City of Edinburgh Council

2015/16 Annual audit report to Members and the Controller of Audit

October 2016

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Dave McConnell as the external auditor of City of Edinburgh Council for the period 2011/12 to 2015/16. This report has been prepared for the use of City of Edinburgh Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Contents

Key messages 3
Introduction 4
Audit of the 2015/16 financial statements 5
Financial management and sustainability 13
Governance and transparency 21
Best Value 26
Appendix I: Significant audit risks 32
Appendix II: Summary of local audit reports 2015/16 36
Appendix III: Summary of Audit Scotland national reports 2015/16 37
Appendix IV: Action plan 38

Key messages

Audit of financial statements	• Unqualified auditor's report on the 2015/16 financial statements. • Modification to the auditor's report in respect of the failure of Edinburgh Catering Services (Other) to achieve its prescribed financial objective. • Unqualified auditor's report on the seven charitable trusts administered by the council.
Financial management and sustainability	• The council has effective financial management arrangements in place. • The council is sustainable currently and in the foreseeable future, although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.
Governance and transparency	• Governance arrangements in place are effective. • Systems of internal control operated effectively. • The council has an effective internal audit function and sound anti-fraud arrangements.
Best Value	• The council has established frameworks to support best value, and continues to demonstrate progress in addressing issues raised in recent Best Value reports. • A well established performance management framework is in place, and has been reviewed to ensure it provides an appropriate strategic focus on performance.
Outlook	• Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement. This will continue to be monitored through the external audit process. • 2016/17 will be the first full year of the operation of the Edinburgh Integration Joint Board (IJB). Budget pressures and the continued need for savings by the council and its NHS partner are likely to result in pressures in the future funding of the IJB.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of City of Edinburgh Council (the council). The report is divided into sections which reflect our public sector audit model.

2. The management of the council is responsible for:
   - preparing financial statements which give a true and fair view
   - implementing appropriate internal control systems
   - putting in place proper arrangements for the conduct of its affairs
   - ensuring that the financial position is soundly based.

3. Our responsibility, as the external auditor of the council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.

5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at appendix II and appendix III, include recommendations for improvements.

6. Appendix IV is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the council understands its risks and has arrangements in place to manage these risks. The council and the Corporate Leadership Team should ensure that they are satisfied with the proposed actions and have a mechanism in place to assess progress and monitor outcomes.

7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of the council is Scott Moncrieff. In accordance with agreed protocols and International Standards on Auditing we are liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

Audit opinion	• We have completed our audit of the council and its group and issued an unqualified independent auditor's report. • We have included a modification to the auditor's report in respect of the failure of Edinburgh Catering Services (Other) to achieve its prescribed financial objective.
Going concern	• The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council's, its group and associated charitable trusts' ability to continue as a going concern.
Other information	• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
Charitable trusts	• We have completed our audit of the 2015/16 financial statements of the charitable trusts administered by the council and issued an unqualified independent auditor's report.
Group accounts	• The council has accounted for the financial results of two subsidiaries, four associates and two trusts in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £149 million.
Whole of government accounts	• The council submitted a consolidation pack for audit by the deadline. This has been audited and the certified return submitted to the National Audit Office (NAO).

Submission of financial statements for audit

10. We received the unaudited financial statements on 30 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

11. In 2015/16, for the first time, local government group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. The Edinburgh IJB was established on 27 June 2015 but did not become operational until 1 April 2016. Consequently as the amounts concerned in 2015/16 are not material, they have not been consolidated into the group accounts.

Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Governance, Risk and Best Value Committee on 21 April 2016.

13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix I sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

18. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of the council we set our planning materiality for 2015/16 at £17.04 million for the council and £18.74 million for the group (1% of gross expenditure). We report all misstatements greater than £100,000. Performance materiality was calculated at £9.37 million for the council and £10.31 million for the group, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

20. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.

21. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to decrease the council and group in-year net underspend by £0.076 million. Net assets as recorded in the balance sheet have decreased by £0.076 million.

Significant findings from the audit

22. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:

- The auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures
- Significant difficulties encountered during the audit
- Significant matters arising from the audit that were discussed, or subject to correspondence with management
- Written representations requested by the auditor
- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

23. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260

PPP Schools – impairment of assets

24. Following the collapse of a wall at Oxgangs Primary in January 2016, property surveys were undertaken at other schools built as part of the same schools PPP1 contract. In April 2016, 17 schools were closed temporarily as a consequence of the survey findings, and alternative accommodation arrangements put in place for school pupils. The unaudited financial statements include a net book value of £172 million at 31 March 2016 in relation to the affected buildings. A range of remedial work was undertaken by the PPP operator, Edinburgh Schools Partnership (ESP), with a phased return of schools to the council in operable condition between May and August 2016, prior to commencement of the new school term.

25. The condition surveys highlighting structural issues were not undertaken until after the 2015/16 financial year end. However these surveys provided information relating to the condition of the assets at 31 March 2016, and in these circumstances it is appropriate to undertake an impairment review, to ascertain whether these conditions give rise to a reduction in the carrying value of the asset as at 31 March 2016. An impairment review would usually be informed by an assessment of the cost of remediation. While the council had information on the condition of the assets from the property surveys, the information which would allow the council to determine the likely value of any impairment was held by the operator ESP, and not by the council.

26. In the absence of detailed cost information, it is difficult to ascertain what impairment of asset value at 31 March 2016 would be appropriate. Estimates available to the council do indicate the value is likely to be within our materiality limits. Furthermore, as the assets have now been restored to operable condition prior to certification of the annual accounts, any impairment to asset values as at 31 March 2016 would be temporary and would be reversed in the 2016/17 financial statements.

27. ***Resolution:*** Officers did not adjust the carrying value of the affected assets in the annual accounts. However they increased the narrative disclosure within the financial statements to provide more information on this post balance sheet event. Following discussions with officers and ESP, and in view of the considerations noted at paragraph 26 above, we concurred with this approach.

Significant findings from the audit in accordance with ISA260

Disposal of assets

28. Our audit review highlighted a number of assets included in the balance sheet in the 2015/16 unaudited accounts where the asset had been sold in a previous financial year. The sale of an asset should be recognised when the significant risks and rewards of ownership have transferred to the purchaser. Normally, this transfer coincides with the transfer of legal title. Although title to these assets was transferred at the point of sale, staged payments were agreed with the purchasers and standard securities written into the sale contracts, to provide the council with protection over the future monies due. The council has retained assets on the balance sheet until the discharge of the standard securities.

29. We reviewed the council's approach to this matter and concluded that whilst the council retains some interest over the assets until the discharge of the standard securities, this is primarily to ensure the flow of future monies, and does not reflect the significant risks and rewards of ownership. The council cannot, for example, sell the land covered by standard securities to another developer. The disposal of these assets should therefore be reflected in the financial statements at the point of title deed transfer.

30. Of the five identified disposals with staged payments, final payment was received in 2015/16 for three assets. The final disposal of these assets had therefore already been regularised through the balance sheet in the 2015/16 unaudited accounts. One of the remaining assets with a carrying value of £0.026 million was sold in 2015/16. The final asset identified in the review, with a carrying value at 31 March 2016 of £5.01 million, was sold in 2014/15. Final payments on both assets are scheduled for receipt in 2016/17.

31. ***Resolution:*** Officers adjusted the annual accounts to recognise the full disposal of the remaining two assets as at 31 March 2016. Debtor balances were established at 31 March 2016 to reflect the remaining value of future payments from purchasers. Adjustments in relation to the other assets sold in 2014/15 had already been reflected in the 2015/16 closing balance sheet. We concurred with this approach.

Significant findings from the audit in accordance with ISA260

Lender Option Borrower Option Loans – Embedded derivatives

32. Included within the council's £1.4 billion of borrowing are £280 million of Lender Option Borrower Option loans (LOBOs). These instruments differ from more traditional forms of loans as they have call points through the period of the loan where the lender can vary the interest rate through to the next call period, ranging from 6 months to 5 years.

33. The lender option gives rise to an embedded derivative within the contract i.e. a provision that modifies the cashflow associated with the host contract. Normally, a council would not be required to separately account for the embedded derivative in a LOBO. However, within its LOBO portfolio, the council has £40 million of inverse LOBOs, where in addition to the lender call option, the rate payable also changes in relation to a specified market rate.

34. As the nature of inverse LOBOs is considerably different from standard LOBOs, we reviewed these to resolve whether separate disclosure of the embedded derivatives was necessary, which would also require the recognition of gains and losses in the income and expenditure statement each year.

35. ***Resolution:*** Our review concluded that the existing accounting treatment of inverse LOBOs within the council's financial statements is appropriate, and no modifications to the unaudited financial statements were required in respect of this matter.

Significant findings from the audit in accordance with ISA260

Significant trading operations (STOs)

36. The council's trading activity (Edinburgh Catering Services – Other) failed to achieve the prescribed financial objective to break even over a three year period. The deficit for 2015/16 was £232,000, with a cumulative three year deficit of £343,000.

Resolution: The failure to achieve a prescribed financial objective resulted in a modification to the Independent Auditor's Report. The council has put in place a number of measures addressing the profitability of the service going forward, including a new pricing policy and reductions in vending equipment. The catering service is also included within the scope of the Property and Asset Management strategy which is being pursued by the council.

Future accounting and auditing developments

Health and social care integration

37. From 1 April 2016 IJBs will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom. Where material the financial results of the local IJBs will need to be reflected in the council's group accounts in 2016/17. The council will need to include the IJB in its plans for the preparation and audit of the 2016/17 group accounts, including consideration of assurance arrangements relating to the annual governance statement.

Highways network assets

38. The 2016/17 local government accounting Code will adopt a new measurement requirement for the valuation of the highways network asset. It will be measured on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.

Code of Audit Practice

39. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:

- Financial sustainability
- Financial management
- Governance and transparency; and
- Value for money

40. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

Financial management and sustainability

Net service budget £846.022m

Service Outturn £841.671m

Service Budget Underspend (£4.351m)

Capital budget (revised) £214.107m

Outturn Capital spend £191.915m

Capital underspend (£22.192m)

Usable reserves

Outturn usable reserves £238.04m

Increase in usable reserves £48.613m

Savings target £49.688m

Budgeted savings achieved £43.704m

Additional savings from other areas £5.984m

Financial management

41. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.

42. The council sets an annual budget to meet its service and other commitments as part of a longer-term financial planning framework. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

43. Overall the council reported an underspend against budget in 2015/16 of £0.785 million. The outturn of general fund services was broadly in line with budget for the year, with small underspends

recorded in most services, with the exception of Health and Social Care. During the year, the Health and Social Care service received additional one-off funding of £9.8 million to deal with anticipated cost pressures, however mitigating actions and lower than projected service demands resulted in an underspend of £3.455 million at the year end. This accounts for the majority of the £4.351 million underspend across all services.

44. These service underspends, along with favourable corporate variances around Council Tax Reduction Scheme, loan charges, and increased council tax income, were used alongside earmarked reserves to fund £21 million of costs relating to staff early release through the transformation programme.

45. The remaining underspend balance of £0.785 million has been transferred to the council priorities fund, with £0.5 million set aside for precautionary survey work on other council properties with similar design features to the PPP1 schools.

46. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. After making an in-year voluntary debt repayment of £10 million, the HRA surplus of £2.256 million for the year was transferred to the Renewal and Repairs Fund. This will be used to fund new capital investment in new homes and as a contingency to manage the impact of welfare reform.

Financial management arrangements

47. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within the council to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within the council
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

48. We reviewed the council's financial regulations, which were updated in June 2015, and concluded that they are comprehensive and current. A further update of the regulations was undertaken in June 2016 and these are available on the council's website.

49. Financial monitoring reports (both revenue and capital) are submitted to the Finance and Resources Committee and other executive committees on a quarterly basis. The Governance, Risk and Best Value Committee also considers financial monitoring reports as part of its scrutiny arrangements. Reports to committee focus on high level monitoring of variances and mitigating actions

and are underpinned by more detailed reporting at Corporate Leadership Team and Senior Management Team level.

50. Bi-monthly reports on progress of the council's Transformation Programme are also submitted to the Finance and Resources committee. These focus on the progress of the major workstreams and realisation of savings.

51. As auditors we attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

52. We have concluded that the council has effective financial management arrangements in place. The council has a good track record in delivering services within approved budgets, and robust scrutiny and challenge processes have ensured early identification of issues around the delivery of planned savings.

Financial sustainability

53. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.

54. In assessing financial sustainability we are concerned with whether:

- there is an adequate level of reserves
- spending is being balanced with income in the short term
- long term financial pressures are understood and planned for
- investment in services and assets is effective.

55. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

56. The overall level of usable reserves held by the council increased by £48.6 million compared to the previous year and totalled £238 million (see Exhibit 1).

Exhibit 1: Usable reserves

Description	31 March 2016 £ million	31 March 2015 £ million
General fund	128.4	117.5
Renewal and Repairs fund	38.1	35.8
Capital grants unapplied	2.7	4.4
Capital fund	68.8	31.7
Total usable reserves	238.0	189.4

Source: City of Edinburgh Council 2015/16 financial statements

57. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a

contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.

58. The reserves held by the council are reviewed annually as part of the revenue budget process. In January 2016, a Risks and Reserves report was approved which specified holding unallocated general fund reserves of £13 million, which equates to 1.37% of the council's annual budgeted net expenditure. The remaining balance of £115.4 million balance has been earmarked for specific purposes, including:

- specific investment - £12.6 million
- contingency and workforce management - £18 million
- dilapidations - £12.1 million
- insurance fund - £13.5 million
- council tax discount fund - £21.6 million
- spend to save initiatives - £7 million.

59. During the financial year, the council sold the Atria office development for £105 million. Following a year end review on approved uses of the Atria settlement proceeds, £52 million of capital receipts were transferred to the capital fund, earmarked for the following purposes

- redemption of debt relating to Atria's construction
- funding council transformation
- supplementing planned repairs and maintenance spend
- funding Local Development Plan infrastructure requirements.

Financial planning

60. The council set its 2016/17 budget in January 2016. The budget was set at £947 million and assumes savings of £85.4 million during 2016/17. Savings are planned from workforce transformation, fleet reductions, reducing sickness absence, property rationalisation, reduction in carbon tax, service transformation and procurement.

61. The council also set indicative budgets for 2017/18 and 2018/19 in January 2016 as part of its longer term financial strategy. Cumulative savings of at least £147.6 million are required by financial year 2019/20 to address the estimated funding gap (see exhibit 2).

Exhibit 2: 2016/17 – 2019/20 estimated savings requirement

	2016/17 £ m	2017/18 £m	2018/19 £m	2019/20 £m
Cumulative savings requirement	85.4	106.5	126.8	147.6
Savings identified	(85.4)	(106.5)	(126.8)	(132.1)
Cumulative shortfall	0	0	0	15.5

Source: Council Revenue Budget framework 2016-20

62. The financial projections included in the long term plan as of the time of budget-setting in January 2016 were based on a number of key assumptions including:

- additional incremental council tax income of £7m per annum from 2017/18
- Scottish Government revenue grant funding reductions of 1.25% for 2017/18, a further 0.5% reduction in 2018/19 and a "flat cash" projection for 2019/20
- annual inflationary assumptions of 2% for long term contracts and 1.5% for wage awards from 2017/18
- provision for cost implications of demographic change continues to be provided with reference to existing baseline data.

63. These assumptions are made on the basis of information available to the council at the time of preparing plans, however it is important that they are kept under review to ensure early identification of funding pressures.

Appendix IV action plan point 1

Capital programme 2015/16

64. The council approved its capital programme for 2015/16 in January 2015. Actual spend on the general services capital programme amounted to £156.3 million in the year against a revised budgeted spend of £165.3 million. Spend on the housing capital programme amounted to £35.6 million against a revised budget of £48.8 million.

65. The general services programme was concentrated on the new build, refurbishment and planned repair of schools, including the replacement of Boroughmuir and Portobello high schools, development funding for affordable social housing, and roads and transport infrastructure. The housing programme mainly focused on investment in new housing stock and enhancement of existing council houses.

66. The slippage in the general fund capital programme has resulted mainly from unforeseen construction delays on the two replacement high schools, along with delays arising from a change in procurement approach on the early years improvement project. However the overall levels of slippage on the programme remain well below the national position.

67. The level of slippage on the HRA capital programme remains high, amounting to 27% of the planned programme. Whilst some of this relates to savings achieved through individual projects, there have also been short term delays and over-programming issues. In order to reduce slippage in future years the HRA has adopted a new budget setting and monitoring process similar to the general fund capital programme. Going forward the revised HRA capital programme will be managed over a two year rolling programme to enable spend to be accelerated where projects are performing well and re-phased where delivery has been delayed.

Council transformation programme

68. The council is implementing a transformation programme aimed at building a lean and agile organisation with a focus on individuals and communities. Four core projects around localities, business and support services, customer and asset management have been developed and are supported by a number of cross-cutting workstreams. Total recurring annual savings of £77 million are

anticipated through the delivery of the programme with £64 million of these from organisational reviews of services, £6 million from implementation of a new asset management strategy, and £7 million from payments to third parties.

69. The council continues to make good progress in implementing the programme. As at October 2016, the majority of the first phase of organisational reviews have been implemented, with the council reporting savings of £33.7 million. The staffing structures for the localities model, which aims to integrate a range of service delivery around 4 geographical areas, have also been completed. The second phase of reviews, which includes Health and Social Care restructuring and Customer and Business Support, are due for implementation by March 2017.

70. Proposals have been developed for the delivery of £7 million savings in the payments to third parties workstream, and implementation is underway. Currently, £5.4 million of these savings plans are considered achievable, with detailed implementation plans being developed for the remaining proposals.

Asset Management

71. The asset management strategy (AMS) programme is a key workstream within the council's transformation programme, and aims to create a fit for purpose estate, along with an efficient, sustainable delivery plan for property and facilities management.

72. In September 2015, the Finance and Resources Committee considered a number of proposals for the future operating model of the service, before approving an investment portfolio and estates rationalisation strategy, to be delivered by an in-house team with external support.

73. A revised facilities management service level agreement has been drafted, and consultation with service users is ongoing. Phased organisational reviews have commenced covering around 1,800 existing staff posts, with the aim of implementing a revised operational structure by April 2017. Work is also ongoing on procuring a delivery partner for an asset condition survey programme.

74. Progress in delivering the asset management strategy workstream is reported regularly to the Finance and Resources Committee as part of the wider transformation programme reporting.

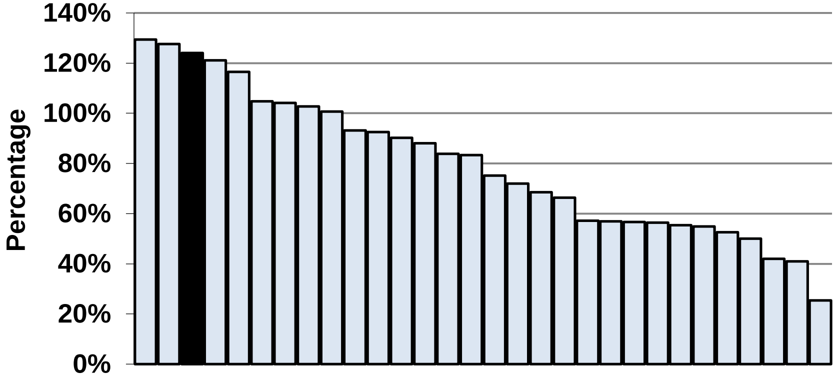
Treasury Management

75. At 31 March 2016 long term borrowing stood at £1,309 million, a decrease of £52 million on the 2015 borrowing level of £1,361million. During the same period, short term borrowing increased from £79 million to £87 million.

76. As stated in the 2015/16 Treasury Management Strategy, the council aims to utilise internally generated funds before using long term borrowing facilities. Only £0.362m of external borrowing was undertaken in 2015/16, which related to additional interest free borrowing specifically for the provision of energy saving street lighting. Long term borrowing fell mainly due to the maturity of £40 million of PWLB and £4 million of market loans.

77. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 2 shows long term borrowing for City of Edinburgh Council as at 31 March 2016. This has been measured against net revenue stream (including, where relevant, HRA) for all other mainland councils in Scotland.

Exhibit 2: Scottish councils' long term borrowing as a percentage of net revenue streams



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils

78. The council continues to be near the top of this range due to undertaking significant capital projects in recent years, such as the trams project and acquisition of Waverley Court and some assets of EDI/Waterfront Edinburgh. Assets acquired through these projects do not generate a direct income stream for the council, but have resulted in recurring savings relative to the liabilities the council would otherwise have faced. Following the repayment of debt, this measure has fallen from 130% in 2014/15 to 120% in 2015/16.

Pension liability

79. The net assets on the council's balance sheet have increased from £1,638 million in 2014/15 to £1,970 million in 2015/16, a rise of £332 million. The principal reason for this increase is the £288 million fall in the pension liability from £727 million to £439 million. This is also reflected in the balance sheet for the group. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial valuation at March 2015 the Lothian Pension Fund was 91.3% funded and had assets of £4.4 billion.

Conclusion on financial sustainability

80. We have concluded that the council has an adequate level of reserves and is containing overall expenditure within annual budgets. The longer term financial plans in place go a substantial way to addressing the financial challenges it faces in the coming years, although risks remain around the key assumptions in the plans and the delivery of savings.

Outlook

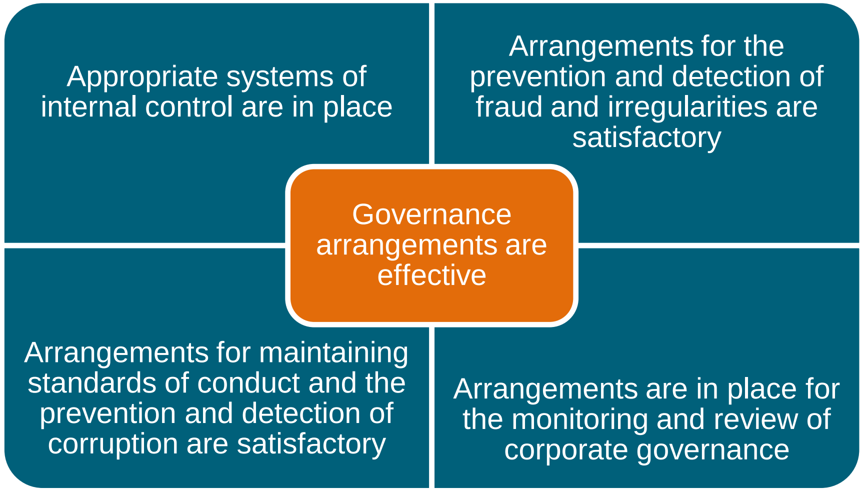
81. Councils across Scotland are reporting gaps between income and the cost of providing services over the next few years. In addition, budget pressures and the continued need for savings by the council

and its NHS partner are likely to result in pressures around the future funding of the IJB. With further government funding reductions expected, tough decisions will be required to balance council budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

82. Through the implementation of its transformation programme and approval of a longer term financial framework with balanced budgets from 2016/17 to 2018/19, the council has gone a substantial way to addressing these challenges. However these plans include risks around assumptions and delivery of savings and will require robust monitoring and review to ensure they remain on track.

83. Following the vote on the United Kingdom's membership of the European Union on 23 June 2016, the United Kingdom voted to leave the EU. Due to the uncertainty which currently exists over the timing and processes involved, it is difficult to define the potential impact of leaving EU on the council's activities or finances. The council has established a response team to track the political decisions and engage advisors as appropriate going forward, and will address emerging risks as appropriate through the council's existing risk management arrangements.

Governance and transparency



84. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making, although there is scope for improvement in the governance of council companies and organisations.

85. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. Overall we concluded that the council is open and transparent.

Corporate governance

86. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. The local code is subject to annual review by the Governance, Risk and Best Value Committee

87. The council assessed itself as being compliant with the requirements of the local code in all areas with the exception of risk management, where the existing risk framework is being redesigned to reflect organisational transformation. The council has also recognised the integration of health and social care will require a more effectively integrated quality assurance framework for delegated functions. A range of improvement actions have been identified across areas of the framework, and will be taken forward in line with the council transformation programme.

Internal control

88. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial

statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.

89. We reported our findings to the Governance, Risk and Best Value Committee in August 2016. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. However we did amend our planned financial statements procedures to take account of some identified control weaknesses. Our findings included a number of recommendations to enhance the control system in operation.

Internal audit

90. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

91. Our review of internal audit concluded that the internal audit service operates satisfactorily in accordance with the Public Sector Internal Audit Standards. We placed reliance on their work around the payroll financial system to support our opinion on the financial statements, as well as considering wider governance reviews in areas such as health and social care integration, corporate property maintenance, and council wide procurement arrangements.

ICT audit

92. ICT plays a critical role in the internal control environment and underpins all of the systems used by the council. We tested the operation of the main ICT based controls within the financial systems during 2015/16 and found these could be relied on for the production of the 2015/16 financial statements.

93. In August 2015 the council awarded CGI the contract for provision ICT services. Following a transition of services in late 2015 and early 2016, the CGI contract went live on 1 April 2016. The council has reported a number of benefits from the first phase of implementation of the contract, including significantly increased network bandwidth in council schools and council offices.

94. The Delivery of ICT transformation projects commenced in August 2015, with some projects such as bulk printing, secure cheque printing and BACS service already completed. A further 12 projects will be delivered through 2016 and 2017 as part of the CGI contract, with joint governance arrangements in place involving the council, CGI and supply chain partners. Most of these projects have commenced, although officers have acknowledged that timescales for implementation of some projects, such as Enterprise Integration and Enterprise Resource Planning have slipped due to technical and resource challenges. Progress updates on the workstreams are reported regularly to management team and committee.

Arrangements for the prevention and detection of fraud

95. Overall, we concluded that the council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

National Fraud Initiative in Scotland

96. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to identify circumstances (data matches) that might suggest the existence of fraud or error.

97. During the year we considered the council's approach to NFI and concluded their overall arrangements had improved from prior years, with timelier review and investigation of data matches across most sections and increased internal reporting of progress.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

98. The arrangements for the prevention and detection of corruption in City of Edinburgh Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Correspondence referred to the auditor by Audit Scotland

99. One of the roles of the local auditor is to follow up, where appropriate, items of correspondence received from members of the public who express concerns over council activities. During the year we received correspondence relating to the council's use of Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan. The council has around £240 million of these standard LOBOs within its market debt portfolio. In addition to these, it also has £40 million of inverse LOBOs, where the interest rate paid varies in relation to a specified market rate. These inverse LOBOs were taken out in 2010/11 in line with the council's treasury management strategy, to mitigate the council's exposure to potential rising interest rates.

100. In following up this correspondence we have held discussions with senior council officers and the council's treasury advisers, and reviewed supporting papers including an analysis of the LOBOs held by the council and comparable PWLB rates of interest and the council's treasury management policies and controls.

101. Based on our work we can conclude that:

- the use of LOBOs has been undertaken in line with the council's treasury management policy, which has been reviewed and approved annually by councillors

- the interest rates on the standard LOBOs were lower than the comparable PWLB rates available at the time, and the council's interest costs to date on these loans have been less than the PWLB equivalent
- the option to propose or impose a new fixed interest rate has never been exercised by the lenders
- the potential for debt restructuring is kept under regular review by the council as part of its treasury management arrangements.

102. There are no further issues we wish to raise in this report.

Transparency

103. Local residents should be able to hold the council to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the council is making decisions and how it is making best use of its resources. The council demonstrates the characteristics of openness and transparency by:

- holding meetings of the council and its committees in public and ensuring papers are readily available for review on its website
- making information on its performance available to the public
- including useful information on how to access services on its website
- including details of council members and a copy of their register of interests on its website.

Freedom of Information requests

104. The total number of freedom of information (FOI) requests received by the council has been steadily increasing. There were 2,812 FOI requests received over the period April 2015 to March 2016 (2,753 in 2014/15). The council has a target of responding to FOI requests within 20 working days of receipt. Overall the council performs well in responding to requests, with 93% being closed within the 20 day deadline.

Integration of health and social care

105. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.

106. The Edinburgh Integration Joint Board (EIJB) was established on 27 June 2015 and the first meeting of the Board took place on 17 July 2015. The Board is supported by an Audit and Risk Committee which was established in April 2016 and meets quarterly. The EIJB has also established a performance and quality subgroup to monitor the operational delivery of integrated health and social care services. A key task for the group is the development of an effective integrated performance management framework to allow the Board to monitor progress in achieving its strategic objectives.

Local scrutiny plan

107. The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to City of Edinburgh Council in March 2016.

108. The LSP is based on a shared risk assessment undertaken by a local area network (LAN). The LAN did not identify any specific areas from the risk assessment where scrutiny was required, other than scrutiny that was nationally directed or part of a planned programme of work.

109. The LSP highlights a number of areas which the council is managing effectively but over which the LAN will continue to carry out some degree of monitoring as part of normal activities. These include

- leadership capacity and resource management during the delivery of the council's transformation programme
- scope for improvement in housing services performance levels in relation to completion of repairs, rent arrears, and delivery of homelessness services.

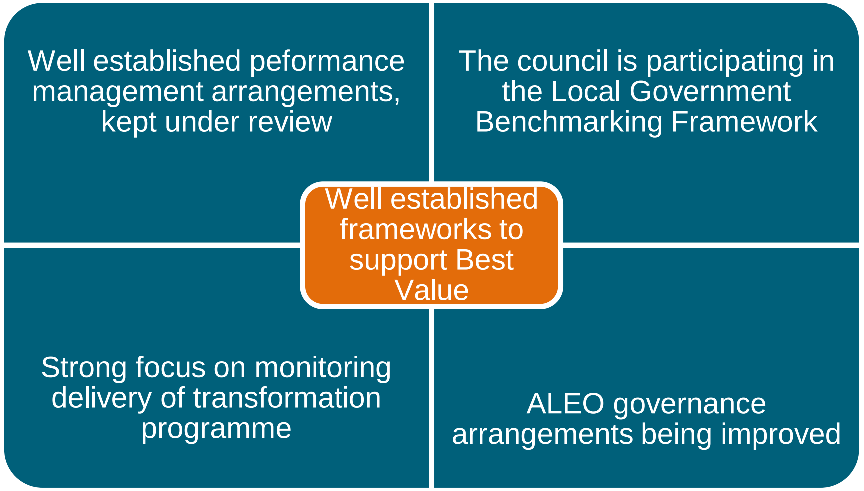
110. We provide further comment on leadership and resource management within the Best Value section of this report. In relation to housing services, the council has assured the Scottish Housing Regulator (SHR) it has plans in place to improve these areas. SHR will continue to engage closely with the council to monitor the delivery of the improvement plan and the achievement of targets and timescales.

Outlook

111. Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.

112. Partnership, joint working and arm's length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



113. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Best Value audit

114. In December 2014, the Accounts Commission considered a Best Value follow-up report on the council. The report recognised the good progress the council had made in developing its approach to scrutiny and risk management, as well as highlighting improvements in a number of other key areas. However, it emphasised that the financial challenges the council faced had increased since the original Best Value review was undertaken in May 2013, and also highlighted some concern around the council's management capacity to deliver its programme of change and improvement, and a lack of progress in developing a comprehensive workforce strategy.

115. A further follow-up report was considered by the Accounts Commission in February 2016. This subsequent report concluded that the council has made considerable progress in addressing its increasingly challenging financial position. The council agreed a four year budget framework and business plan in January 2016, setting out a balanced budget for the first three years, with £15.5 million of savings still to be identified for 2019/20. A workforce strategy was in place, supported by more detailed plans, setting out the size and shape of its future workforce needs.

116. Since publication of the report in February 2016, the council has continued to have a strong focus on delivery of its financial plans. Savings implementation plans are routinely reviewed and monitored by the Corporate Leadership Team and Capital Coalition elected members at Budget Challenge meetings. This process is used to highlight at an early stage any potential barriers to full savings delivery and, where necessary, inform the subsequent development and assessment of alternative required measures.

117. Early projections for 2016/17 show that the council is on target to deliver more than 90% of the £70 million required savings, based on actions planned or already undertaken. However proposals for the balance of the required savings, mainly in the areas of Communities and Families and Health and Social Care, require delivery of further actions. The council continues to monitor the position closely, and develop mitigating actions to ensure delivery of a balanced budget in 2016/17.

118. A key driver in the achievement of savings is the ongoing delivery of the council's transformation programme. In reshaping the future delivery model for services, the council anticipated a reduction in staff numbers of up to 2,000 posts. By September 2016, the council had implemented organisational reviews across the majority of service areas, with the remaining six areas, including health and social care, and properties and facilities management staff, due for implementation by March 2017. The council has also defined the structures for its four geographical localities. Around 700 departures have been agreed to date, delivering £29 million of the anticipated £64 million staff costs savings to be delivered through the organisational reviews. The council has made good progress to date, and remains confident of delivering the required staff savings through the organisational review process. However the remaining reviews cover significant staff numbers, which may represent a risk to the timely implementation of the remaining reviews and associated cost savings.

Appendix IV action plan point 2

119. There have been widespread changes at senior manager level, with a new CEO appointed in July 2015 and none of the directors of the council's 2013 Corporate Leadership Team (CLT) still in post. This raises some risks about its capacity to implement its transformation programme. So far, however, there had been continuity in the council's approach to reshaping its services and making the required savings. Following implementation of the organisational reviews, the council intends to have all third tier managers in post by the end of the calendar year, to ensure there is sufficient management capacity to support the new service delivery models. The council has also put in place arrangements for specialist support and training to be provided to this management tier, to build transformation leadership capacity and skills across the organisation.

Procurement

120. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. The council's last reported assessment against this framework in 2014 was 76%, compared to an average score of 62% across other Scottish local authorities.

121. The annual PCA was replaced by the Procurement & Commercial Improvement Programme (PCIP) which focuses on the policies and procedures driving procurement performance and the results they deliver. PCIP introduced a revised assessment methodology and new scoring and performance bands with councils being assessed every two years. The revised assessment results are not comparable with the previous PCA scores. Scotland Excel began undertaking PCIP assessments for local authorities in May 2016, and the cycle will continue until November 2016.

Collaborative working

122. In September 2015, the council, along with other Lothian and South East Scotland authorities, submitted proposals to the Scottish and UK governments to secure infrastructure funding across the region. Following the Chancellor of the Exchequer's budget statement on pursuing a City Region Deal for the region, terms of reference have been agreed and signed by the partners to the deal, and negotiations are underway on the scope and timing of the Deal.

123. The City Region Deal proposals are shaped around four interconnected programmes:

- innovation hubs
- infrastructure investment
- a regional housing programme
- culture and tourism investment.

124. The proposals currently amount to around £2 billion of investment, with the potential to lever in £5 billion of private sector monies. Local authorities will be required to fund a proportion of the deal, with the council's contribution being approximately £100 million, depending on the final projects approved for inclusion.

125. City Region leaders have agreed to establish a Joint Committee to oversee the City Region Programme. This will include representation from the local authorities, and from the university and business sectors.

Following the public pound

126. Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance on funding external bodies and following the public pound. This code is based on the premise that public money should be used properly and that Best Value is being secured.

127. The council uses a number of companies to deliver designated services. Whilst the company takes on responsibility for the delivery of the service, the council retains responsibility for ensuring the proper use of public funds.

128. Following a review of companies in 2012, the council agreed a range of proposals for the governance of its companies. As part of its audit plan for 2015/16, internal audit undertook a review of the design and effectiveness of the governance and control arrangements in place.

129. Internal audit's report identified a number of issues including:

- the independence of elected members on company boards, and the potential for conflicts of interest
- consistency and effectiveness of reporting and scrutiny council committees
- inconsistencies in the approach and level of scrutiny by council observers
- scope to strengthen the annual assurance process.

130. A number of recommendations for improving existing arrangements were made, including the creation of a council companies' hub to ensure consistency of approach and provide council wide oversight of companies. This would also define a new role for council observers, providing standard guidance and a recommended escalation process. In addition, it was agreed that the council's Governance, Risk and Best Value Committee will take on a regular monitoring and scrutiny role. This aimed to mitigate conflicts of interest and provide independent scrutiny of the companies' accounts and performance. Governance and internal audit staff have started a review of the annual assurance process to ensure improvements are implemented in time for the launch of the 2016/17 assessment exercise in February 2017.

Performance management

131. The council has a well developed performance framework that links its business plan to the political outcomes set out in the Capital Coalition Pledges, as well as to the partnership and operational outcomes within the strategic Community Plan and the 4 multi agency Locality Improvement Plans.

132. Performance is monitored on a monthly basis at Corporate Leadership Team and service level management teams, with six monthly reporting of performance to elected members through consideration by Council and executive committees. Six monthly monitoring and reporting is also taken to the Edinburgh Partnership Board on community plan outcomes, and to Council on progress against Capital Coalition Pledges.

133. Alongside these regular performance monitoring reports, a further report was presented to the Council in June 2016 providing a strategic overview of performance. This report draws from a wider range of sources, including the council performance dashboard, workforce management reports, financial performance reports, and external reports such as the Edinburgh Partnership Annual Performance report. This report identifies a number of specific areas that require a focus for improvement, and also common themes through these. Going forward, the council intends to develop the existing framework to incorporate routine reporting of some of these identified areas for improvement.

134. The council continues to participate in the Local Government Benchmarking Framework (LGBF) which brings together performance indicators for a range of services as well as service costs and customer satisfaction.

Overview of performance targets in 2015/16

135. The council assesses achievement of its high level commitments through a set of 53 Capital Coalition pledges. Achievement of these pledges is linked to a range of detailed dashboard and operational performance indicators.

136. The most recent progress report highlighted that as at April 2016, 51 pledges were either achieved or on track for delivery (43 at April 2015). Two pledges – prioritising keeping the streets clean and attractive and investigating the possible introduction of low emission zones –were identified as areas where further work was required.

137. Although the council is on target to deliver on the coalition pledges, as noted earlier a focus for improvement has been identified across a number of themes, including addressing geographical inequalities in health and education outcomes and customer and citizen experiences. Specific actions will be developed and monitored as part of the Corporate Leadership Team and service level management team reviews of performance.

Statutory performance indicators (SPIs)

138. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.

139. For 2015/16 three (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covering a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

140. Overall we concluded that the council's arrangements for publication were satisfactory.

Local performance audit work

141. In November 2013, Audit Scotland published a report entitled *Scotland's public sector workforce.* The aim of the report was to assess if public bodies, including councils, are managing their workforces effectively.

142. Audit Scotland asked external auditors across the public sector to undertake follow-up audit work on the 2013 report. A standard questionnaire based on the report's findings was issued to external auditors to complete.

143. Our follow-up audit highlighted that the council has clear objectives around workforce change as part of its transformation programme, and has adopted good practice in the development of its organisation wide workforce plan. As the organisational reviews were ongoing at the time of our audit work, we were unable to make an assessment of service level workforce plans.

National performance audit reports

144. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the council. These are outlined in appendix III. The council has processes in place to ensure that all national reports and their impact on the council are considered by members.

Equalities

145. The Equality Act 2010 introduced a new public sector ‘general duty’ which encourages equality to be mainstreamed into public bodies’ core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

146. The council’s progress report on its frameworks for advancing equality and rights, and tackling poverty and inequality, was published on its website in April 2015, and considered by the Communities and Neighbourhoods Committee in May 2015. Equalities outcomes indicators are reported regularly through performance reviews of the council’s business plan, as well as the current community plan. In addition, the council presented an update report on tackling poverty and inequality, and advancing equality and rights, to the Communities and Neighbourhoods Committee in May 2016.

Outlook

147. In common with other councils, City of Edinburgh faces the key challenges of reducing budgets, an ageing population with higher levels of need and the public expectation of high quality services. The council is going through a transformation programme aimed at redesigning services to be more efficient and focused on community needs, whilst delivering the financial savings required in the coming years. The council has made substantial progress to date, and remains confident of delivering the required staff savings through the organisational review process. However, as choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

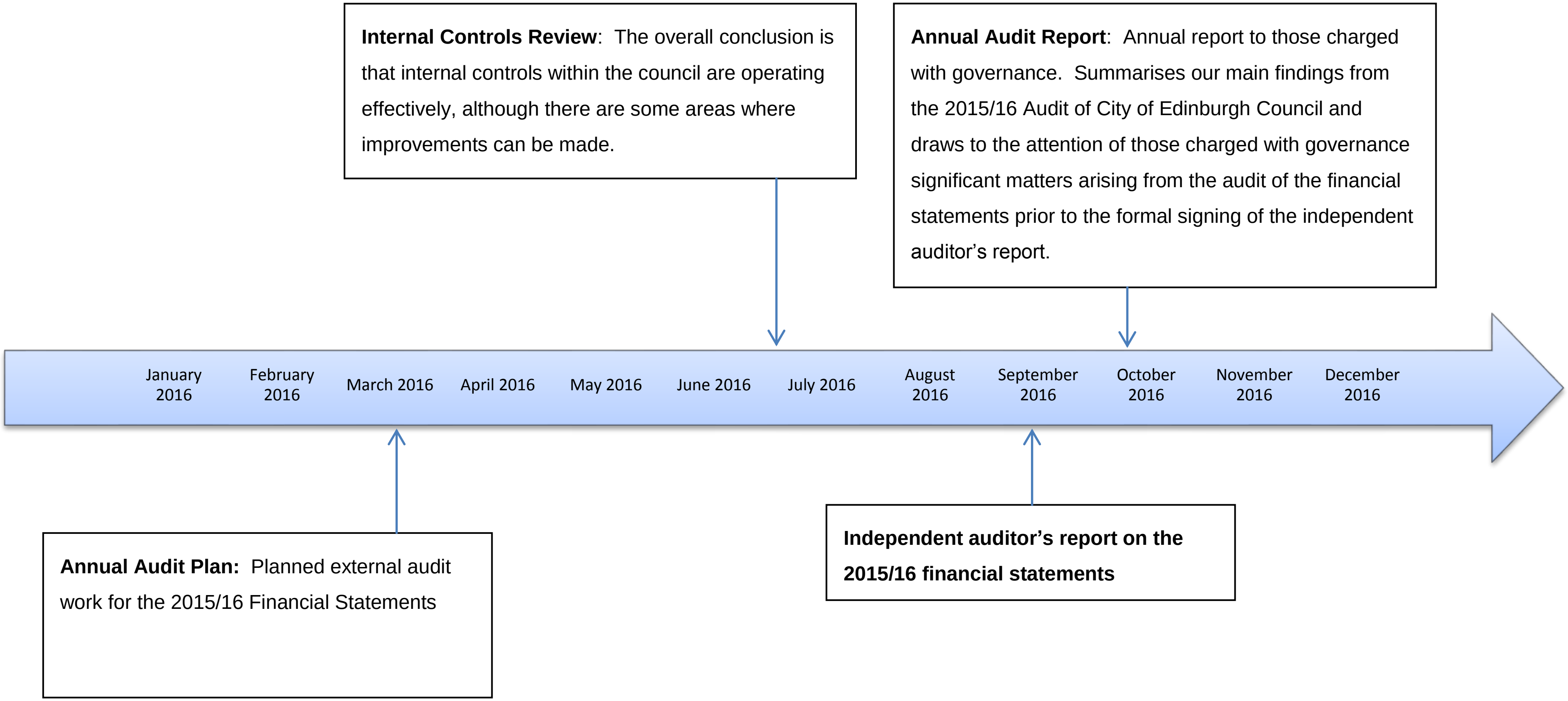
Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
Income The Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.	• Robust income generation and cash handling processes, including separation of duties • Independent monitoring of suspense codes - including bank reconciliations • Budgetary control processes - reported monthly to Corporate Leadership Team (CLT) and departmental budget holders • Authorisation processes for transactions within the ledger - e.g. journals & creditor requests	We reviewed control arrangements and undertook detailed testing of income streams. No frauds were identified.
Management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the	• N/A	We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness. We did not identify any incidents of management override of controls.

Audit Risk	Assurance procedure	Results and conclusions
position disclosed in the financial statements.		
Estimation and judgement The financial statements of City of Edinburgh Council include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement	• Accounting assumptions such as provisions are based upon the most up to date and complete information with their inclusion being presented in accordance with required Accounting Codes of Practice • Accounting assumptions based on the professional advice of qualified staff such as RICS or the Council's Legal Team	We reviewed the standing of the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts. No material misstatements were identified.
Significant trading organisations (STOs) In our 2014/15 independent auditor's report we drew attention to the fact that the Council's significant trading operation, Edinburgh Catering Services – Other Catering, failed to break even, on a cumulative basis, over the three year period ending 31 March 2015. There is a risk that the action plan implemented by the Council may not result in the STO consistently achieving the requirements of section 10 of the Local Government in Scotland Act 2003.	• Implementation of revised facilities management delivery model approved by Council in November 2015 • Ongoing financial monitoring and reporting to committee • STO business plan	We reviewed reports to committee on the financial position of the STO and the planned action to address the deficit. We tested income and expenditure streams as part of our wider testing strategy. No material misstatements were identified.
Statutory repairs Although the billing process is now largely complete, the delays to date mean that the	• Update reports to committees on progress of billing, collection (including bad debts) and complaints resolution	We reviewed update reports to committee on legacy statutory repairs issues. We considered the adequacy of the statutory

Audit Risk	Assurance procedure	Results and conclusions
debt has aged further, increasing the risk of non-recovery.		repairs bad debt provision, and assumptions made around collectability, as part of our financial statements audit work on bad debt provisions. We concluded that the year end provision for bad debt relating to statutory repairs was appropriate.
Integration Joint Board (IJB) The Edinburgh IJB was established in June 2015 and became operational from 1 April 2016. There is a risk that the Council does not include appropriate disclosures in relation to the IJB within the Council's 2015/16 single entity and group financial statements.	• The Council will ensure that the IJB is appropriately disclosed in the single entity and group accounts in line with the 2015/16 Code • Available guidance from CIPFA and Audit Scotland will be considered prior to finalising the disclosures	We reviewed the council's judgements around its group boundary, and the IJB disclosures included in the financial statements against the Code of Practice and issued guidance. We concluded that the disclosures made within the financial statements were appropriate.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
Financial position The Council has approved a four year financial framework and business plan, with a balanced budget for the first 3 financial years. However there are a number of risks to delivery of this balanced budget, including the underlying assumptions within the framework and the achievement of anticipated savings through the	• Bi-monthly reporting of progress on the transformation programme to Finance and Resources Committee, incorporating progress reports on actual savings delivered for each workstream. Progress in the development of delivery plans to support all budget framework savings was assessed by the Corporate Leadership Team both prior to and following the approved budget motion,	We reviewed the ongoing reporting of the council's financial position to members, including achievement of savings plans, and considered the longer term financial planning framework including the reasonableness of assumptions made. We concluded that the council has robust arrangements for monitoring the delivery of

Audit Risk	Assurance procedure	Results and conclusions
transformation programme.	with a particular emphasis on identifying where further actions were required • The Long Term Financial Plan assumptions are subject to quarterly review and reporting to the Corporate Leadership Team and elected members	savings plans and continues to demonstrate good progress in delivering the required savings.
Workforce Planning While the Council is making progress in delivering the workforce reductions set out in its strategy and plans, there remain risks around the delivery of the planned reductions and associated financial savings, and the related impact on service delivery and the achievement of the Council's objectives.	• Bi-monthly reporting on transformation programme progress to the Finance and Resources Committee, incorporating the workforce workstream • Service performance monitoring is reported on a monthly basis to the Corporate Leadership Team, which serves as an early warning on performance issues	We reviewed ongoing transformation programme and workforce management reporting to committee, including the costs and savings delivered through the early release scheme. We considered the current performance framework and concluded the performance reporting arrangements support the early identification of service performance issues.

Appendix II: Summary of local audit reports 2015/16



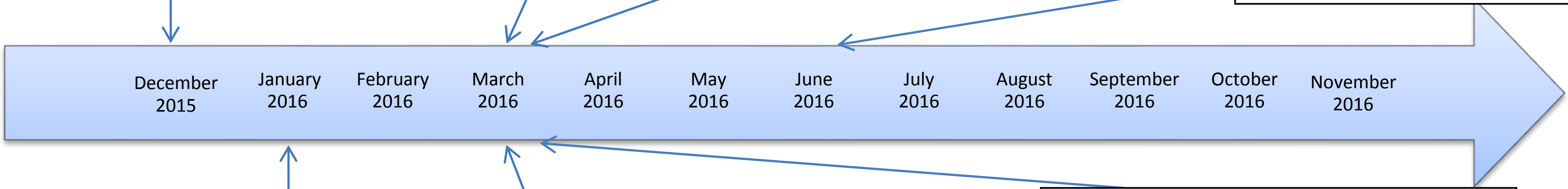
Appendix III: Summary of Audit Scotland national reports 2015/16

Health and social care integration (December 2015) – Significant risks must be addressed if a major reform of health and social care is to fundamentally change how services are delivered, and improve outcomes for the people who use them.

Community planning: an update (March 2016) – Progress on community planning has not yet achieved the major change needed to fulfil its potential to reduce inequalities and put communities at the heart of delivering public services.

An overview of local government in Scotland (March 2016) – Budget reductions mean starker choices ahead for councils which will not be met simply by continuing to cut staff and services.

National Fraud Initiative in Scotland 2014/15 (June 2016) – The security and transparency of Scotland's public finances have been strengthened after a national data-sharing exercise found nearly £17million of fraud and error across public services.



Major capital investments in councils: follow-up (January 2016) - Councils need to improve further the way they manage major projects like schools, roads, housing and flood prevention, says the Accounts Commission.

Changing models of health and social care integration (March 2016) - A lack of national leadership and clear planning is preventing the wider change urgently needed if Scotland's health and social care services are to adapt to increasing pressures.

National scrutiny plan for local government (March 2016) – Provides a summary of strategic scrutiny activity for all councils in 2016/17.

Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	63	**Long term financial planning assumptions** The council has continued to make progress towards addressing the longer term financial challenge through its long term financial strategy and associated savings plans. However the strategy is based upon a number of assumptions which are subject to a degree of uncertainty and change. **Recommendation** The council should regularly review the assumptions used in its long term financial strategy.	The income and expenditure assumptions within the Council's long-term financial plan continue to be subject to regular review and reporting to elected members, with the most recent such update considered by the Finance and Resources Committee on 29 September 2016. Planning and subsequent delivery of all approved savings is also subject to on-going review and consideration by both the Corporate Leadership Team and the Finance and Resources Committee.	Acting Executive Director of Resources On-going

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	118	**Delivery of planned savings** The council has made good progress in delivering its planned savings to date, and remains confident of delivering the required staff savings through the organisational review process. However the remaining reviews cover significant staff numbers, which may represent a risk to the timely implementation of the remaining reviews and associated cost savings. **Recommendation** The council should ensure that its progress towards delivery of planned savings continues to be subject to close monitoring and scrutiny.	As noted above, arrangements to monitor the development and subsequent delivery of all savings are now well-established, with regular scrutiny by both senior officers and elected members in place. This scrutiny will continue to place particular emphasis on identifying potential barriers to delivery and, where appropriate, the development of mitigating and/or alternative actions.	Acting Executive Director of Resources On-going