Scott-Moncrieff
business advisers and accountants

City of Edinburgh Council

2016/17 Annual Audit Report to the Council and the Controller of Audit

September 2017

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Annual accounts

The annual accounts for the year ended 31 March 2017 were approved by the Finance and Resources Committee on 28 September 2017. We report within our independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters.

We have, however, drawn attention in our independent auditor's report to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three- year period to 2016/17. While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect our overall opinion on the financial statements. There are no other matters that we have to report to you by exception.

The annual accounts and supporting schedules were of a good standard. Our thanks go to staff at the council for their assistance with our work.

Wider scope

Financial sustainability

The council has a well-developed Financial Strategy that accounts for the impact of key service pressures such as demographic change, and areas of investment and development, including the City Regional Deal.

The council's reserves increased during 2016-17and are managed in line with key financial risks. In the most recent update, the council identified the need to address a further savings gap estimated at £91.6 million by 2020-21.

Financial management

The council has a strong track record of delivering against its revenue budget. The annual accounts records an overall underspend of £1.06 million in 2016-17.

Financial management is effective but we identified opportunities to enhance the effectiveness of financial scrutiny by improving consistency in the reporting of outturn projections.

Governance & transparency

The council's new administration has quickly set out an updated Business Plan which sets out key priorities and a clear understanding of medium term financial pressures.

The Governance Hub strengthens the approach to manage council companies.

The council responded quickly and transparently to the challenges it faced following the incident at Oxgangs Primary School.

Value for money

The council can demonstrate strong self-awareness and performance reports draw on trend analysis, as well as benchmarking with other councils.

The council acts to tackle area of poor performance, including developing improvement plans. In some service areas, including waste, roads and delayed discharges performance remains poor.

Key facts

- The Council spent £1.758billion on the provision of public services in 2016/17.
- Cash backed reserves held by the Council were £253.911million as at 31 March 2017; of which £141.826million relates to general fund balances.
- £128.801million of the general fund balance was earmarked for future purposes with the remainder representing an unallocated general fund of £13.025million.
- The Council delivered 98% of its 2016/17 approved capital programme of £204.026million.

Conclusion

This report concludes our audit for 2016/17. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff
September 2017

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Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of the City of Edinburgh Council for 2016-17.

We carry out our audit in accordance with Audit Scotland’s revised Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

At the City of Edinburgh Council, we have designated the Governance, Risk and Best Value Committee as “those charged with governance”.

Introduction

Audit Scotland appointed Scott-Moncrieff as auditor to the City of Edinburgh Council (the "Council") for the five year period from 2016-17 to 2020-21. The appointment is made under the Local Government (Scotland) Act.

The scope of the audit was set out in our External Audit Annual Plan, which was presented to the Governance, Risk and Best Value Committee at the outset of our audit. The audit was planned in accordance with the revised Code of Audit Practice issued by Audit Scotland in May 2016.

We use this report to summarise our :

- opinion on significant issues arising from our external audit for the year ended 31 March 2017; and
- consideration of the wider dimensions of public audit work, as set out in Exhibit 1, below.

Exhibit 1: Audit Dimensions within the new Code of Audit Practice

Source: Code of Audit Practice, May 2016

The main elements of our work in 2016/17 have been:

- Participating in, and providing evidence and intelligence for, the shared risk assessment (SRA) process;
- An audit of the annual accounts;
- A review of governance arrangements, internal controls and financial systems;
- A review of arrangements for governance and transparency, financial management, financial sustainability and value for money;
- An appraisal of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
- Any other work requested by Audit Scotland, for example, local performance audit work; and
- Provision of an opinion on a number of grant claims and returns.

As part of our audit, we have also made use of the work of other inspection bodies, the council's internal audit service and Audit Scotland.

The council is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. Each recommendation has been given a grading to help the council assess its significance and prioritise the actions required.

We would like to thank all members of the council's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

Adding value through the audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

This report is addressed to the council and the Controller of Audit and will be published on Audit Scotland's website. www.audit-scotland.gov.uk.

We welcome any comments you may have on the quality of our work and this report via: www.surveymonkey.co.uk/r/S2SPZBX.

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Annual accounts

The Council's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

In this section we summarise the findings from our audit of the 2016/17 annual accounts.

Annual accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2017 were approved by the Finance and Resources Committee on 28 September 2017. We report within our independent auditor's report:

- **An unqualified opinion on the annual accounts; and**
- **An unqualified opinion on other prescribed matters.**

We have, however, drawn attention to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three year period to 2016/17.

Good administrative processes were in place

We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at City of Edinburgh Council for their assistance with our work.

1. The council's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the council and the auditor in relation to the annual accounts are outlined in Appendix 1.

2. In this section we summarise the findings from our audit of the 2016/17 annual accounts.

Overall conclusion

An unqualified audit opinion on the annual accounts

3. The annual accounts for the year ended 31 March 2017 were considered by the Governance, Risk and Best Value Committee on 26 September 2017 and approved by the Finance and Resources Committee on 28 September 2017. We have reported within our independent auditor's report:

   - An unqualified opinion on the annual accounts; and
   - An unqualified opinion on other prescribed matters.

4. We have however, drawn attention in our audit report to the fact that the Council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over a three year period (paragraph 17). While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect the overall opinion on the financial statements.

Good administrative processes were in place

5. We received unaudited annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at City of Edinburgh Council for their assistance with our work.

Our assessment of risks of material misstatement

6. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 2.

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Revenue recognition

Under ISA 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the council could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Noted in 2016/17 External Audit Plan

7. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams, and carried out testing to confirm that the council's revenue recognition policy is appropriate and has been applied reasonably.

2. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Noted in 2016/17 External Audit Plan

8. We have not identified any indications of management override in the year. We have reviewed the council's accounting records, obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year-end.

9. During our review of the financial controls processes however, we did note a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. Compensating controls are in place which mitigate against the opportunity for individuals to achieve monetary gain. These include, for example, control account reconciliations and preparation and presentation of financial monitoring reports to the council. There does however remain a risk that individuals post journals to manipulate the reported financial position; with no monetary gain involved. While our audit work did not identify any indications of management override, we recommend that arrangements are put in place to review or authorise year-end journals.

Action plan point 1

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

3. Associated spend with new financial systems

In August 2015 the council awarded CGI the contract for the provision of 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.

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.

The council is however currently reviewing the expenditure incurred to date and the associated accounting treatment. There is a risk that this is not correctly accounted for in the 2016/17 annual accounts.

Noted in 2016/17 External Audit Plan

10. At the outset, the contract with CGI was expected to save the council at least £45million over the first seven years. Since the contract commenced in 2016, the council has reported that CGI has underperformed on the contractual commitments. Most major programmes are at least 12 months late and there are several still in a state of re-plan which is impacting on the council's ability to transform services. In some cases the revised delivery date has meant that the council has been unable to realise the benefits and/or savings envisaged. Improvements have been made during the year; however this has not been at the pace required by the council or in line with the contract.

11. A paper was presented to the Governance, Risk and Best Value Committee in August 2017, giving members an overview of the services delivered by CGI including options available to the council regarding contractual remedies.

12. As a consequence of the delay in the delivery of the planned improvements as part of the ICT contract, capital expenditure within 2016/17 annual accounts was limited to £1.341million. No further payments had been made at 31 March 2017 as milestone triggers had not been met. From audit work performed we are satisfied that this expenditure has been appropriately accounted for in the annual accounts.

Other risk factors

13. Further to the identification of significant audit risks (Exhibit 2), we also identified in our External Audit Plan a number of risk factors which could potentially result in a material misstatement to the annual accounts. An update on these risk factors is set out below:

School closures

14. 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. 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.

15. Under the unavailability clause of the PPP1 contract and following the school closures, the council, in 2016/17, withheld unitary charge payments of £5.36million.

16. Through review of the accounting entries in relation to the retention of the unitary charge we noted that only the financing and service elements of the charge have been withheld, the capital element has been paid throughout 2016/17. This reduces the PPP1 liability in accordance with the original contract terms and conditions and is in accordance with relevant accounting standards. We are satisfied that appropriate accounting treatment has been applied. Further information relating to the schools closure is included in paragraphs 165 – 175.

Significant trading operations

17. The council's Edinburgh Catering Services – Other Catering trading operation has previously failed to breakeven over a three year period. 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.

18. Despite these actions the trading operation has failed to breakeven in 2016/17, reporting a deficit of £0.191million and a cumulative three year deficit of £0.489million.

19. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to operate their significant trading operations so that income is not less than expenditure over each three year period. The council has failed to comply with this statutory requirement for the three year period ending 31 March 2017 in respect of the trading operation. We have reported this matter in our independent auditor's report.

20. The council has on-going plans for investment in the trading operation. Over the past three years the Corporate Facilities Management service has been under review. Due to this, the service has been operating under the leadership of property managers rather than a dedicated catering manager. This post was filled in July 2017. The new catering manager is responsible for the staff canteen and coffee shops and is looking to redesign the service to deliver improvements in performance. Short-term actions are already in progress including the introduction of Electronic Point of Sale (EPOS) technology to facilitate card payments on site at Waverley Court and City Chambers staff restaurants and coffee shops.

21. In addition to this, the posts of Performance Manager and Commercial Manager within the Facilities Management service have been filled in June and August 2017 respectively. These posts will be responsible for improving scrutiny and oversight of the Other Catering operation.

Revised financial statement formats

22. From 2016/17 the Code requires authorities to present service segments on the face of the Comprehensive Income and Expenditure Statement (CIES) based on the way in which they operate and manage services.

23. The council has fully complied with the new requirements of the Code. The CIES has been presented in line with council directorates. Prior year figures have been restated. The notes to the financial statements include an Expenditure and Funding Analysis which demonstrates how the funding available to the council has been used in providing services in comparison to the amounts recorded in the CIES.

Loans Fund Accounting

24. The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The Regulations set out the powers of local authorities to borrow and maintain a loans fund and result in a change in accounting treatment from 2016/17. There is a risk that the council does not have arrangements in place to comply with the new accounting practices.

25. From audit work performed we concluded that the council has appropriate arrangements in place to comply with the Regulations.

Group accounting

26. The council has a complex group which requires consolidation of a range of subsidiaries, associates and joint ventures. For 2016/17 this also includes consolidating the Edinburgh Integrated Joint Board. The complexity of the group arrangements leads to a risk over the accuracy and completeness of the group accounts.

27. During the planning stages of our audit we reviewed the structure of the group and during the audit sought to gain an understanding of significant audit risks, materiality and extent of the audit work performed for the significant components.

28. In respect of consolidation of the Edinburgh Integrated Joint Board and other group companies we have concluded that the council's share of results has been appropriately consolidated into the group accounts.

29. In early 2017, the council confirmed that operational activities undertaken by EDI, Parc Craigmillar and Waterfront Edinburgh would in future be delivered through an in-house Council Model. A transition period would ensure business as usual for existing projects operated by the companies and a commitment was made to honour all contractual arrangements in place for key projects.

30. No time frame for enacting this decision was given and in the absence of a known date by which activities, assets and liabilities, including properties are to be transferred all companies have continued to prepare accounts on a going concern basis. This is set out in note 1 to the EDI Group Limited accounts. The external auditors have also drawn attention to this basis for accounting within their audit certificate.

Our application of materiality

31. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.

32. Our initial assessment of materiality for the group annual accounts was £14.1million and for the council single entity annual accounts £12.6million. We revised our assessment, following receipt of the unaudited annual accounts, to £15.4million for the group and £12.6million for the council and it remained at these levels throughout our audit.

33. Our assessment of materiality is set with reference to three key benchmarks: gross expenditure (2%), surplus/deficit on provision of services (10%) and useable reserves (2%). We consider these to be the principal considerations for the users of the accounts when assessing the performance of the council and its group.

34. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

	Area risk assessment £million		
	High (45%)	Medium (55%)	Low (70%)
Group	6.9	8.4	10.8
Council	5.6	6.9	8.8

35. We agreed with the Governance, Risk and Best Value Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £250,000, as well as other misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Governance, Risk and Best Value Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

36. We are pleased to report that there were no material adjustments to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

37. We also identified a number of potential adjustments which are not considered material to the annual accounts, either individually or in aggregate. These have been reported to the Head of Finance and are included as an appendix to the letter of representation. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the annual accounts.

An overview of the scope of our audit

38. The scope of our audit was detailed in our External Audit Plan, which was presented to the Governance, Risk and Best Value Committee in March 2017. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the council. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

39. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

40. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Legality

41. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and the council's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

42. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

43. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

44. As part of our audit we reviewed the council's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10[1] as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

45. In 2016/17, two letters were received citing objections to the annual accounts. For one it was determined that points raised did not constitute an objection to the accounts. In relation to the other, a hearing has been scheduled with regard to the points raised.

Management commentary

46. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.

47. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

48. As part of our audit we also reviewed the council's management commentary against the non-statutory guidance issued by the Scottish Government (Local Government Finance Circular 5/2015). We considered the extent to which the council's management commentary included relevant information in respect of:

- The context of the annual accounts;
- Insight into the priorities of the council and strategies adopted to achieve these priorities and objectives;
- Information on future plans;

[1] Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

- KPIs which measure progress against objectives/priorities; and
- Information on the principal risks and uncertainties facing the council.

49. From our review of the 2016/17 management commentary, we noted, in our view, areas which could be further developed. In particular:

- More information in respect of the overall group;
- More performance information (both financial and non-financial).

The council updated the draft accounts to reflect our comments.

Annual governance statement

50. The Chief Executive and the Council Leader have confirmed that in their opinion, reasonable assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its group systems of governance. The Annual Governance Statement identifies a range of actions that have been, or will be, taken by the council to continue to progress improvements in the council's governance arrangements.

51. We have reviewed the Council's Annual Governance Statement and have found that it is consistent with the accounts and has been prepared in accordance with *Delivery of Good Governance in Local Government: Framework (2016)*.

Remuneration report

52. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Depreciation and amortisation policy

53. The council's current accounting policy is not to provide for depreciation or amortisation in the year of an asset's purchase. In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), depreciation/amortisation should be charged over an asset's useful life, starting from when the asset is available for use. The depreciation and amortisation charge in the council's 2016/17 annual accounts is understated by up to £5.36million (calculated as the maximum possible impact). This has been categorised as an unadjusted difference and detailed in the letter of representation.

Charitable trust funds

54. The council administers seven charitable trust funds. Over the last few years the council has rationalised the number of charitable trusts down from over 100 to seven, with further plans in place to wind up the Usher Hall Conservation Trust in 2017/18.

55. The total charitable trust fund balance as at 31 March 2017 amounts to £14.671million, an increase of £0.173million in comparison with the prior year.

56. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The council's charitable trust funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.

57. We have audited the council's 2016/17 charitable trust funds. Our findings from our audit have been separately reported to the Trustees. In summary we reported the following:

- We have provided an unqualified audit opinion on the charitable trust funds annual accounts;
- The council has complied with the Local Authority Accounts (Scotland) Regulations 2014 as they relate to its charitable trust funds;
- We did not identify any significant weaknesses over the accounting systems and internal controls associated with the charitable trust funds.

Common good fund

58. Local Authorities are required to administer common good funds under section 15 of the Local Government (Scotland) Act 1994. The purpose of common good funds is to provide benefit to the population of the area either through the disbursement of funds, securing assets for on-going use for the population or contributing to specific local projects/initiatives.

59. The Common Good Fund stands separate from the council's accounts and has been described as "the ancient patrimony of the community".

60. During 2016/17, a surplus of £104,000 was generated from the common good fund. Two capital receipts were generated following the sale of 6-8 Market Street and land at St James Quarter.

61. In 2016, the council's Finance and Resources Committee approved the use of the common good fund for planned maintenance of the common good assets. £2million was earmarked in 2015/16 (following a receipt from the sale of East Market Street Garage), to fund a maintenance programme for common good assets. As at 31 March 2017; £1.890million remained in this fund. Overall common good funds stood at £2.402million as at 31 March 2017.

62. The Community Empowerment (Scotland) Act 2015 obliges local authorities to establish and maintain a register of property which is held by the authority as part of the common good. The Act received Royal Assent on 25 July 2015; some provisions came into force in 2015 and the remaining provisions are likely to come into force during the latter part of 2017.

63. The Scottish Government issued draft guidance for consultation on 30 June 2017, with responses invited by 29 September 2017. The consultation concerns the statutory guidance related to Part 8 of the Community Empowerment (Scotland) Act 2015 – common good registers - and asks for views on issues such as timescales, information about assets, local consultation, publicising proposals and disposal and use of common good property.

64. Each local authority will be required to publish a list of property which it proposes to include on its Common Good register and to consult on this list. There will be no requirement on local authorities to make checks or confirm title beforehand. Individuals and community bodies can make a case for property to be included in or excluded from the register. Each local authority will have time to investigate and respond to representations before making a final decision as to inclusion on the list. The common good register is required to be published within six months of the end of this consultation period.

65. The council has begun to collate information regarding those properties historically considered to be common good, specifically those included on the "common good register of assets for accounting purposes", relevant parks and other assets with a public function. Work has also progressed on developing a methodology for assessing all properties' common good status, taking into account the relevant legal tests.

66. Progress is being accelerated by seconding a solicitor from an external legal firm to Legal Services to release a council solicitor to work on the project and additional administrative support has also been appointed.

Related party transactions

67. The council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.

68. The councillors' register of interests is one way that the council can identify its related parties. On review of the councillors' register of interests we identified four additional interests which had not been declared. There is a risk, should the registers not be updated, that the council does not identify and report all related party transactions in its annual accounts.

Action plan point 2

Qualitative aspects of accounting practices and financial reporting

69. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the annual accounts, and we consider these to be appropriate to the council.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to property plant and equipment, provisions, pension liabilities and arrears. We consider the estimates made, and the related disclosures, to be appropriate to the council.
The potential effect on the annual accounts of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the annual accounts.	We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the annual accounts (beyond the existing disclosures made).
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the annual accounts.	From our testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the Management Commentary or material inconsistencies with the annual accounts.	There are no misstatement or material inconsistencies with the annual accounts in the Management Commentary.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

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Financial management

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

Financial management

The council has a strong track record of delivering against budget. Financial management arrangements appear effective and have been strengthened by the introduction of monthly budget review and challenge meetings.

The transparency and scrutiny of financial reporting could be further improved by providing consistency in outturn projections.

Our testing of internal controls identified no significant internal control weaknesses.

Financial performance

70. The council's annual accounts for 2016/17 record an overall underspend of £1.058million, equating to 0.11% of the council's total net expenditure. The council has been able to deliver services within budget for the tenth successive year.

Exhibit 3: Extract from the 2016-17 Outturn Statement

Service	Budget £million	Actual £million	Variance £million
Communities and Families	342.7	341.8	(0.8)
Place	66.7	68.4	1.7
Resources	132.0	130.9	(1.2)
Health and Social Care	186.7	187.8	1.1
Chief Executive	41.4	41.3	(0.1)
Safer and Stronger Communities	25.6	25.5	(0.1)
Lothian Valuation JB	3.7	3.7	-
GF Services	**798.9**	**799.4**	**0.5**

General Fund Services

71. The 2016-17 Outturn Statement (Exhibit 3) shows that the council spent a total of £799.4 million on the provision of services against a budget of £798.9 million.

72. Two services exceeded budgets during the year, the Place Directorate, and the Health and Social Care services delegated by Edinburgh Integrated Joint Board.

73. The Place Directorate faced significant financial pressures (£5.7million), including the closure of Mortonhall Crematorium for a significant part of the financial year. Despite management actions and offsetting underspends in other service areas, the Directorate recorded an overspend of £1.7million.

74. The council agreed an additional £1.1million contribution to Health and Social Care in January 2017, which meant that General Fund services delivered an overall underspend of £0.6million.

Health and Social Care

75. Throughout the financial year, the Edinburgh Integrated Joint Board (IJB) reported significant overspend against the approved budget, primarily as a result of failing to achieve the savings targets for Council-delivered services and ongoing pressures in prescribing and nursing for services delivered by NHS Lothian. In 2016-17, there was an overspend of £8.0m on Council-delivered services, although this was offset by an agreed non-recurring contribution of £6.9m from the Social Care Fund. As a result, the additional contribution approved by the council of £1.1million allowed the IJB to meet its financial targets.

76. Performance reports, including financial reports were made to the Health, Social Care and Housing Committee in 2016-17. In addition, the level of overspend was included in revenue budget monitoring reports to the Finance and Resources Committee. However, there is scope to improve the transparency of reporting and level of financial scrutiny applied to Health and Social Care spending, including any approval for additional resources.

Corporate budgets

77. There were a number of key movements in other income and expenditure. As a result of higher council tax income (£0.7million), and lower payments made under the council tax reduction scheme (£2.95 million), the council was able to make a contribution to earmarked reserves of £3m during 2016-17. Other underspends, including lower than anticipated loan charges, meant that the council was able to meet additional early release costs of £1.6 million in 2016-17.

Budget monitoring and control

78. The council's Finance and Resources Committee receives quarterly revenue and capital monitoring reports throughout the financial year. The reports include a risk rated assessment of the achievement of savings, information on key variances and areas of financial risk. The reports are referred to the Governance, Risk and Best Value Committee for scrutiny.

79. We did, however, note that financial scrutiny could be enhanced by ensuring that revenue monitoring reports include consistent outturn projections throughout the year.

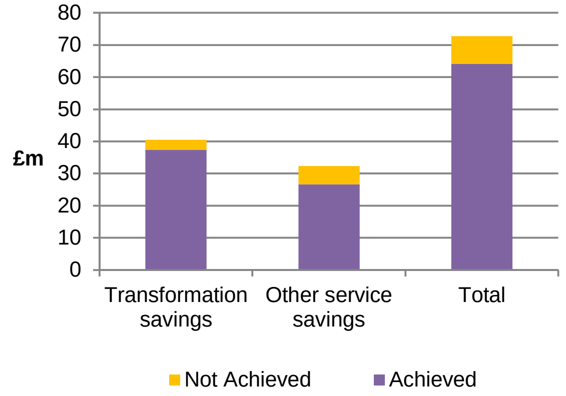
Audit Plan Point 3

Savings Programme

80. When the 2016-17 budget was agreed, the council had identified the need to achieve a challenging target of £72.8 million of savings in year.

81. The council's transformation programme identified £70 million of savings, with £40.5 million to be delivered in 2016-17. In addition, a further £32.3 million of savings proposals were identified in the budget process. As Exhibit 4 highlights, the council achieved £64.1 million of savings in 2016-17.

Exhibit 4: The Council achieved 88% of its approved savings in 2016-17

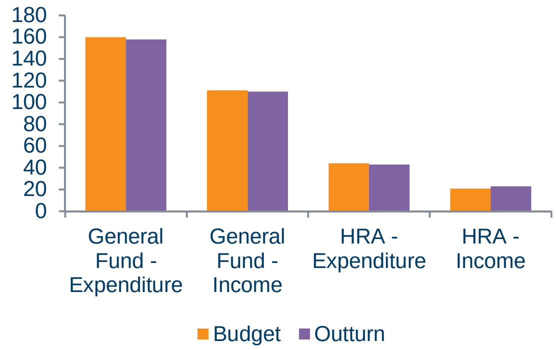


Source: 2016-17 Outturn Report

Capital Expenditure

82. During 2016/17 the council made total capital additions of over £140 million. Of this, £98.7 million were general fund additions and £41.97 million were HRA additions. Outturn against the Capital Investment Programme has been summarised in Exhibit 5.

Exhibit 5: Capital Outturn was broadly in line with budget in 2016-17



Source: Capital Outturn Report 2016/17

83. A net underspend of £1.745million against budgeted General Fund expenditure is a result of slippage on a number of projects, offset by an acceleration of £6.4million on Asset Management Works. Key areas of slippage include altering the procurement approach on early learning and childcare estates improvements (£3.3million); delays in securing traffic management for Road Asset

Management projects (£2.7million); and delays in delivering Boroughmuir High School (£1.7million).

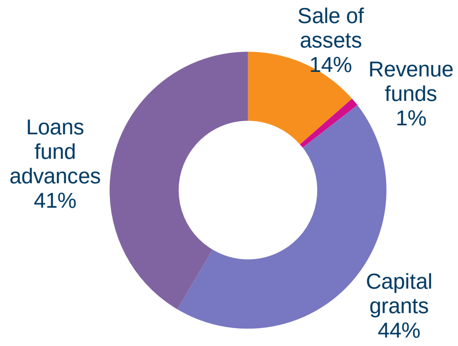
84. Capital receipts generated from the sale of assets were £12.36million, compared to a budget of £24.58million. This deficit reflects a number of sales that are now due to be settled later than originally expected. The deficit is offset by an increase in income from developers' and other contributions, resulting in capital income being £1.28million below budget.

85. An underspend of £0.68million against the HRA was largely due to a low number of tenants participating in the kitchen and bathrooms programme; the heating programme was accelerated to reduce the overall underspend in line with the agreed strategy. Capital receipts were £1.99million above budget due to a spike in council house sales prior to the abolition of Right to Buy in August 2016.

86. The net underspend on gross General Fund expenditure represents a variance of 1.09% against the revised budget (variance of 6.59% was reported for the 2015/16 outturn position). This demonstrates the success of the capital monitoring team in effectively managing the capital programme and accelerating projects where appropriate to offset slippages elsewhere. Progress on major projects is reported to the Governance, Risk and Best Value Committee on a quarterly basis, summarising activity and any issues relating to timescales or budgets. Each project is allocated a RAG rating to reflect the current level of risk and enable the council to manage the overall programme effectively.

87. Capital expenditure was funded as shown in Exhibit 6.

Exhibit 6: Sources of Capital Funding



Source: Capital outturn report 2016-17

Systems of internal control

88. We have evaluated the council's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included audit testing on the key internal financial controls to confirm that they are operating as intended.

89. As reported more fully in our Review of Internal Financial Controls report to management, we consider that the council has well-designed systems in place to record, process, summarise and report financial and other relevant data. We did not identify any material weaknesses in the council's accounting and internal control systems during our final audit. Our conclusions have been reached following consideration of the following key financial systems, as set out in our external audit plan.

Exhibit 7: Key financial systems evaluated in 2016-17

Council tax	Non domestic rates	Cash receipts and banking
Housing rents	Sundry income	Payroll
Treasury management	Members remuneration / expenses	Expenditure

ICT controls

90. Our IT audit work for 2016/17 has focused on the effectiveness of security management controls within CGI over the council's ICT network. The review has considered a wide range of control areas including security management plans, management and monitoring of privileged user accounts, patch management processes, security monitoring, incident management and internal and external security testing. Prior to conducting our review, we were aware that council ICT management had raised concerns with CGI regarding the lack of assurance on security management arrangements. This resulted in a specific team being commissioned within CGI (the 'Red Team') to develop and implement a Security Improvement Plan (SIP). The SIP was agreed in May 2017.

91. Our audit report is in the process of being agreed with CGI and council ICT management. We have raised a number of recommendations from our audit work, a significant number of which are graded as high risk. Whilst our audit work has recognised that there has been improvement in security management processes within CGI, they lack the level of maturity that we would expect at this stage of the contract. A number of key processes which underpin effective security are under-developed or developing, for example, processes in relation to patching, configuration management, security hardening and vulnerability management. There are also weaknesses in relation to the management and monitoring of privileged user access.

92. There is a need to assign implementation dates for all actions contained within various security management action plans, in particular, the Security Improvement Plan and PSN compliance actions. It was not clear whether these dates were the deadline for formal approval by the council or agreement by the joint Security Working Group.

93. There is also a need to implement patching and security hardening policies and a programme of internal vulnerability testing of the council network. Our final report on this area will be presented to the Governance, Risk and Best Value Committee in October 2017.

Internal audit

94. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the council's total audit resource. Each year we consider whether it is the most effective use of the council's total audit resource to place reliance on the work of internal audit. When reliance is to be placed over the work of internal audit we carry out an assessment of the internal audit function to ensure this is sufficient in terms of quality and volume, and is performed in accordance with the Public Sector Internal Audit Standards (PSIAS).

95. We have reviewed the council's internal audit arrangements in accordance with International Standard on Auditing 610 (Using the Work of Internal Auditors), to determine if we could rely on the work of internal audit and if so, to what extent. Overall we concluded that we will place reliance on the work of internal audit where appropriate.

96. A formal external quality assessment of internal audit's compliance with the Public Sector Internal Audit Standards (PSIAS) is required at least once every five years. The Head of Audit and Inspection of North Lanarkshire Council completed an External Quality Assessment Review (EQAR) in 2016/17. The review concluded that the council's internal audit service fully conforms with the PSIAS.

4

Financial sustainability

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

Financial sustainability

The council has a well-developed Financial Strategy and has a clear understanding of future pressures and the impact on the medium term financial position.

The council has recently identified the need to secure additional savings of £91.6million in the period to 2020-21 and is developing the proposals and programme management necessary to deliver on this challenging target.

There is an effective approach to the management of reserves, highlighting significant risks identified in the budget process, quantifying these wherever possible, and establishing provisions to mitigate the risk. The council's current level of reserves is in line with other councils in Scotland.

Financial planning

97. The council developed its Financial Strategy in 2015-16 and has updated the assumptions and forecasts underpinning the framework every 6 months since then. The Long Term Financial Plan covers five financial years and includes a range of assumptions on inflationary pressures, demographic change, new legislative requirements and estimates of government funding.

98. The Plan is reviewed by the Finance and Resources Committee on a regular basis and is used to inform the development of budget proposals.

99. We reviewed the analysis used to produce the current Revenue and Capital Budget Framework 2018-23 and we were satisfied that it was based on a good level of understanding about services, emerging service pressures and up to date expectations of future government funding.

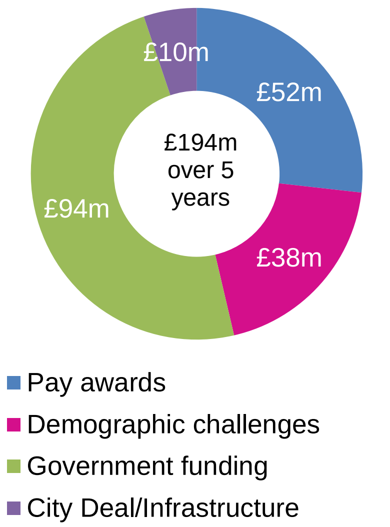
Delivering a sustainable financial position

100. The Scottish Government sets out the financial settlement for councils in December each year. The council uses the settlement figures to update assumptions, and to refine budget proposals before the budget is finalised. The budget for 2017-18 was approved by the council at its meeting in February 2017. The budget framework also set out an indicative balanced budget for 2018-19. At the time, additional savings requirements of £15.4m and £10.9m were highlighted in 2019-20 and 2020-21 respectively, which would require to be met from the identification of additional savings and/or income.

101. The Finance and Resources Committee recently received an update on the budget framework. This report sets out a greater financial challenge in the 5 years covered by the plan. As Exhibit 8, overleaf, indicates, movements in the key assumptions include:

- Increases in the provisions made for pay awards. The pay award assumption has been revised to 2% for 2018-19 to 2022-23 inclusive, resulting in an annual incremental increase in provision of £2.6m for each financial year.
- Decreased government grant funding, following independent research on likely public spending in Scotland. The assumed changes in grant funding have been revised to annual reductions of 2.9%, 3.7% and 3.2% respectively over the period from 2018-19 to 2020-21. This accounts for a further reduction in estimated grant income of £59m over the life of the plan
- Additional investment in infrastructure, partly as a result of the City Deal and commitments within the Local Development Plan.

Exhibit 8: A number of key assumptions have been updated since the 2017-18 budget was approved, with a significant impact on the projected financial position in the period to 2022-23

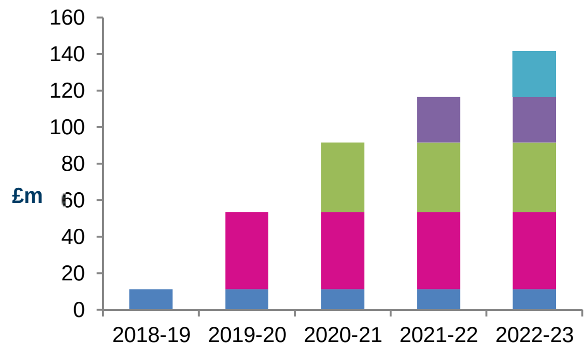


Note: The total financial gap has been offset by revised changes to assumptions relating to Council Tax income (£38million) and others (£14 million). The total gap by 2022-23 is estimated to be £141.60m.

Source: Revenue and capital budget framework 2018/23 – progress update, Sept 2017

102. The creation of the Scottish Government's Social Care Fund has made additional funding available for the Integrated Joint Board to reflect the significant demographic and cost pressures. As a result, the council has reduced its anticipated allocations to the Edinburgh Integrated Joint Board to assume a flat-cash allocation. This level of anticipated delegated budget compares favourably to the overall position across the Council where the assumed revenue reduction is 9.6% over the period to 2022-23. The council estimates that, overall, savings of £91.6 million are required in the period to 2020-21. As Exhibit 9 highlights, the paper to the Finance and Resources Committee outlines a cumulative savings gap of £142million by 2022-23.

Exhibit 9: The council's most recent financial estimates highlight an increased and significant cumulative savings gap in the period to 2022-23



Source: Revenue and capital budget framework 2018/23 – progress update, Sept 2017

103. The council will use the latest long term financial plan to inform the budget process during the period from October until the 2018-19 budget is approved in February 2018. Until there is a clear savings plan in place to address the funding gap, there is a risk to the council's reserves position and future service delivery.

Managing reserves

104. The level of usable reserves available is one of the measures used to assess the financial strength and sustainability of councils. Councils hold reserves to manage risks and make provisions for future spending. The General Fund is the largest of the council's reserves, accounting for 56% of the total usable reserves.

105. As part of the budget preparation process, the council considers an annual Risks and Reserves report. This report outlines the key financial risks associated with the budget process, including:

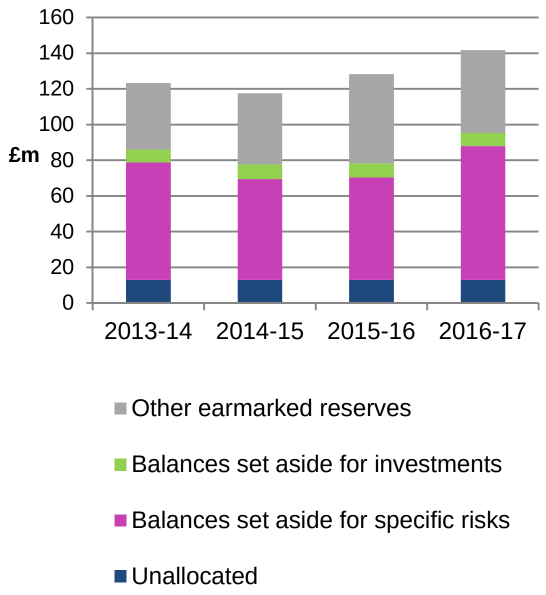
- The achievement of transformation and other savings
- Volatile demand and therefore funding to deliver the planned outcomes of the Edinburgh Integration Joint Board
- Demographic changes leading to rising service demands.

106. The report for members quantifies the risk wherever possible, and outlines the mitigating actions taken, including factoring in best estimates to the long term financial plan, and holding specific reserves to manage the risks.

107. The council has agreed to hold a sum of £13.025 million as an unallocated element of the General Fund. This is lower than normal practice for Scottish local authorities, but is mitigated by the earmarked balances for specific risks, and for areas of investment, including the Council Priorities Fund.

108. Exhibit 10 below confirms that the council's General Fund balance increased by £13.4 million during 2016-17, primarily as a result of contributions for projects that were received during 2016-17 but set aside to match expenditure, a £1.058 million underspend against budget, and expenditure incurred under the Council Tax Reduction Scheme falling significantly lower than budgeted (£2.95 million).

Exhibit 10: The council's General Fund balance increased in 2016-17



Source: Annual Accounts 2014-15 to 2016-17

109. The balances set aside for specific risks increased from £57.4million in 2015-16 to £74.9million in 2016-17. The earmarked balances held include:

- Additional contributions of £13million, in line with the Financial Strategy, for specific projects relating to welfare reform and potential additional works relating to the programme of inspection of council buildings following the PPP1 school closures
- An additional contribution to the Council Priorities Fund of £3million.

110. The council also holds balances for specific investments to meet the costs of transformation, and to shift towards preventative expenditure. The balances held fell from £7.8million in 2015-16 to £7.4million in 2016-17.

Usable reserves

111. Exhibit 11 summarises the movements on the council's usable reserves in 2016-17. We note that the City of Edinburgh council's level of usable reserves is above the mean of other local authorities in Scotland and supports our view that the council has adequate financial management arrangements in place (Exhibit 12).

112. Other usable reserves include the Renewal and Repairs Fund and Housing Revenue Account (HRA). The HRA is the statutory fund used to record all income and expenditure for the management of, and investment in, council homes. Under statute, all expenditure on homes let by the council is funded through the rent and related service charges paid by its tenants.

113. The council's surplus on the HRA is transferred to the Renewal and Repairs Fund to leave a nil balance as part of the preparation of the annual accounts. In 2016-17, the HRA made a contribution of £11.9million to the Renewal and Repairs Fund. This balance is earmarked for future capital investment in new affordable homes through the 21st Century Homes programme and as a contingency to manage the impact of welfare reform.

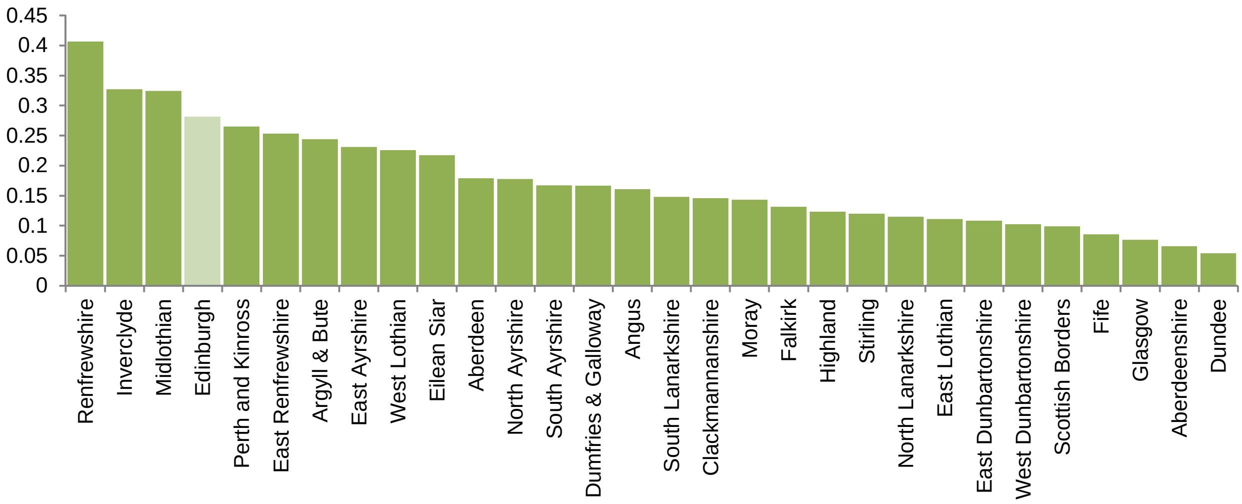
114. Other usable reserves include the Capital Fund and Capital Grants Unapplied Fund.

Exhibit 11: The council's usable reserves increased by £15.9million in 2016-17

Movement in the council's usable reserves	2014/15 £million	2015/16 £million	2016/17 £million	Movement In year
General Fund	117.5	128.4	141.8	£13.4m
Renewal and Repairs Fund	35.8	38.1	50.1	£12m
Capital Grants unapplied	4.4	2.7	0.8	£(1.9m)
Capital Fund	31.7	68.8	61.2	£(7.6m)
Total usable reserves	**189.4**	**238.0**	**253.9**	**£15.9m**

Source: Annual Accounts 2014-15 to 2016-17

Exhibit 12: Councils' usable reserves as a proportion of net cost of services



Source: Audit Scotland database complied from draft Annual Accounts 2016-17. Note that Shetland and Orkney Islands councils have been omitted from the comparison as their level of reserves may distort the assessment.

Links to other strategies

115. The council's Strategic Framework identifies a suite of interlinked strategies necessary to deliver the coalition's commitments, the Business Plan and the strategic outcomes agreed with Community Planning partners on the Edinburgh Partnership. Key priorities and service developments have to be balanced with financial pressures and delivering longer term financial sustainability.

116. Audit Scotland's Best Value Follow Up report in February 2016 noted the significant progress that the council had made in strategic planning. The council's long term financial plan is a key part of the strategic framework, and the 2016-20 business plan was also supported by a Workforce Strategy and Corporate Asset Strategy.

117. As we note within the financial management section of this report, the council reports that it has delivered significant change and savings through its transformation programme.

Workforce planning

118. The Workforce Strategy 2015-20 approved in March 2015 set out the council's plans to reduce its workforce by an estimated 2,000 by 2017 through a Voluntary Early Release Arrangement (VERA).

119. As at July 2017, the council reported that 923.4 full time equivalent (FTE) staff had left the organisation under the VERA scheme, with an estimated recurring saving of £38 million per year. The council's basic payroll costs have fallen from £405.4 million at June 2015 to £386.6 million in June 2017.

120. The most recent People Strategy 2017-20 update (February 2017) outlines the actions taken to date, including an extensive leadership development programme, and reaffirms the strategic themes for developing the council's workforce. The Strategy sets a high level vision for the workforce. The Strategy will be underpinned by a more detailed People Plan but at the time of our review this was not yet in place.

Audit Plan Point 4

Embedding change

121. The council's transformation programme was established in February 2015. Each of the organisational reviews set out within the original transformation programme has now either been completed or is approaching completion.

122. The council is continuing to develop its overall Change Strategy, but we understand that all future major change initiatives will be overseen by a Change Board led by the Corporate Leadership Team. The council has established plans for the Project Management methodology, and for reporting progress to the Change Board using dashboard progress reports.

123. The council's embedding change programme has sought to ensure that key themes from transformation, such as people and workforce change, customer focus, technology and asset management have been embedded in service implementation plans. Transformation and savings proposals will therefore form part of service delivery and management arrangements, rather than being separate activities.

124. Our early conclusion on these plans is that a single Board to consider all major change initiatives will provide a clear view of progress on savings and change necessary to deliver. We will, however, continue to consider the effectiveness of reporting progress to committee.

Asset management

125. The council's Property and Asset Management Strategy was approved in September 2015 and set out a business case that aimed to deliver £9million of recurring annual savings as part of the council's wider Transformation Programme.

126. The Asset Management Strategy forms part of the overall Transformation Programme and outlines a sustainable future operating model for property and facilities management based on:

- Service redesign;
- Estate rationalisation; and
- Investment in the portfolio.

127. The most recent asset management transformation progress update to the Finance and Resources Committee highlights a number of financial and non-financial benefits, including forecast recurring annual savings of £5.3million by 2018-19. Good progress has been made in preparing Waverley Court to allow subletting and the estates rationalisation programme is ongoing.

128. The council has historically reported low performance in relation to the national indicator measuring the suitability of accommodation for current use under the Local Government Benchmarking Framework. In 2015-16, Edinburgh's results were the lowest in Scotland, at 59.3%, against a Scottish average of 79.6%. As part of the transformation programme, condition surveys have been carried out across 70% of the estate to date to quantify and prioritise spend or management of the property to secure improvements.

129. As part of the strategic planning framework, the asset management strategy is being revised to ensure that it reflects the needs of locality planning.

Looking forward

Edinburgh Trams

130. In September 2017, the Transport and Environment Committee considered an updated Outline Business Case (OBC) for the Edinburgh Tram York Place to Newhaven project.

131. The capital cost of the project is estimated to be £165.2 million through to project completion and the construction programme is estimated to be approximately three years plus four months for testing and commissioning. Subject to approval by Council, the line is projected to be open to passengers in the second quarter of 2022.

132. A public interest inquiry has been convened to establish why the original Edinburgh Trams project incurred delays, cost more than originally budgeted and through reductions in scope delivered significantly less than projected. The Chair, Lord Hardie, will issue a report on the findings once all evidence has been assessed. The oral hearing started on Tuesday 5 September 2017, and we will consider how the council uses the outcomes to learn lessons for the next stage of the project.

City Deal

133. In July 2017, Heads of Terms were agreed for the Edinburgh and South East Scotland City Region Deal. The heads of terms are an agreement between the Scottish Government, the six local authorities in the region and the UK Government. Both governments are committed to jointly investing £600m over the next 15 years and regional partners have committed to adding up to £500m, overall representing a deal worth £1.1 billion.

134. The city region deal aims to drive investment and address inclusion across the regional area. The Council will work with the Scottish Government and local authority partners East Lothian, Fife, Midlothian, Scottish Borders and West Lothian Councils to deliver a range of key commitments, including:

- £300m for world leading data innovation centres
- £140m for crucially needed A720 city bypass at the Sheriffhall Roundabout and transport improvements across west Edinburgh
- £20m capital funding for new world class concert hall
- £25m regional skills programme to support improved career opportunities for disadvantaged groups
- £65m of new funding for housing to unlock strategic development sites

135. The deal is expected to conclude before the end of the financial year. We will monitor the implications for the council's medium term financial plan, and arrangements to monitor the impact on outcomes throughout the term of our engagement.

Local Development Plan

136. In September 2017, the council initiated a consultation exercise to help shape the next Local Development Plan (LDP). The council's LDP provides the vision for how communities will grow and develop in the future. The consultation and key appraisals such as the impact on education, the environment and transport may therefore have significant implications for the council's financial planning.

5

Governance and transparency

Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Through the chief executive, monitoring officer and section 95 officer, the council is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. Organisations usually involve those charged with governance in monitoring these arrangements.

Governance and transparency

The council's new administration has quickly set out an updated Business Plan for the medium term, based on a clear understanding of future pressures. The council continues to engage with local communities on the longer term Edinburgh 2050 vision.

The council is open and transparent in the way that it conducts its business, with the public able to attend meetings or view webcasts online.

Following the Public Pound arrangements continue to improve and have been enhanced by the establishment of a Governance Hub for council companies.

The serious incident at Oxgangs Primary School revealed failings by the council in the scrutiny and quality assurance arrangements for the original PPP1 development. The council responded in a fast, transparent and comprehensive way to the challenges it faced.

Leadership and vision

137. Scottish local government elections were held in May 2017. In Edinburgh, there was a significant turnover in elected members as only 28 of the 63 councillors returned, with the remaining 35 being new to the council. The political balance of the council has also changed. In the period to May 2017, the council was run by a Labour/SNP administration. At the election, the SNP became the largest party and the Minority Administration is formed from members from the SNP and Labour parties, with an SNP member serving as the council Leader.

138. Once the coalition was finally agreed, the Administration quickly published revised coalition commitments. Plans to develop a revised Business Plan by December 2017 were brought forward, and the council agreed the plan in August 2017. The revised Plan signals a continuity of vision and strategy for Edinburgh, which is informed by *Edinburgh 2050,* the consultation on the long term vision for the city.

139. The renewed Business Plan (2017-21) is supported by the Financial Strategy, People Strategy, Digital Strategy, Asset Strategy and a developing Economic Strategy. Work is also underway to develop the Performance Framework necessary to monitor progress against the Plan.

140. We are satisfied that the council has clarity on its priorities and that the long term plans necessary to achieve these are in place or planned for delivery in 2017-18.

Community Empowerment

141. The Community Empowerment Act (2015) aims to give community bodies new rights and to boost community empowerment and engagement. The Act introduces new requirements for Scottish local authorities, including the introduction of asset transfers to community group, and participatory budgeting.

142. One of the key priorities within the Business Plan is to deliver a council that works for all, including more empowered, transparent and improved public services. The coalition has committed to devolved decision making, and ensuring that 1% of the council's discretionary budget will be allocated through participatory decision making.

143. There are plans in place to devolve decision making to four multi-agency Locality Committees. Cross-party working groups have been established to lead the planning and engagement across each of the four localities. Locality Improvement Plans will feed into the council's business planning process.

144. We are satisfied that the council has shown a commitment to community empowerment, and the approach to locality planning provides a strong basis to involve citizens in decisions about services.

Governance arrangements

145. The council reviewed its political management arrangements in June 2017. As part of the review, consideration was given to the relative workload of the 8 existing committees and the evolution of national priorities and structural change, such as the establishment of Integrated Joint Boards.

146. The council has agreed to a more streamlined committee structure, moving from 8 executive committees to 6, over an 8 week cycle. The structure will continue to be supported by the Governance, Risk and Best Value Committee, which performs the role of an Audit Committee but with an extended remit for scrutiny.

147. Under the revised arrangements, the Corporate Policy and Strategy Committee will provide scrutiny of the services delegated to the Integration Joint Board. We note that the Edinburgh IJB Annual Performance Report (July 2017) has not yet been considered by a council committee.

Audit Plan Point 5

Local Code of Governance

148. In April 2016, CIPFA published a revised Delivering Good Governance in Local Government: Framework (2016 Edition). The council has a Local Code of Corporate Governance in place, but the annual self-assessment against the Code had not been concluded at the time of our report.

149. We also noted that the Annual Governance Statement was not subject to separate scrutiny by a committee as part of the preparation for the annual accounts process.

Audit Plan Point 6

Transparency

150. Each of the council's committee meetings is held in public and the papers for committees are available at least 6 days in advance of the meeting. The committee meetings are also filmed and available to view from the council's website. Our initial conclusions are therefore that the council is open and transparent in the way that it conducts committee business.

Committee effectiveness

151. It is too early to conclude on the effectiveness of the revised committee arrangements. We have, however, attended and observed a number of council and committee meetings over the period August 2016 to August 2017.

152. During our observations, we noted that papers were well-prepared, allowing questions to focus on the issues presented. Committee members appeared to be well-prepared and asked appropriate questions.

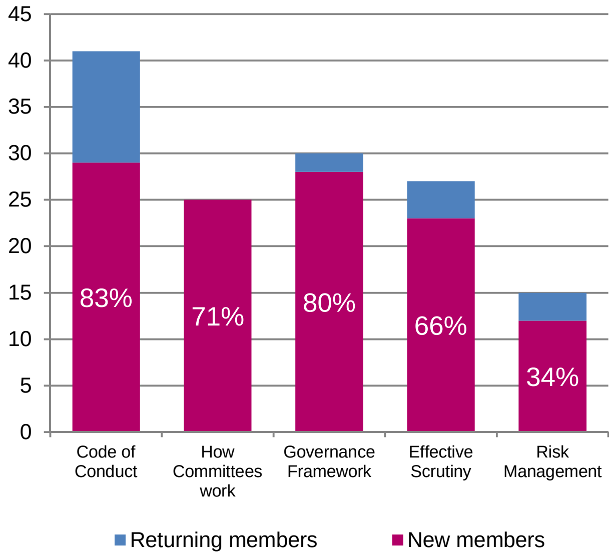
153. We take a particular interest in the work of the Governance, Risk and Best Value Committee. Our early observations are that the committee operates well, with a clear understanding of its role, and benefits from an experienced Chair. We will continue to review the effectiveness of the Committee throughout our appointment, to ensure that the key functions we expect to be performed by an audit committee are delivered by the council's committee structure. Good practice is available in CIPFA's *Audit Committees: Practical Guidance for Local Authorities and Police*.

Training for elected members

154. During May to August 2017, the council provided a comprehensive programme of induction and training sessions for the new and returning elected members. The programme included 31 sessions that were repeated to help attendance.

155. We reviewed attendance rates for some of the key training sessions (Exhibit 13). We noted that attendance rates were generally good for new elected members, although only 15 members attended training for risk management.

Exhibit 13: Attendance at the member induction and training programme was generally good for new elected members



Source: Elected member training attendance records.

Note: Percentage rates in white relate to the proportion of new members who attended training

Risk Management

156. Public sector bodies face increasing demand for quality services at a time of significant financial pressure. Well-developed risk management arrangements help councils to make effective decisions and secure better use of resources.

157. The council's internal auditors reviewed the risk management arrangements in November 2016. They found that as a result of reorganisation, dedicated risk roles within Directorates had been disbanded and there was a need to review and update the council's risk management strategy.

158. In February 2017, the council appointed an in-house Chief Risk Officer. The Chief Risk Officer reports to the Head of Legal and Risk and chairs the quarterly Corporate Leadership Team's Risk and Assurance Committee, the quarterly directorate SMT Risk and Assurance Committees and the Risk Management Steering Group. Each directorate has established its own risk lead who chairs the individual directorate Risk Management Group.

159. The Corporate Leadership Team's risk register is reported to the Governance, Risk and Best Value Committee on a quarterly basis. The reporting includes the top ten prioritised risks, current mitigating controls and further actions to be delivered.

160. Overall, we were satisfied that risk management arrangements appear to be embedded across the organisation.

Following the Public Pound

161. The council uses a number of arms-length external organisations (ALEOs) to provide services on its behalf, including the EDI Group, Edinburgh Trams and Lothian Buses. While the ALEO is responsible for the delivery of the services, the council remains responsible for the public money it provides to the ALEO and the quality of services the ALEO provides. The council needs to hold ALEOs to account for their use of public funds and should have sufficient governance arrangements in place to do so.

162. In June 2016, the council received a report outlining the proposed response to the findings of an internal audit review of council companies. Internal audit identified four areas of concern:

- the independence of elected members as directors of companies;
- governance reporting to council committees;
- the council observer role; and
- the annual assurance process for council companies.

163. The Governance, Risk and Best Value Committee continue to scrutinise the performance, risks and financial standing of the ALEOs.

164. We are satisfied that the council's following the public pound arrangements appear to be well-developed and improving. The council is one of the case study sites for Audit Scotland's national performance audit on ALEOs, which is due to report in Spring 2018.

Good Practice: Governance Hub

In June 2016, the council agreed to establish a Governance Hub, chaired by the Chief Executive. The Hub first met in October 2016 and brings together representatives from each of the council companies. The remit of the Hub is to:

- provide oversight of the council's companies;
- scrutinise the business plan, past performance and accounts;
- scrutinise compliance of the shareholder's agreement;
- identify risks to the council;
- provide an opportunity to raise issues directly with the council's Chief Executive; and
- provide an opportunity for dialogue with the council.

The Hub has been used to clarify the role of council observers at company board meetings. As a result, guidance has been developed and circulated to council observers to help maintain consistency in the role. We also noted that arrangements have been made to improve the annual assurance process.

Edinburgh Schools

165. In 2001, the council entered into a Public Private Partnership (known as PPP1) for the provision of school buildings, maintenance and other facilities with Edinburgh Schools Partnership Limited (ESP). This arrangement was subsequently supplemented by a further agreement in April 2004, requiring ESP either to replace or substantially renovate ten primary, five secondary and two special schools, together with one close support unit and a community wing, and to maintain these schools to a set standard.

166. On the morning of Friday 29 January 2016 a section of brickwork wall at Oxgangs Primary School (one of the PPP1 schools), weighing approximately 9 tons, collapsed onto the pathway below. Due to the early hour, no one was in the vicinity of the wall that collapsed and no injuries resulted. However in slightly different circumstances this event could have resulted in considerable injury or even fatalities. Subsequent structural surveys undertaken across the remainder of the PPP1 estate resulted in the temporary closure of a total of 17 schools and two other facilities in early April, with the last schools not re-opening until August.

Managing the Emergency School Closures

167. The need for the temporary closure of schools was identified three days before the schools were due to return from Easter Holidays. The council's incident management team quickly put in place a communications strategy and parents, stakeholders and the media were informed about the closures. The Communities and Families department, working with parents, pupils, head teachers and schools staff, the PPP1 contractors and other public sector agencies arranged temporary arrangements to be put in place for over 8,300 primary, secondary and nursery pupils. This was a huge undertaking which involved a relocation strategy across alternative accommodation and the transportation of pupils across 61 alternative schools.

168. Responsibility for rectifying the issues at Oxgangs Primary School and the issues subsequently identified across the PPP1 estate lay with ESP. The council agreed that an independent inquiry should be held into matters relating to the closure of Edinburgh schools. The council appointed Professor John Cole CBE, to lead the independent inquiry. The report of the inquiry was published in February 2017 and concluded that:

- the council had a sound rationale for their decision to adopt the PPP methodology for the funding and procurement of the PPP1 schools.
- the primary cause of the collapse of the wall at Oxgangs school was poor quality construction in the building of the wall and the failure to achieve the required building requirements in relation to the wall ties particularly in the outer leaf of the cavity wall. The issues were ultimately the responsibility of the design and build contractor in charge of the site.
- there were fundamental and widespread failures of the quality assurance processes of the various contractors and sub-contractors, who built or oversaw the building of the PPP1 schools.
- an appropriate level of independent scrutiny over the PPP1 contract by the council was missing.

- the council failed to appreciate the demands of the PPP process and as a result under-resourced the team that represented or advised the client side in the PPP1 contract relationship.
- there was a misunderstanding within the council of the role of Building Standards in the monitoring of construction quality.

169. The decision to close all 17 PPP1 schools required the council to relocate over 8300 pupils within the shortest possible time. Within 12 days of this decision alternative teaching accommodation, transport and catering arrangements had been put in place for all pupils. The Inquiry concluded that this was a remarkable feat to have achieved within an extremely short time.

170. The inquiry report also identified a number of specific or wider lessons which could be learnt by the council, the construction industry and public bodies generally.

171. The council has agreed and is implementing a detailed action plan which addresses the 40 separate recommendations included in the report. The council's response to the action plan includes: the resourcing of full time clerks of works on all projects with a value in excess of £2m, greater emphasis being applied to ensure procured design and construction services are quality checked and a recognition of the limitations of true risk transfer on PPP/Design Build Facilities Management type project, notably in relation to reputational risk and disruption to services.

172. Since the PPP1 problems the council has carried out a risk based assessment on properties on the council estate. The risk assessment has led to a programme of inspections to cover whether similar issues existed on any other council properties. The inspections are currently in progress but to date five properties have been identified which have similar problems and work has been undertaken to remedy these.

Additional costs incurred by the council as a result of PPP1 incident

173. Under the PPP1 contract, the council pays ESP a monthly "unitary charge" which covers both the provision of facilities management services and reimbursement of capital expenditure and interest associated with upfront construction.

The temporary closure of all schools under the PPP1 contract led to the unavailability clauses coming into effect. This resulted in unitary charge amounting to £5.36 million being withheld by the council. A final negotiated settlement has been agreed in principle with ESP. As a result there will not be any overall direct cost to the council from this incident.

Overall conclusion

174. Having been faced with a very serious incident impacting on a large number of pupils across a significant number of schools the council responded in a fast, transparent and comprehensive way to the challenges it faced.

175. The wall collapse at Oxgangs Primary School revealed very serious defects in the construction of the school and other schools under the PPP1 contract. Other similar defects have been found in a small number of other council buildings. The Cole inquiry identified that the primary failure to achieve the required building requirements lay with the contractor in charge of the site. However there were significant failings by the council in the scrutiny and quality assurance arrangements put in place during the construction of these schools. Wider lessons were also highlighted for the construction industry and public sector.

Fraud and irregularity

176. In accordance with the Code of Audit Practice, we have reviewed the council's arrangements for the prevention and detection of fraud and irregularities. Overall we found the council's arrangements for fraud and irregularity to be operating effectively.

177. The council's Corporate Fraud Investigation Team reported on their work in an Annual Report to the Finance and Resources Committee in September 2017. The team identified customer fraud in excess of £0.45million in 2016-17 and recovery action is ongoing where possible.

National Fraud Initiative

178. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.

179. The NFI exercise produces data matches by comparing a range of information held on various public bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.

180. The most recent NFI exercise commenced in October 2016 and as part of our 2016/17 audit we monitored the council's participation in NFI. We submitted an assessment of the council's participation in the exercise to Audit Scotland in June 2017. Overall we concluded that the council has actively participated in the NFI exercise.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

181. The council's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are in line with our expectations. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct.

6

Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the council's own reporting of its performance.

Value for money

The council can demonstrate improvements in performance against key partnership and coalition priorities.

Performance indicators that can be compared against other Scottish local authorities highlight improvement against a range of services, and 60% of indicators are in the top two quartiles.

The council can demonstrate strong self awareness, and acts to tackle areas of poor performance, but in a number of key areas, including delayed discharges, interventions have not yet improved outcomes.

Performance Framework

182. The strategic planning framework includes the coalition's commitments, the council's Business Plan and the Community Plan, which is due to be refreshed and agreed with public sector partners in March 2018.

183. The council is refreshing the Performance Framework to support the implementation of the Business Plans, and ensure that elected members have the assurance they need, including performance and progress reporting.

184. The revised Performance Framework is expected to be in place by December 2017.

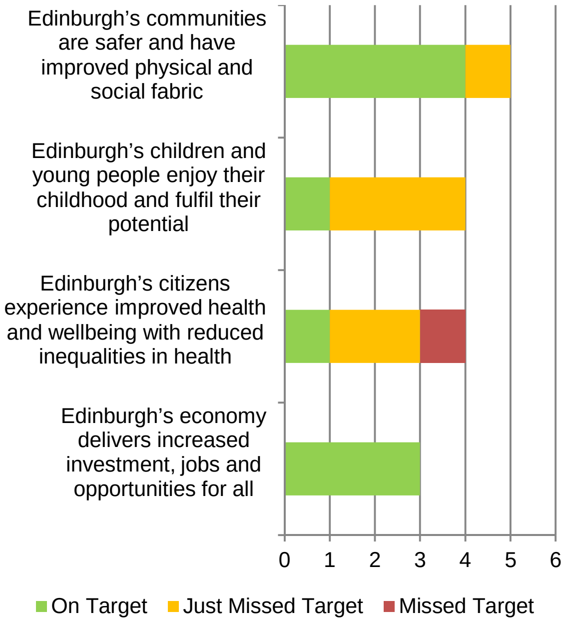
Public Performance reporting

185. Currently, the public performance arrangements are based on council-wide performance reports that are presented to the council on a six-monthly basis. Public performance reports include:

- A six monthly update on coalition pledges
- An annual report against the strategic outcomes in the Edinburgh Partnership Community Plan
- Annual comparator reports on a range of performance indicators included in the Local Government Benchmarking Framework
- An Annual Performance Overview report.

186. The final report on the previous Administration's coalition pledges was considered in December 2016. The report summarised the progress and achievements towards meeting the priorities set out in the Capital Coalition Agreement in April 2012 and shows that all 53 pledges are reported as being achieved or on track.

Exhibit 14: The Edinburgh Partnership reported good progress against outcomes



Source: Edinburgh Partnership Annual Performance Overview

187. In August 2017, the council received the annual report on performance against the Edinburgh Partnership Community Plan (summarised in Exhibit 14) as part of the Annual Performance Overview. The report demonstrated improvements against a range of outcome indicators including:

- Educational attainment measures
- Positive destinations for school leavers

- The creation and safeguarding of jobs.

Statutory performance indicators

188. The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2015 Direction, which applied to 2016-17, reinforced the Accounts Commission's focus on public performance reporting (PPR) and local authorities' requirement to take responsibility for the performance information they report.

189. Two Statutory Performance Indicators (SPIs) were prescribed in 2016-17:

SPI 1: Each council will report a range of information setting out:

- Its performance in improving local public services (including with partners)
- Its performance in improving local outcomes (including with partners)
- Its performance in engaging with communities and service users, and responding to their views and concerns
- Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources.

SPI 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework.

190. At the time of our reporting, the council were preparing the Annual Performance Overview 2017, which would complete the suite of public performance reports for 2016-17. We were therefore unable to conclude in full on the achievement of SPI 1.

Action Plan Point 7

191. The council fulfilled its obligations to report performance in line with the Local Government Benchmarking Framework. A summary of the performance, including key areas for improvement and trends was presented to the council in August 2017.

192. Exhibit 15 highlights that over 60% of Edinburgh's performance indicators are within the top 2 quartiles of Scottish councils.

193. There are a number areas highlighted as continuing poor performance, including:

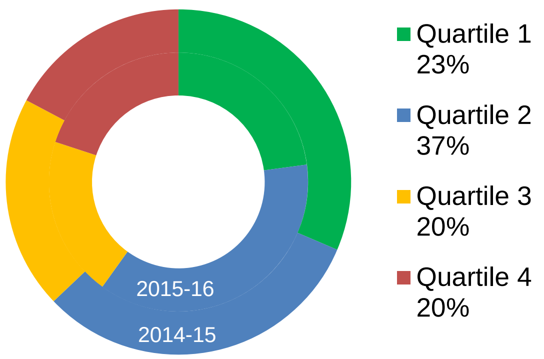
- The cost of environmental health services (32nd out of 32 authorities)
- The Percentage of adults satisfied with the refuse collection services (32nd)
- Cost of maintenance per kilometre of roads (27th)
- Accommodation that is suitable for current use (32nd).

194. We are satisfied that the council has a good level of self awareness about performance. The Council has performed poorly on a range of important indicators within the roads and waste departments. Improvement plans have been established to secure change, which are monitored by the Transport and Environment Committee and scrutinised by the Governance, Risk and Best Value Committee.

195. Within 2016-17 performance outcomes, we note that some improvement has been observed in recycling rates. In 2016-17, the citywide recycling rate for 2016/17 was 43%, this represents a 1% improvement on the 42% achieved in 2015/16. Increases continue in the tonnage of food waste collected for recycling, with an increase of 7% collected in 2016/17 compared to the previous year.

196. Other improvements in 2016-17 include Council Tax collection, where the council achieved its best ever collection rate at the same time as a 19% reduction in the unit costs of collection. The council attributes the improvement to initiatives such as issuing of text message reminders, driving an11% uplift in prompt payment responses; and additional training to teams to better manage periods of peak demand.

Exhibit 15: Performance against Local Government Benchmarking Framework



Source: Local Benchmarking Framework Annual Report

Delayed discharges

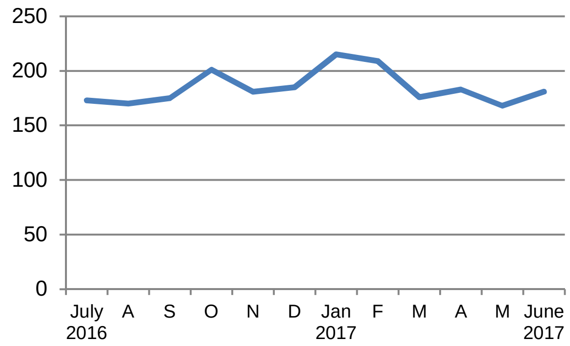
197. We note in paragraph 147 that the council has not yet received the Annual Report from the Edinburgh Integrated Joint Board. During 2016-17, the IJB noted that the level of delayed discharges in the city presents a risk to the partnership in providing the right care at the right time. To reflect the importance and urgency of the number and length of delayed discharges the IJB received regular updates on performance and whole system delays throughout the year.

198. A 'star chamber' meets weekly where locality and hub managers are held to account for performance and any issues having a negative impact can be escalated immediately.

199. We do, however, note that performance has continued to worsen in the period to June 2017 (Exhibit 16), despite the focus given to the issue. We also note that Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland.

Action plan point 8

Exhibit 16: Delayed discharges continue to present a significant risk to the council and the IJB



Source: Whole System Delays – Recent Trends, Report to Edinburgh IJB, July 2017

Other Scrutiny

200. The council's Local Scrutiny Plan was prepared by the Local Area Network (LAN) of scrutiny partners in May 2017. The Plan was presented to the Governance, Risk and Best Value Committee in August 2017.

201. The LAN noted the significant reductions in staff arising from transformation activities to date, as well as the potential for the remaining reviews to result in further reductions. The LAN is therefore keen to understand how staff reductions have been distributed across council departments and services and the potential impact of the loss of both numbers and skills and will explore these issues in more detail with the council during 2017/18.

Good Practice: Commercial Excellence

The Council's Commercial Excellence programme was created in 2013. The programme provides a strategic approach to procurement and purchasing activity, with the aim to make savings and improve contract management and partnership working.

Since then, the Council received "superior performance" in the last Procurement Capability Assessment, and was awarded 85.4% in the latest Procurement and Commercial Improvement Programme assessment, carried out by Scotland Excel. This places the Council as f the best performing local authority in Scotland.

Recent examples of success include:

- Award of the contract for Receipt and Processing of Recyclable Materials from Kerbside and Communal Collections. The Contract represents a saving of £1.7 million over the cost of continuing the current recyclables processing arrangements across the period.
- The Contractor Works Framework will consolidate the current strands into one framework providing suitably experienced and qualified contractors, maximising economies of scale, improving contract management efficiencies and rationalising the portfolio of contractors. It is anticipated that the framework will deliver financial efficiencies of £2m over the contract duration through rationalising the number of suppliers, consolidating spend and promoting contract compliance.

- The Council has adopted a contract for Business Travel Services, which it is estimated will generate savings of £106,181 over four years. Other non-financial benefits include the ability to choose travel packages in real time, greater flexibility in travel options and having access to a larger choice of accommodation.

Care Inspectorate

202. The joint inspection of services for older people in Edinburgh was carried out by the Care Inspectorate and Health Improvement Scotland between August and December 2016.

203. The inspection was focused around the nine quality indicators and identified a number of areas of weakness, as shown in Exhibit 17 below. Seventeen specific recommendations for improvement were raised, which were accepted by Edinburgh IJB.

204. The IJB has published a detailed improvement plan in response to the recommendations. Progress against the plan is monitored by an Improvement Board and the IJB's Performance and Quality Sub-Group oversees delivery of the improvement plan on behalf of the IJB.

Exhibit 17: Findings from the joint inspection of services for older people in Edinburgh

Quality indicator	Evaluation	Evaluation criteria
Key Performance Outcomes	Weak	**Excellent** – outstanding, sector leading **Very good** – major strengths **Good** – important strengths with some areas for improvement **Adequate** – strengths just outweigh weaknesses **Weak** – important weaknesses **Unsatisfactory** – major weaknesses
Getting Help at the Right Time	Weak	
Impact on Staff	Adequate	
Impact on the community	Adequate	
Delivery of key processes	Unsatisfactory	
Strategic planning and plans to improve services	Weak	
Management and support of staff	Adequate	
Partnership working	Adequate	
Leadership and direction	Weak	

Best Value

205. The Best Value work carried out this year focussed on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management.

206. We have reported the results of our work within the relevant sections of this report and we are satisfied that there are sound arrangements for financial and service planning through the adoption of the Financial Strategy, Business Plan and interlinked People Strategy and Asset Strategy.

6

Appendices

Appendix 1: Respective responsibilities of the council and the Auditor

Responsibility for the preparation of the annual accounts

The council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Head of Finance has been designated as that officer within City of Edinburgh Council.

The Head of Finance is responsible for the preparation of the council's annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Head of Finance is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent; and
- complying with the Code.

The Head of Finance is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of the affairs of the body as at 31 March 2017 and of its surplus for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement and Statement of Financial Control is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) Ethical Standard 1: Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist the Council in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. Our rating structure has been revised to ensure consistency with the structure/terminology used by internal audit.

The rating structure is summarised as follows:

Finding rating	Assessment rationale
Critical	A finding that could have a: • ***Critical*** impact on operational performance; or • ***Critical*** monetary or financial statement impact; or • ***Critical*** breach in laws and regulations that could result in material fines or consequences***;*** *or* • ***Critical*** impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • ***Significant*** impact on operational performance; or • ***Significant*** monetary or financial statement impact; or • ***Significant*** breach in laws and regulations resulting in significant fines and consequences***;*** *or* • ***Significant*** impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • ***Moderate*** impact on operational performance; or • ***Moderate*** monetary or financial statement impact; or • ***Moderate*** breach in laws and regulations resulting in fines and consequences; or • ***Moderate*** impact on the reputation or brand of the organisation.

Action plan point	Issue & Recommendation	Management Comments
1 **Rating** **Medium** **Paragraph ref** **9**	During our review of the financial controls processes we noted a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. While our audit work did not identify any indications of management override, we recommend that arrangements are put in place to review or authorise year-end journals.	While, as noted in the main report, a range of compensating controls mitigating any risk of monetary gain is already in place, arrangements to introduce proportionate additional independent review will be examined with a view to implementation as part of the 2017/18 accounts closure process. **Responsible Officer:** Corporate Finance Senior Manager **Completion Date:** March 2018

Action plan point	Issue & Recommendation	Management Comments
2 **Rating** **Medium** **Paragraph ref** **68**	The Council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. The councillors' register of interests is one way that the Council can identify its related parties. On review of the councillors' register of interests we identified four additional interests which had not been declared. There is a risk, should the registers not be updated, that the Council does not identify and report all related party transactions in its annual accounts. It is the responsibility of a councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct. The Ethical Standards in Public Life, etc. (Scotland) Act 2000 does impose on Councils a duty to help their members to comply with the relevant code. Councillors should be reminded of the importance of ensuring the register of interests is updated regularly and completely	The Council has robust arrangements to remind councillors of their duties under the Act. • We regularly review Elected Member Register of Interests; • Remind Elected Members of their responsibilities in registering any changes/updates within a month of the change occurring; • Check individual registers for anomalies that we can identify and highlight these to relevant elected members to prompt updates; • Regularly review our process; • Provide appropriate guidance and prompts to Elected Members to support compliance. For the new Council in May 2017: • We explained the requirement for Elected Members to make their first Register of Interest within one month of election in their introduction letter/pack issued at the count, with a copy of the Code of Conduct and the relevant form; • We emphasised the importance of this requirement in the Code of Conduct training sessions that formed part of the Induction and Training Programme for Elected

Action plan point	Issue & Recommendation	Management Comments
		Members (May/June 2017). • We reminded Elected Members ahead of the deadline (31 May 2017) • We engaged with political Group Business Managers to secure their support in reminding their members ahead of the deadline; • We issued additional guidance on declaring property income under remuneration following a couple of queries on this topic and after seeking clarification from the Standards Commission; • We reminded all Elected Members that they would need to update their Register of Interests to reflect appointments made at Council in June 2017; • We reminded Elected Members of their responsibilities for updating their Register of Interests following further appointments at Council in August and to remind about registering gifts and hospitality. We will continue to remind regularly councillors of their duties under the Act. **Responsible Officers:** Governance and Democratic Services Manager Councillors **Completion Date:** Ongoing

Action plan point	Issue & Recommendation	Management Comments
3 **Rating** **Medium** **Paragraph ref** **79**	The council's Finance and Resources Committee receive quarterly revenue and capital monitoring reports throughout the financial year. The reports include a risk rated assessment of the achievement of savings, information on key variances and areas of financial risk. The reports are referred to the Governance, Risk and Best Value Committee for scrutiny. In our view there is scope to improve the transparency within financial monitoring reports by ensuring that revenue monitoring reports include consistent outturn projections throughout the year.	Based on a best-practice review oreporting elsewhere, opportunities to improve further the clarity and transparency of existing financial reporting will be actively considered with a view to a phased implementation of any resulting changes. Opportunities to improve reporting and scrutiny of some areas of transformational activity, particularly within Health and Social Care, will also be examined. **Responsible Officers**: Head of Finance **Completion Date**: February 2018

Action plan point	Issue & Recommendation	Management Comments
4 **Rating** **Medium** **Paragraph ref** **120**	The most recent People Strategy 2017-20 update (February 2017) sets a high level vision for the workforce. The more detailed People Plan requires to be finalised to support the Strategy. The Plan should set out how the council will manage the impact of any skills gaps.	People plans are an internal tool for senior business partners. These plans are currently being shared with Senior Management Teams for each of the main service areas. The plans will be finalised by end of September. **Responsible Officer:** Head of Human Resources **Completion Date:** September 2017

Action plan point	Issue & Recommendation	Management Comments
5 **Rating** **Medium** **Paragraph ref** **147**	We note that the Edinburgh IJB Annual Performance Report (July 2017) has not yet been considered by a council committee. The Corporate Policy and Strategy Committee provides scrutiny of the services delegated to the Integration Joint Board. The council should continue to monitor the effectiveness of scrutiny arrangements for services delegated by the IJB to ensure that they remain fit for purpose.	The Edinburgh IJB Annual Performance Report will be presented to the Corporate Policy and Strategy Committee on 3 October 2017. **Responsible Officer:** Interim Chief Officer, Edinburgh Health and Social Care Partnership **Completion Date**: October 2017

Action plan point	Issue & Recommendation	Management Comments
6 **Rating** **Medium** **Paragraph ref** **149**	In April 2016, CIPFA published a revised Delivering Good Governance in Local Government: Framework (2016 Edition). The council has a Local Code of Corporate Governance in place, but the annual self-assessment against the Code had not been undertaken at the time of our report. We also noted that the Annual Governance Statement was not subject to separate scrutiny by a committee as part of the preparations for the annual accounts process.	The Council revised its Corporate Governance Framework self-assessment template to reflect the revised CIPFA/SOLACE framework. The 2016/17 self-assessment exercise commenced on 4 September 2017 and is scheduled for scrutiny by the Governance, Risk and Best Value Committee on 28 November 2017. As in previous years, the Annual Governance Statement was considered by Council on 29 June 2017. Given the local government election in May 2017 and the introduction of revised political management arrangements it would have been difficult to provide for separate scrutiny ahead of Council consideration. **Responsible Officer:** Governance and Democratic Services Manager **Completion Date**: November 2017

Action plan point	Issue & Recommendation	Management Comments
7 **Rating** **Medium** **Paragraph ref** **190**	Each council will report a range of information setting out: • Its performance in improving local public services (including with partners) • Its performance in improving local outcomes (including with partners) • Its performance in engaging with communities and service uses, and responding to their views and concerns • Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources. The Annual Performance Overview 2017, which would complete the suite of public performance reports for 2016-17 has yet to be submitted to the Council.	A new performance management framework for the Council is being developed. Monitoring of performance will follow this new framework and will include all relevant benchmarking as well as service performance. The Council's overview of performance is also published in an enhanced format with trend information as well as service improvements and benchmarking. **Responsible Officers:** Interim Strategy and Insight Senior Manager **Completion Date**: March 2018

Action plan point	Issue & Recommendation	Management Comments
8 **Rating** **High** **Paragraph ref** **198**	The Council's performance in relation to delayed discharges has continued to worsen in the period to June 2017 despite a focus being given to the issue. Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland. We recommend that improving performance in this area remains a priority.	Performance is closely monitored at: • A weekly Star Chamber meeting of key managers from the four localities and hospital sites – progress, challenges being faced (e.g. reductions in provider capacity) and improvement actions are identified and discussed. • The IJB, which receives a "Whole System Delays" report at each of its meetings. The report includes progress with key improvement workstreams, including reviewing the contract with care at home providers. **Responsible Officers:** Interim Chief Officer, Edinburgh Health and Social Care Partnership NHS Director **Completion Date**: December 2017

Scott-Moncrieff
business advisers and accountants