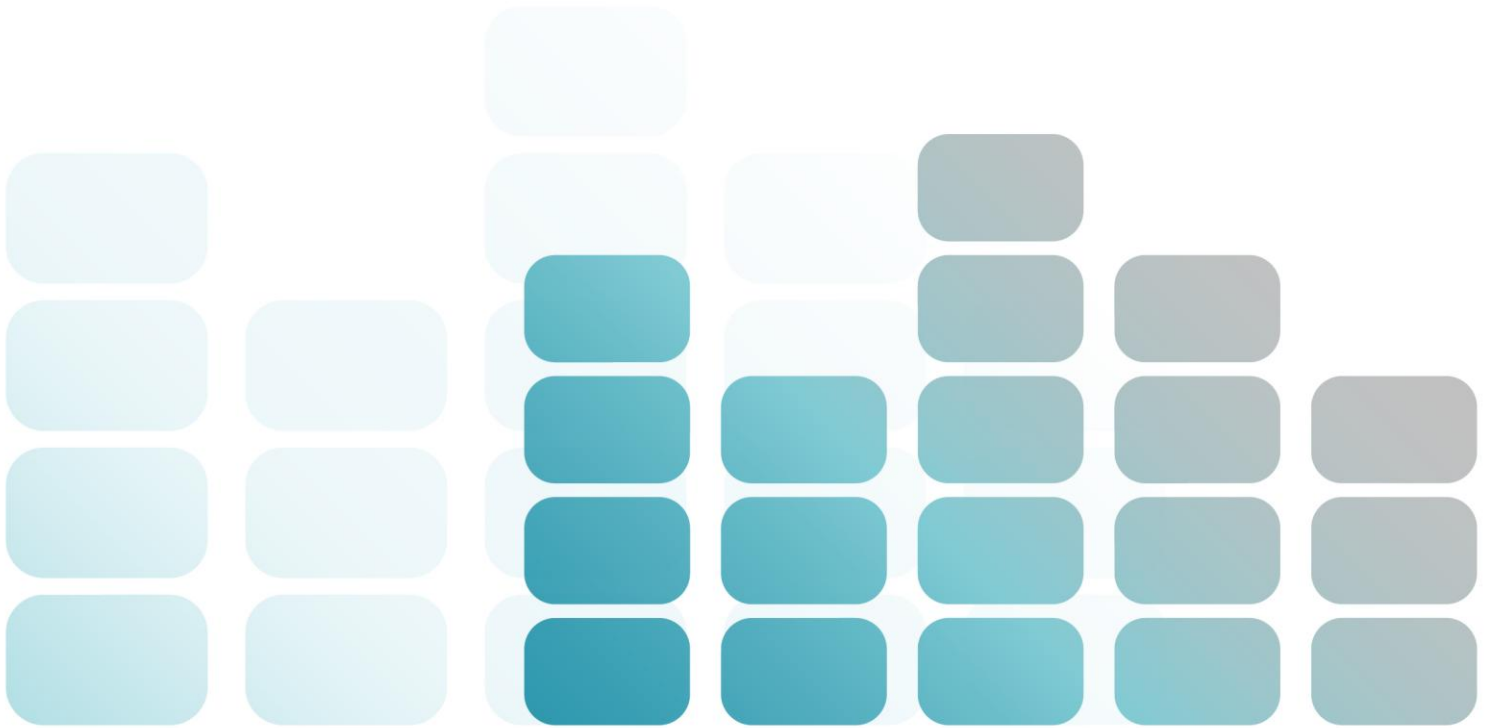


The City of Edinburgh Council

Annual Audit Plan 2025/26



Prepared for The City of Edinburgh Council
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 City of Edinburgh 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. Michael Oliphant, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of The City of Edinburgh 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. The appointed auditor 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, and an opinion on the audited part of the Remuneration Report.
- Conclusions on the council's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- 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.
- 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.

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 City of Edinburgh 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 section 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	Value
Materiality – based on an assessment of the needs of users of the financial statements and the nature of the council's operations, the benchmark used to determine materiality is gross expenditure based on the audited 2024/25 financial statements. Materiality has been set at 2% of the benchmark.	£55 million

Materiality	Value
<p>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% of planning materiality.</p>	£35 million
<p>Reporting threshold – all misstatements greater than the reporting threshold will be reported.</p>	£1 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 process. The assessment of risks set out in 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.

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. • 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, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.

Risk of material misstatement	Planned audit response
<p>Risk of fraud in expenditure recognition</p> <p>In line with Practice Note 10: <i>Audit of financial statements and regularity of public sector bodies in the United Kingdom</i>, most public bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>We have evaluated the council's significant expenditure streams. Some areas, including staff costs, interest payments and depreciation, amortisation and impairment, are not considered areas of risk. However, due to the extent and complexity of the council's other service expenses, such as premises, supplies and services, and third party payments; we identified there is a risk that expenditure may be misstated.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over expenditure recognition. • Reviewing expenditure incurred by the council in the other expenditure streams and: <ul style="list-style-type: none"> – Identify the most significant expenditure streams and those that are at greatest risk of fraud. – Assess if expenditure has been recognised in line with the accounting policies. – Assess if expenditure from all expected expenditure streams has been recognised, and investigating any omissions, where required. • Substantive testing of expenditure transactions processed over the course of the year and around the year-end, focusing on transactions within significant expenditure streams and those that are at greatest risk of fraud, to ensure expenditure has been recognised in line with accounting policies and in the correct period. • Substantive testing of accruals and payables to ensure expenditure has been recognised in line with accounting policies and in the correct period.
<p>Valuation of land and buildings</p> <p>The City of Edinburgh Council disclosed property, plant and equipment totalling more than £6.015 billion at 31 March 2025, of which £986 million related to council dwellings and £3.624 billion to other land and buildings.</p> <p>There is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations and therefore presenting a risk of misstatement.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • 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. • 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.

Risk of material misstatement	Planned audit response
<p>Accounting for temporary accommodation changes</p> <p>In recent years, the council has acquired properties for use as temporary accommodation to alleviate homelessness. These purchases have been accounted for within the Housing Revenue Account (HRA). After seeking advice, the council has concluded that assets acquired for temporary accommodation purposes should instead be funded from the General Fund rather than the HRA.</p> <p>As a result, the council intends to transfer 480 properties with a current carrying value of approximately £91 million from the HRA to the General Fund. There is a risk that the accounting treatment and valuation of these transfers, including the treatment applied in prior years, may contain errors.</p>	<p>We will review the accounting and disclosures for the transfer, including:</p> <ul style="list-style-type: none"> • Valuation and reversal of impairment • Restatement of prior year figures • Reporting on the impact of borrowing in the general fund and housing revenue account

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.

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 as parent. Risk assessment procedures have been performed on the audit to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required. The outcome of the risk assessment procedures is outlined in [Exhibit 3](#).

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

Exhibit 3

Outcome of risk assessment procedures on the group audit

Material group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
City of Edinburgh Council	Consolidated on a line-by-line basis.	Yes – Exhibit 2 .	Yes – full scope audit.	Audit Scotland.
Edinburgh Transport Holdings Limited	Consolidated on a line-by-line basis.	Yes, there are material risks in management override of controls and revenue recognition for its two subsidiary companies: Lothian Buses and Edinburgh Trams.	Yes – full scope audit. Our review of Azets' work will be targeted to risk of material misstatement areas only.	Azets for Edinburgh Transport Holdings Limited (parent company); Azets for Edinburgh Trams; and Chiene & Tait for Lothian Buses.

Material group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Edinburgh Living MMR LLP	Consolidated on a line-by-line basis.	Yes, there is a risk of material misstatement for management override of controls and valuation estimate of investment property.	Yes- full scope audit.	Azets.

Source: Audit Scotland

Wider scope audit

Introduction

21. 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 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>The council's revenue budget for 2025/26 was approved in February 2025. Achievement of financial balance is dependent upon delivery of £22.8 million savings and managing £20.4 million of unbudgeted spending pressures. In January 2026, the council forecast an underspend of £2.955 million.</p> <p>Financial sustainability will remain a risk for the council, with its latest February 2026 update to its financial plan forecasting a £63.2 million gap by 2029/30. Challenges include pressures from demand-led services such as homelessness and adult care, and delivery of £26.9 million of approved savings within the Edinburgh Integration Joint Board.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Monitor the financial position throughout the year and provide an update in our 2025/26 Annual Audit Report. • Consider the council's progress in developing a longer-term financial plan

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. 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 previous findings.

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 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.

26. In addition, auditors are required to carry out a review of the 'fairness and equality' best value theme at least once during the audit appointment, and this will be carried out during the 2025/26 audit.

27. 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 her findings on The City of Edinburgh Council in October 2023.

28. 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.

29. 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.

Reporting arrangements, timetable and audit fee

Audit outputs

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

- The 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.

31. 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.

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

33. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 30 September 2026.

Audit timetable

34. Achieving the timetable for the 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		26 February 2026	26 March 2026
Annual Accounts:			
• Consideration of unaudited annual accounts by those charged with governance	25 June 2026		25 June 2026
• Submission of unaudited annual accounts and all working papers to audit team	26 June 2026		
• Latest date for audit clearance meeting	27 August 2026	27 August 2026	
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report		TBC	22 September 2026
• Approval by those charged with governance and signing of audited annual accounts	24 September 2026		24 September 2026
• Signing of Independent Auditor's Report and issue of Annual Audit Report		25 September 2026	
Issue of Best Value Management Report		February 2026	26 March 2026

Source: Audit Scotland

Audit fees

35. The council's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2025/26 audit is £768,730.

36. 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.

Other matters

Internal audit

37. 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.

38. While we are not planning to place formal reliance on the work of internal audit in 2025/26, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Audit quality

39. 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 are available from the [Audit Scotland website](#).

40. 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.

41. 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.

42. 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.

The City of Edinburgh Council

Annual Audit Plan 2025/26



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