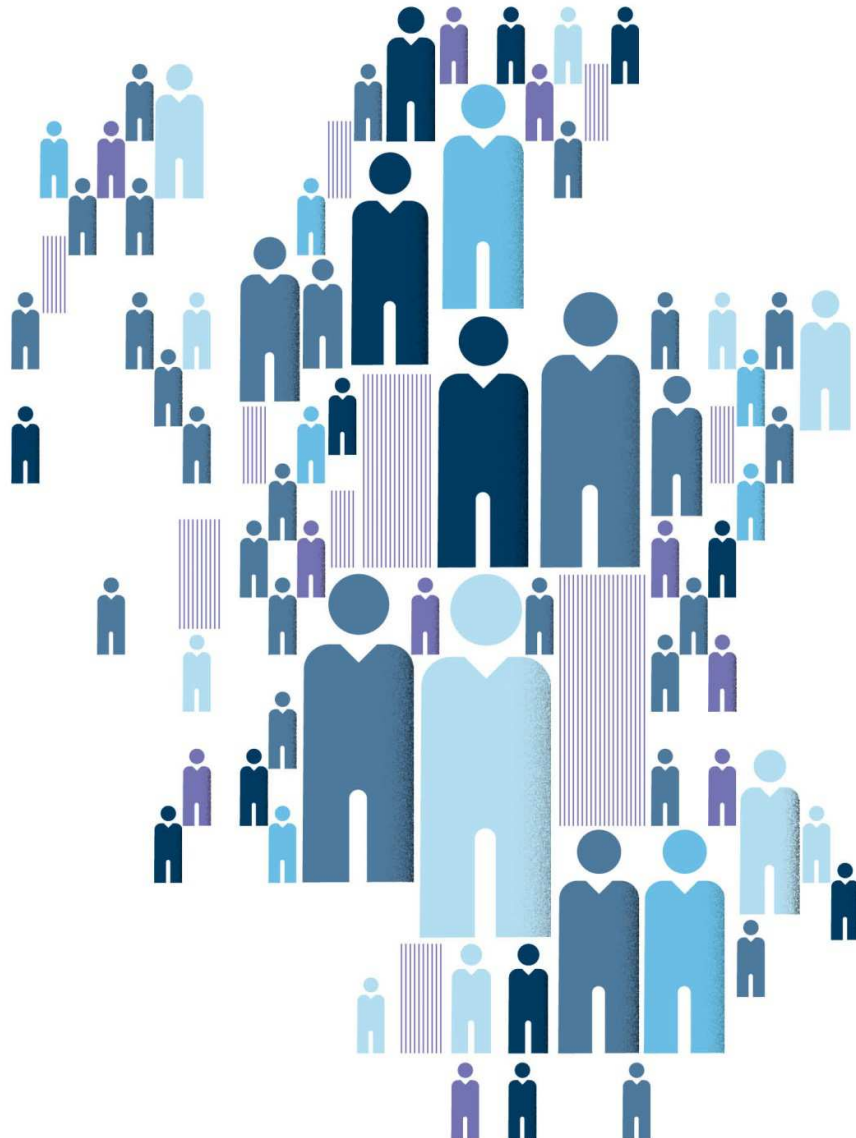
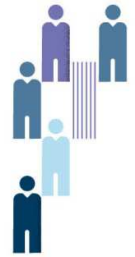


# City of Edinburgh Council

External Audit Plan  
2018/19

March 2019





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# 1. Introduction

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## Introduction

1. This document summarises the work plan for our 2018/19 external audit of the City of Edinburgh Council and the charitable trusts administered by the Council.
2. The core elements of our work include:
  - an audit of the 2018/19 annual accounts, for both the Council and its group and the charitable trusts, and related matters;
  - a review of the Council's arrangements for governance and transparency, financial management, financial sustainability and value for money;
  - an assessment of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
  - provision of opinions on a number of grant claims and returns, including Whole of Government Accounts;
  - providing existing evidence and intelligence for, and participating in the shared risk assessment (SRA) process;
  - auditing and reporting on the Strategic Audit Priorities and Best Value;
  - Monitoring the Council's participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.

## Audit appointment

3. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission's work is governed mainly by the Local Government (Scotland) Act 1973.
4. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Scott-Moncrieff as external auditor of the Council for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2018/19 and summarises:
  - the responsibilities of Scott-Moncrieff as the external auditor;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Scott-Moncrieff and the audit team.

## Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we comply with the Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence. Our assessment includes consideration of:
  - Provision of non-audit services to the Council's group components; and
  - Relationships between Scott-Moncrieff and the Council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.

## Adding value through the audit

9. All of our clients quite rightly 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.
10. As part of our 2017/18 audit we added value to the Council and Audit Scotland in a range of ways:

## Regular contact with the Council

We invest senior time to ensure that we keep up to date with significant issues and share that knowledge across our team. Examples include:

- Quarterly meetings with the Chief



Executive and the Executive Director of Resources;

- Regular catch ups with the Head of Finance (Section 95 Officer);
- Regular catch ups with the Council's Strategy and Insight Team; and
- Meeting with the Chief Internal Auditor on a regular basis.

Our audit feedback process includes adopting the Six Thinking Hats model (as used by the NAO) to share our experiences and observations about the audit process and where greater impact could be achieved.

We held a workshop with members of the Governance, Risk and Best Value and Finance & Resources Committees to describe our audit findings and judgements in an informal session, prior to consideration at full committee. The sessions allowed us to explain what we were looking for and where we felt there was scope for improvement in an informal and supportive setting. The sessions were also attended by the Section 95 officer.

### **Providing assurance to the Council and Audit Scotland**

We met the deadlines set out in Audit Scotland's annual planning guidance in respect of the delivery of audit plans, independent auditor reports and annual reports.

The Council has experienced a number of difficulties in the delivery of ICT services by its partner CGI. We used specialist ICT auditors to conduct reviews of security management. We presented follow up findings to the Governance, Risk and Best Value Committee in May 2018, and will continue to work in partnership with the Council's internal auditors to continue to hold the service provider to account.

In 2017/18, we received three letters citing objections to the annual accounts. One objection was received outwith the prescribed period. In relation to the other two, hearings/meetings were offered with regard to the points raised.

We held early interactive workshops on various accounting issues including prior year adjustments, impact of EDI restructuring on Council accounts, and proactive review and agreement on inverse LOBO's accounting issues in advance of year end.

In our 2017/18 annual report on the audit we included our initial findings in relation to the proposed tram extension project. We also provided updates to Audit Scotland on the tram extension project.

## **Feedback**

11. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX).
12. While this plan is addressed to the Council, it will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# 2. Respective responsibilities of the auditor and the Council

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# Respective responsibilities of the auditor and the Council

## Auditor responsibilities

### Code of Audit Practice

13. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

### Our responsibilities

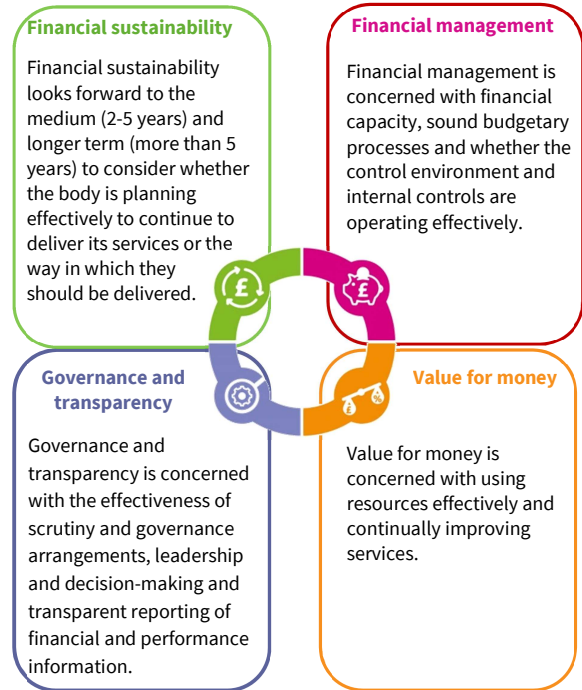
14. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 16). These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
  - provide an opinion on audited bodies' financial statements;
  - review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
  - notify the Controller of Audit when circumstances indicate that a statutory report may be required; and
  - demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
    - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
    - suitability and effectiveness of corporate governance arrangements; and
    - financial position and arrangements for securing financial sustainability.
15. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements 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.

### Wider scope audit work

16. 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

## Exhibit 1: Audit dimensions of wider scope public audit



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.

17. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
18. Our assessment of the application of wider scope takes into account the nature and risks of the Council. Taking these factors into consideration, we have concluded that application of the full wider scope is appropriate at the Council.

### Best Value

19. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. This framework introduced a five year approach to auditing Best Value, which was used by auditors as part of the 2016/17 audits. 2018/19 represents year three of the Best Value audit plan in each council.



20. A key feature of this framework is that it integrates Best Value into the wider scope audit work, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific areas. Conclusions and judgements will be reported through:
- The Annual Report on the Audit
  - An annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight findings from across all 32 councils
  - A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.
21. In 2018/19 we will focus on the Council's arrangements for demonstrating Best Value in the following areas:
- Fairness and Equality; and
  - Community Responsiveness.
22. Our work will be integrated into our audit approach, including our work on the wider scope audit dimensions and will be reported in our Annual Report on the Audit.

### Strategic audit priorities for local government audits

23. The Accounts Commission has set the following five strategic Audit Priorities that it expects auditors to consider in all work across local government:
- Having clear priorities with a focus on outcomes, supported by effective long term planning.
  - Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
  - Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
  - Empowering local communities and involving them in the design and delivery of local services and planning for their local area.
  - Reporting the organisation's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.
24. Our consideration of these priorities will be integrated into our 2018/19 audit work. The extent to which we will report on these will be dependent on the findings of our work as it relates to the four dimensions referred to above and is considered in section 6 of this plan.

### Statutory performance information

25. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish to allow citizens to gauge their performance comparatively. This responsibility links with the Commission's Best Value audit responsibilities. In turn, councils have their own responsibilities, under their Best Value duty, to report performance to the public. The Commission's strategy has been to join up these different elements and emphasising its support of a local government-led approach to fulfilling this responsibility, rather than prescribing performance information to be reported by councils, as it did in the past. It has done this primarily by supporting the development by councils of the Local Government Benchmarking Framework (LGBF) and encouraging councils to develop their approaches to public performance reporting.
26. The 2015 Statutory Performance Information Direction published by the Commission requires councils to report a range of information in accordance with, but not confined to, the requirements of the LGBF. The Commission has committed to reviewing its 2015 Direction after three years. In December 2018, the Commission published the SPI Direction for the three years from April 2019.
27. As external auditors we are required to satisfy ourselves that the Council has made suitable arrangements for preparing and publishing statutory performance information.
28. One of the Accounts Commission's Strategic Audit Priorities is '*reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes*'. We will consider this priority alongside our work on the statutory performance information and the Council's overall public performance reporting arrangements.





## Council responsibilities

29. The Council has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing

effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The Council's responsibilities are summarised in Exhibit 2.

## Exhibit 2 – Council responsibilities

Area	Council responsibilities
<p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>The Council has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures</li> <li>• maintaining proper accounting records</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements</li> </ul>
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p>	<p>The Council is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is the Council's responsibility to ensure that financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Council is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is the Council's responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>



Area	Council responsibilities
<p><b>Governance and transparency:</b> Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>The Council is responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>The Council is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>The Council has a specific responsibility to ensure that arrangements have been made to secure best value. They are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>
<p><b>Best Value:</b> Best value is continuous improvement in the performance of the authority's functions.</p>	<p>The Council has a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions. In securing best value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development.</p> <p>The Council also has to prepare and publish performance information in accordance with directions issued by the Accounts Commission.</p>



# 3. Audit strategy

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## Audit strategy

### Risk-based audit approach

30. 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. Our audit planning is based on:



31. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise. of service delivery and partnership working within the public sector.

### Communications with those charged with governance

32. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the Council that these communications will be through the Governance, Risk and Best Value Committee (GRBV).

### Professional standards and guidance

33. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK) (ISAs (UK)), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

### Partnership working

34. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration

### Shared risk assessment and joint scrutiny planning

35. A key aspect of the Scottish Government's scrutiny agenda is to better co-ordinate and streamline scrutiny and achieve greater effectiveness, while at the same time protecting the independence of scrutiny bodies. The Scottish Government requested that the Accounts Commission take on the role of facilitating and co-ordinating scrutiny.
36. A local area network (LAN) has been established for each council in Scotland. The LAN brings together local scrutiny representatives, including external audit, to share information and intelligence on an ongoing basis and to carry out a shared risk assessment (SRA). The purpose of the SRA is to inform discussions between the LAN and its council and to inform the National Scrutiny Plan (NSP) for local government, which is published on Audit Scotland's website.



## Audit Scotland

37. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with them throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.
38. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review the Council's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which the Council uses the national performance reports as a means to help improve performance at the local level.
39. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

## Correspondence

40. People or organisations write to Audit Scotland because they have concerns about an issue within a public body that falls under the remit of the Auditor General for Scotland or the Accounts Commission. An issue of concern may be something such as a breakdown in financial management or governance arrangements.
41. The key factor in determining whether Audit Scotland examines an issue is the relevance of the issue to Audit Scotland's role and functions. Audit Scotland and appointed auditors will make this judgement using their professional and technical knowledge. They will also take into consideration the costs of carrying out such work to ensure that they use resources efficiently.

## Internal audit

42. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the Council's total audit resource. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the Council is used efficiently and effectively.

## Co-ordinated and integrated approach to audit

43. The Code of Audit Practice notes the following:

“Coordinated and integrated - It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies. It should be noted that audits undertaken in compliance with ISAs (UK) do not allow direct assistance from internal audit.”

44. Over the course of our audit appointment we will work with internal audit to provide a co-ordinated and integrated audit resource.

45. In 2018/19 we intend to work with internal audit on the following:

- **Systems access controls** - The systems access control work will seek to identify the risks associated with user access across multiple Council business applications which are to generate or make payments. This will include applications such as Oracle and SWIFT. This review will be led by Internal Audit and specialists from our Technology Risk team will identify segregation of duties risks by using data analytics. This will involve obtaining extracts of users and the access permissions from a wide range of business applications and using analytics tools to identify any user access permissions which indicate potential segregation of duties risks. These will be highlighted for further investigation.
- **Payroll** - This will involve specialists from within our Technology Risk team conducting detailed data analytics of Payroll system data. The aim of this exercise is to reconcile Payroll system data to the Oracle financial ledger to validate the accuracy of financial records.

46. Whilst we are working with internal audit, we are not obtaining direct assistance from them.



# 4. Annual accounts – City of Edinburgh Council

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# Annual accounts

## Introduction

47. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the Council and its group annual accounts.

## Approach to audit of annual accounts

48. Our opinion on the annual accounts will be based on:

### Risk-based audit planning

49. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

### An audit of key systems and internal controls

50. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.

51. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the Council's own policies and procedures.

52. We will take cognisance of any relevant internal audit reviews of systems and controls.

53. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the annual accounts

54. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.

55. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the CIPFA Code).

## Group audit

56. The Council has a complex group which requires consolidation of a range of subsidiaries, associates and joint ventures. Appendix 3 sets out the Council's group structure.

57. In addition to the Council, we deem the following subsidiaries to be significant in the context of the group audit:

- CEC Holdings; and
- Transport for Edinburgh.

58. To support our audit work on the Council's group accounts, we seek to place reliance on the work of the auditors to these bodies. As Scott-Moncrieff is the appointed auditor to these bodies, we will liaise with the audit engagement teams in order to confirm that their programme of work is adequate for our purposes.

59. We will report the following matters in our annual report on the audit:

- Deficiencies in the system of internal control or instances of fraud which the component auditors identify; and
- Limitations on the group audit, for example, where our access to information may have been restricted.

60. As part of our audit we will perform analytical procedures at the group level. We will review the consolidation entries made within the group accounts and confirm those entries back to audited financial statements.

## Independent auditor's report

61. Our opinion on whether the financial statements give a true and fair view of the financial position and the income and expenditure will be set out in our independent auditor's report which will be included in the annual accounts.

62. We also provide an opinion on the audited part of the remuneration report, annual governance statement and management commentary.

## Materiality

63. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the



decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We will review our assessment of materiality throughout our audit.

64. Our initial assessment of materiality for the group and Council is set out in the table below. Our assessment of materiality is set with reference to gross expenditure<sup>1</sup>. We consider this to be the principal consideration for the users of the annual accounts when assessing the performance of the Council and its group. We will continue to review our assessment of materiality during the course of our audit.

Group materiality <sup>2</sup> £million	Council materiality £million
20.4	18.7

65. Performance materiality is the amount set by the auditor at less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the financial statements as a whole.
66. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

	Area risk assessment £million		
	High	Medium	Low
Group	9.180	11.220	14.280
Council	8.415	10.285	13.090

67. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatements with a value in excess of £250,000; and

- Other misstatements below the £250,000 threshold that we believe warrant reporting on qualitative grounds.

### Key audit risks in the annual accounts

68. Auditing standards require that we inform the GRBV committee of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the GRBV committee if our assessment changes significantly during the audit.

<sup>1</sup> Our assessment of materiality equates to approximately 1% of the group and Council's 2017/18 gross expenditure as disclosed in the 2017/18 annual accounts.

<sup>2</sup> For the significant components within the Council group, as listed at paragraph 55, we have allocated a materiality that is less than the overall group materiality. For CEC Holdings this is £726,000 and Transport for Edinburgh £3.5million.





## Exhibit 3 – Key audit risks in the annual accounts

### 1. Management override

In any organisation, there exists a risk that management has 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 financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

69. In response to this risk we will review the Council's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this key audit risk. We will review the key accounting estimates, judgements and decisions made by management. This will include, for example, depreciation and amortisation rates and asset valuations.

### 2. Revenue recognition

Under ISA (UK) 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.

70. We have identified that for council tax income, non-domestic rates, housing rents and non-ring fenced government grants, the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate transactions of this nature. We have concluded, however, the risk of fraud in relation to revenue recognition is present in all other revenue streams. We will evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

### 3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements*" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

71. In response to this risk we will evaluate the significant expenditure streams at the Council and review the controls in place over accounting for expenditure. We will consider the Council's key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.



## 4. Asset valuation and additions

The Council's revised general fund capital budget for 2018/19 is £239million. As at period 9, the Council was reporting a projected outturn of £201million. The housing revenue account capital budget for 2018/19 is £81million. As at period 9, the Council was reporting a projected outturn of £80million.

The Council carries out a rolling programme of revaluations that ensures all property, plant and equipment required to be measured at fair value is revalued at least every five years.

There is a risk of material misstatement to the annual accounts relating to the recognition of capital expenditure and asset valuations.

72. We will review additions to ensure they are accounted for in line with accounting policies and are recognised at an appropriate value in line with accounting standards. In addition we will review expenditure on repairs and maintenance to ensure they are categorised correctly.
73. We will consider the competence, capability and objectiveness of the external valuer in line with ISA (UK) 500 *Audit Evidence*. We will review the valuation report and consider the assumptions used by the external valuer against external sources of evidence. In addition to this we will consider the scope of the external valuers work and the information provided to the external valuer for completeness.
74. We will challenge management's formal assessment of impairment to ensure assets are not materially misstated in the annual accounts.

## 5. Pension assumptions

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. Assumptions may become less relevant over time, particularly where new information becomes available. There is a risk that the assumptions used are not appropriate.

75. We will review the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will agree the disclosures in the financial statements to information provided by the actuary.

## Other risk factors

76. Further to the identification of significant audit risks, we have also identified risk factors which could potentially result in a material misstatement to the annual accounts. We do not propose, at this stage, to undertake specific audit procedures in response to

these perceived risks. We will continue to monitor these areas during the year and adapt our audit approach as necessary.



## Significant trading operations

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77. 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.
78. 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.
79. As part of our audit we will review and report on whether the trading operation has met the statutory target to breakeven over a three year period. Should the trading operation fail to meet this target we will report this matter in our independent auditor's report.

## Common good

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80. 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.
81. Part 8 of the Community Empowerment Act (Scotland) 2015 came into force on 27 June 2018. This places a statutory duty on local authorities to establish, maintain and publish a register of all property held by them for the common good. Local people must be consulted on the register, to make sure nothing has been left out. Local authorities are also required to publish their proposals and consult community bodies before disposing of or changing the use of common good assets.
82. In July 2018, the Scottish Government, following consultation in 2017, issued statutory guidance for local authorities on how they should carry out these new legal duties. The guidance identifies that local authorities should 'aim to publish the first version of its common good register as soon as practicable after the initial twelve week consultation period has closed, and in any case, within six months of the end of the consultation.'
83. The Council's consultation on the common good register closed on 31 December 2018. We will consider the outcome from the consultation and any associated impact on the common good annual accounts during our 2018/19 audit.
84. During our 2017/18 audit of the common good fund annual accounts we noted scope for improvement in the accounting for common good. We will, during our

2018/19 audit follow up on the recommendations raised in respect of accounting for common good.

## Operation of suspense accounts

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85. In the 2017/18 annual accounts, the cash and cash equivalents figure included cash income suspense accounts where income had been received and banked but not yet allocated to the relevant service account. An exercise is carried out as part of the year end procedures to ensure, where possible, debtors and bank are not over/under stated.
86. During our 2017/18 audit we recommended that the Council review its process over the operation and clearance of its suspense accounts. The suspense accounts should be cleared on a timely basis for the preparation of the annual accounts. We will consider, during our 2018/19 audit what action has been taken by the Council to address this recommendation.



# 5. Annual Accounts - Charitable trusts administered by the City of Edinburgh Council

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## Annual accounts – charitable trusts administered by City of Edinburgh Council

87. 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 funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit. Each registered charitable trust has required a full audit since 2013/14.
88. Over the last few years, the Council has rationalised the number of charitable trusts down from over a hundred to six as at 31 March 2018. In 2011/12, 28 charities were consolidated into one new charity, the Edinburgh Education Trust.

### Charitable Trust Funds (as at 31 March 2018)<sup>3</sup>

- Jean F. Watson (SC018971)
- Edinburgh Education Trust (SC042754)
- Nelson Halls Trust (SC018946)
- City of Edinburgh Council Charitable Funds (Boyd Anderson) (SC025067)
- Lauriston Castle Trust (SC020737)
- The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945)

### Key audit risks in the financial statements

89. We have identified the following specific significant audit risk areas to be considered during our audit this year:

<sup>3</sup> The Usher Hall Conservation Trust was removed from the Charity Register on 23 March 2018. In respect of the City of Edinburgh Council Charitable Trust (Boyd Anderson), OSCR has granted consent to wind up this Trust and this will be progressed once construction works have been completed.



## Exhibit 4 – Key audit risks in the financial statements

### 1. 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 (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

90. In response to this risk we will review the Trusts' accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will review the key accounting estimates, judgements and decisions made by management.

### 2. Revenue recognition

Under ISA (UK) 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 Trusts' could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

91. We will evaluate each type of revenue transaction and review the controls in place over revenue accounting. We will consider the Trusts' key revenue transactions and streams and carry out testing to confirm that the Trusts' revenue recognition policy is appropriate and has been applied consistently throughout the year and accounted for correctly.

### 3. Lauriston Castle Trust external valuation

An external revaluation of the collection commenced in 2016 but has yet to be completed. The 2017/18 financial statements reflected the valuation as at the previous reporting date (31 March 2017). The charitable trusts' accounting policy on heritable property states that such properties are included in the financial statements at a revalued amount where this is available. The notes to the financial statements detail that the previous valuation of Lauriston Castle was carried out in 1997.

There is a risk that the result of this valuation is incorrectly accounted for in the 2018/19 financial statements.

92. In response to this risk we will review the outcome of the valuation exercise and ensure the results have been correctly accounted for in the 2018/19 financial statements.



## 4. Winding up of trusts

In January 2018, a paper was presented to the Council's Finance and Resources Committee seeking approval for the formal winding up of the City of Edinburgh Council Charitable Funds (Boyd Anderson) and the transfer of the remaining assets to the Lagganlia Outdoor Learning Centre. Consent to wind up this charitable trust was received from the OSCR in December 2017.

In the 2017/18 financial statements, the Trustees prepared the financial statements for the City of Edinburgh Council Charitable Funds (Boyd Anderson) adopting a break-up basis of accounting as they considered that it was not a going concern. Our opinion was not modified in respect of this matter.

There is a risk that this Fund is not accounted for and disclosed correctly in the financial statements.

93. We will review the disclosures and accounting transactions in the financial statements to ensure compliance with the Charities SORP (FRS 102) and applicable accounting standards.

### Materiality

94. Our assessment of materiality for each charitable trust is set with reference to a range of benchmarks, including income and gross assets. We consider these to be the principal considerations for the users of the financial statements when assessing the financial performance of each charitable trust fund.

95. The table opposite sets out materiality for the six charitable trust funds. We will revisit our assessment during our audit of the financial statements.

	Materiality £
Lauriston Castle	140,860
Jean F. Watson	126,360
Edinburgh Education Trust	19,040
Nelson Halls	4,740
City of Edinburgh Council Charitable Trust (Boyd Anderson)	2,320
Royal Scots Monument Trust	660

96. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area, as set out in the table below. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

### Area risk assessment

### Weighting

High	50%
Medium	60%
Low	75%

97. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of 2% of the overall materiality; and
- Other misstatements below the 2% threshold that we believe warrant reporting on qualitative grounds.



# 6. Wider scope audit

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## Wider scope audit

### Introduction

98. As described in section 2, the Code frames a significant part of our audit responsibilities in terms of four wider scope audit dimensions. As part of our annual audit we consider and report against these four dimensions:

- financial sustainability
- financial management
- governance and transparency; and
- value for money.

### Audit of Best Value

99. The Accounts Commission agreed a new approach to auditing Best Value in June 2016. A key feature of the new approach is that it integrates best value planning and reporting into the wider scope annual audit. The Council's approach to best value will be assessed both as part of our annual wider scope work, but also through a phased focus on aspects of best value across our five year audit appointment. In 2018/19, we have agreed that we will consider the Council's approach to:

- Fairness and Equality; and
- Community Responsiveness.

100. We describe our approach to these within the 'governance and transparency' table below.

101. Our conclusions and judgements on Best Value will be reported through the Annual Audit Report. In addition, the Accounts Commission will consider an Annual Assurance and Risks report, prepared by the Controller of Audit on an annual basis, which will highlight findings from across all 32 councils.

102. At least once in a five year period, the Accounts Commission will consider a Best Value Assurance Report (BVAR) on how effectively the Council is responding to the statutory duty of best value. The BVAR will be jointly prepared with an Audit Scotland team and will draw on the conclusions we have reached across our appointment.

### Consideration of National Risks

103. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the Council's key priorities and risks. In 2018/19, Audit Scotland has also identified the following wider scope risks, which we will consider during our audit as they relate to the Council:

- EU withdrawal

- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency.

104. Exhibit 5 summarises the three significant risks in relation to our wider scope audit responsibilities that we have identified at this stage of our audit planning:

- Financial sustainability
- Proposed tram extension; and
- the Health and Social Care Integration Joint Board



## Exhibit 5 – Wider Scope Significant Risks

### 1. Financial sustainability

During our 2017/18 audit, we noted that the Council has a well-developed and responsive Medium-Term Revenue Funding Framework.

In September 2018, the Finance and Resources Committee considered an update on the key financial assumptions underpinning the Council's revenue budget framework over the next four years. In noting the requirement to identify and deliver estimated recurring savings of at least £28million in 2019/20 and £106million by 2022/23, members approved Planning for Change and Delivering Services 2019 – 2023 as the basis of public engagement. This period of engagement ran from 1 October to 7 December 2018, inviting the public to respond to a series of high-level proposals for change.

The financial assumptions underpinning Planning for Change have been reviewed and updated following the announcement of the provisional Local Government Finance Settlement for 2019/20. Alongside changes in a number of other expenditure factors, these have increased the incremental savings requirement in 2019/20 to £41.0million.

The achievement of the projected savings requirement presents a significant financial challenge particularly in the context of delivery of savings (80% of savings were delivered in 2017/18).

105. During our 2018-19 audit we will continue to review whether the Council has adequate arrangements in place to manage its financial position and deliver the scale of savings required. Our work will include analysis of the achievement of savings targets for 2019/20, the development of savings plans for future years, and consideration of the underlying financial position.

### 2. Financial management: Edinburgh Tram – York Place to Newhaven Project

In November 2015, the Council approved in principle Stage 1 plans to extend the Edinburgh tram line from York Place to Newhaven. An Outline Business Case (OBC) was presented to the council in December 2015 and a high level governance structure was agreed in order to progress Stage 1 activities. This included mobilisation of internal resource, commencement of the procurement process for internal support, site investigation and waiving the Contract Standing Orders to retain the existing tram senior advisor.

As set out in our 2017/18 External Audit Plan and continued into 2018/19, we are undertaking work in conjunction with the Council's internal auditors to review the tram extension project. The scope of our review was considered by the Tram Extension and Leith Programme Board in August 2018. The key areas included within the scope are:

- • Options appraisal process;
- • Financial model;
- • Project business case;
- • Project governance;
- • Procurement process and supplier management; and
- • Lessons learned.

Our work is focused on the options appraisal process and the financial model, while internal audit are considering the project business case, governance arrangements, procurement processes and lessons learned.

In our 2017/18 Annual Report on the Audit we reported on our initial findings; covering the options appraisal process



## 2. Financial management: Edinburgh Tram – York Place to Newhaven Project

and preliminary work on the financial model.

In 2018/19, we will carry out a review of the revised financial model which is used to develop the final business case.



106. As noted above, our audit work in 2018/19 will include a review of the revised financial model which is used to develop the final business case.

## 3. Value for Money: Health and social care

Our audit in 2017/18 highlighted specific concerns around the performance of health and social care outcomes. An analysis of performance against the rest of Scotland for national outcome indicators continues to place it in the lowest quartile for a number of key indicators including:

- The number of days people spend in hospital when they are ready to be discharged
- The percentage of carers who feel supported to continue in their role
- The proportion of the last 6 months of life spent at home or in a community setting.

In December 2018 the follow-up report from the Care Inspectorate and HIS on services for older people in Edinburgh was published. It found that whilst Edinburgh had made some progress in certain areas only limited progress had been made in improving outcomes and experiences for older people and that there was a lack of strategic leadership and ownership of the improvement agenda. A further report on progress will be made in 2019/20.

The half-year update, reported to the Finance and Resources Committee in December 2018, pointed to an anticipated year-end overspend, without the identification and implementation of further savings measures, of £7.041million. This position primarily reflected a combination of additional expenditure relative to approved levels in the areas of Direct Payments, Individual Service Funds and Care at Home and higher-than-budgeted transport costs, alongside a shortfall in income. The overall level of overspend was expressed net of £3.780million of non-recurring EIJB contributions.

An agreement on funding to support additional service activity, receipt of which is predicated on the achievement of improvements in delayed discharge levels, is in the process of being finalised with NHS Lothian.

The Chief Executive has written to the Chief Officer of the Edinburgh Health and Social Care Partnership, re-emphasising the urgent need for development of both a suitably-robust EIJB recovery plan for 2018/19 and detailed and sustainable savings proposals for 2019/20, given the resulting and increasing impact on the remainder of the Council's activity. Members of the Finance and Resources Committee have also met with the Chief Officer of the Edinburgh Health and Social Care Partnership and the Chief Financial Officer of the EIJB to discuss the EIJB's current and anticipated financial challenges and, more critically, their plans to re-attain financial sustainability.

The Council's financial offer to the EIJB for 2019/20 includes continuation of the £4million additional funding provided in 2018/19, £9.127million for additional demography pressures, and an on-going commitment to recognising the Scottish Living Wage, along with a further £0.845million for the Carers' Act. The Council will also pass on, in full to the EIJB, the monies provided through the Local Government Settlement for expansion of free personal care for those under 65 years of age. Additional funding of £2.5million is to be added to the Council Priorities Fund and drawn down based on achievement of prolonged improvements in service outcomes i.e. delayed discharge, timings for assessment. £0.2million is also being made available as transitional funding for organisations facing the greatest impacts following the loss of EIJB grant funding.



107. We will continue to monitor the performance of the EIJB, including progress against the improvement plan agreed with the Care Inspectorate, progress in reducing outstanding assessments, and in reducing the level of delayed discharges. We will also consider the Council’s approach to gaining assurance on the financial sustainability of the partnership. Our work will include analysis of the achievement of savings targets for 2018/19, the development of savings plans for future years, and consideration of the underlying financial position.

108. We have not, at this stage, identified any significant risks in relation to the other dimensions. Audit planning however is a continuous process and we will report any identified significant risks, as they relate to

the four dimensions, in our annual audit report. The table below summarises our audit work in respect of each dimension.



### Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the organisation’s planning processes support the future delivery of services.

#### Consideration

**As noted in Exhibit 5:**

We have concluded in prior years that we are satisfied that the Council has a well-developed Medium Term Revenue Funding Framework and a clear understanding of future pressures and the impact on the medium term financial position.

The Council has, however, identified a significant savings gap for the period to 2022-23. In addition, financial risks such as demand pressures on health and social care, and the impact of EU withdrawal place additional uncertainty on the Council’s future budgets.

#### Our audit approach

During our 2018/19 audit we will update our assessment of the Council’s financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. Our work will also consider the adequacy of the Council’s preparations and scenario planning for the impact of EU withdrawal.



## Financial management

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

### Consideration

The Council's Finance and Resources Committee receives quarterly financial performance reporting, including risk assessed updates on the achievement of planned savings. The reports are referred to the GRBV Committee for full scrutiny.

In the most recent projections, the Council anticipates an overall year-end overspend of £1.972million, without the identification and implementation of further mitigating actions. Relevant Executive Directors and the Chief Officer of the Edinburgh Integration Joint Board (EIJB) have been instructed by the Chief Executive, as a matter of urgency, to identify further proposed actions both to allow a balanced overall Council in-year position to be achieved and to address all recurring budget pressures on a sustainable basis, thereby enhancing the underlying robustness of the budget framework.

The approved budget for 2018/19 was predicated on the delivery of £36.5million of directorate-specific and corporate finance savings. As of the end of November 2018, 70% are on target to be delivered.

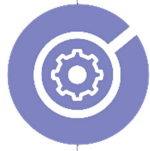
The National Fraud Initiative (NFI) is a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.

The most recent NFI exercise commenced in 2018 and as part of our 2018/19 audit we will monitor the Council's participation in NFI.

### Our audit approach

During our 2018/19 audit we will review, conclude and report on the following:

- Whether the Council has arrangements in place to ensure systems of internal control are operating effectively;
- Whether the Council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance, including the delivery of savings targets;
- Whether the Council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and
- The Council's participation and progress in the National Fraud Initiative.



## Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

### Consideration

In 2017/18, we concluded that the Council has appropriate governance arrangements in place but has identified areas for refinement.

In June 2018, the Council considered the 2018 review of political management arrangements. The review found that overall, the committee structure has delivered a more balanced set of committees, and that remits, decision making and accountability are clear. A review of Committee reporting was launched by the Chief Executive to ensure that technology can be used to streamline reporting while continuing to deliver scrutiny arrangements.

During 2018/19, the Council has, through its development of community engagement, taken steps to implement locality planning arrangements. In February 2018, the first rounds of Locality Committee meetings were held. However, the Edinburgh Partnership has performed a review of governance which was reported in February 2019 and included a proposal to dissolve locality committees and Neighbourhood partnerships. Additionally, a consultation on the Community Council Scheme review is also underway.

In 2017, the Council launched a refreshed Equality, Diversity and Rights Framework 2017-2021. The Framework includes a number of Outcomes, Objectives, Actions and Measures which are due to be reported on in April 2019 to the Corporate Policy and Strategy Committee.

In addition, the Council continues to work with a range of partners to deliver a city region deal, which aims to drive investment and address inclusion across the regional area.

In 2017/18, our work to follow up the progress that has been made in relation to CGI's ICT arrangements highlighted that some areas have been addressed but, at the time of our audit in April 2018, five high risk rated actions remained to be completed.

### Our audit approach

We will continue to review the Council's local code of governance and the extent to which it complies with current guidance: *Delivering good governance in local government: framework (2016)*.

We will continue to consider whether the information provided to committees is sufficient for members to assess the impact of decisions on resources and performance. This will include an assessment of the review of committee reporting and any changes made as a result.

During 2018/19, we have identified Fairness and Equality and Community Responsiveness as areas of focus in our best value work. We will consider the Council's approach to engaging with communities to ensure they are at the heart of decision making processes which will agree strategic priorities and direction. This work will include consideration of the revised community planning structures being implemented and recent consultations performed.

We will continue to monitor the progress of the city deal, including the implications for the Council's medium term financial plan, and arrangements to monitor the impact on outcomes throughout the term of our engagement.

We will continue to monitor progress made by the Council in implementing the recommendations in our report on CGI – Security Management.



## Value for money

Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

### Consideration

The Council has developed a robust Performance Framework to monitor progress against the Business Plan 2017-2022. In 2017/18, we found evidence that elected members provide appropriate scrutiny and challenge to reported performance outcomes.

As part of our best value work in 2017/18, we identified the Council's approach to improvement as a focus of our best value work. We noted that the Council demonstrates good self-awareness, particularly around areas that require improvement.

The Council has created a number of service improvement plans to address specific, persistent performance concerns in areas including waste services, roads services and building standards. In 2017/18, it was noted that interventions to secure improvement had not always been effective and had not delivered the pace of change required.

We noted in 2017/18 that further work was required in relation to the roads services improvement plan. As it stands, approximately 50% of actions within the roads improvement plan have been completed.

The waste improvement plan was successfully closed in March 2018. During 2018/19, changes to the delivery of waste services including a move to a four-day week kerbside collection model and the introduction of chargeable garden waste collection have resulted in significant performance challenges. A 'lessons learned' report has been presented to the Transport and Environment Committee alongside the standard performance reporting.

Quarterly updates have been presented to the Planning Committee on the building standards improvement plan 2018-2021. While performance has improved, the team continue to encounter challenges and recognise that further work is required to ensure performance levels continue to improve.

### Our audit approach

We will seek evidence that outcomes are improving and that the pace of improvement is managed in line with resources. We will analyse the Council's performance with respect of the Local Government Benchmarking Framework and will assess the Council's compliance with Accounts Commission's 2015 direction on public performance reporting.

Our review of performance will include consideration of how effectively the Council has identified improvement priorities, and how self-aware the Council is in understanding its relative performance and improvement needs.

We will continue to monitor the progress in performance of the waste, roads services and building standards, including progress against improvement plans. We will consider the impact that improvement plans have had on service performance and user satisfaction with the services.



# 7. Audit outputs, timetables and fees

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## Audit outputs, timetable and fees

This section of our plan provides details of our audit outputs, timetable and proposed audit fees for the audit of the Council and the charitable trusts.

Audit output <sup>4</sup>	Format	Description	Target month
Letter to the section 95 officer on the Edinburgh Tram – York Place to Newhaven Project financial model	Letter	This letter sets out our findings of our review of the Edinburgh Tram – York Place to Newhaven Project financial model.	February 2019
External audit plan	Report	This report sets out the scope of our audit for 2018/19.	March 2019
Interim Management Report	Report	This report will summarise our interim work on accounting systems.	August 2019
Independent Auditor's Report	Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.	September 2019
Annual Report to the Council and the Controller of Audit	Report	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	September 2019
Report to those charged with governance relating to the charitable trusts	Report	We will issue an ISA 260 report addressed to the trustees summarising our opinions, conclusions and the significant issues arising from our work.	September 2019
Whole of government accounts	Assurance Statement	This statement will contain our opinion on whether the consolidation pack is consistent with the Council's audited financial statements.	September 2019

<sup>4</sup> Refer to Appendix 4 for a list of all grant claims and returns to be audited in 2018/19.



## Audit outputs

109. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.

110. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

112. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

## Audit fee - Council

111. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts

113. For 2018/19 the expected fee for the Council is £572,390. We propose setting the 2018/19 audit fee above the expected fee level for the following two areas. Audit work in these areas is over and above what is factored into the expected audit fee (as described above).

### Proposed fee

#### 1. Co-ordinated and integrated approach to audit

Over the course of our audit appointment to City of Edinburgh Council we intend to work with internal audit to provide a co-ordinated and integrated audit resource. For 2018/19 we will work with internal audit on the following reviews:

**System access controls:** The systems access control work will seek to identify the risks associated with user access across multiple Council business applications which are to generate or make payments. This will include applications such as Oracle and SWIFT. This review will be led by Internal Audit and specialists from our Technology Risk team will identify segregation of duties risks by using data analytics. This will involve obtaining extracts of users and the access permissions from a wide range of business applications and using analytics tools to identify any user access permissions which indicate potential segregation of duties risks. These will be highlighted for further investigation. £9,600

**Payroll:** We will work alongside Internal Audit in performing data analytics as part of wider payroll review. This will involve specialists from within our Technology Risk team conducting detailed data analytics of Payroll system data. The aim of this exercise is to reconcile Payroll system data to the Oracle financial ledger to validate the accuracy of financial records. £7,200

#### 2. Edinburgh Tram – York Place to Newhaven

In our 2017/18 Annual Report on the Audit we reported on our initial findings; covering the options appraisal process and preliminary work on the financial model. £24,000

In 2018/19, we will carry out a review of the revised financial model which is used to develop the final business case.



114. The total proposed fee for the Council for 2018/19 is as follows:

	2018/19	2017/18
Auditor remuneration	£347,300	£333,020
Pooled costs	£29,720	£26,610
Performance audit and best value	£216,930	£218,060
Audit support costs	£19,240	£19,020
<b>Total fee</b>	<b>£613,190</b>	<b>£596,710</b>

115. We will take account of the risk exposure of the Council and the management assurances in place. We assume receipt of high quality draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

#### Audit fee – Charitable Trust Funds

116. The audit fee in the table above does not include the cost of auditing charitable trust funds. We propose setting the audit fee for the audit of the charitable trusts at £7,800.

#### Audit timetable

117. A summary timetable, including audit outputs, is set out as follows:

<b>DEC 18 - FEB 19</b>	●	Planning meetings with senior officers from the Council
<b>MAR 19</b>	●	Presentation of External Audit Plan to the GRBV committee
<b>MAR - JUN 19</b>	●	Interim audit including a review of accounting systems and wider scope audit dimensions.
<b>JUL - SEP 19</b>	●	Presentation of our report on the interim audit to the GRBV committee. Accounts presented for audit and final audit visit begins.
<b>SEP - NOV 19</b>	●	Grant claim audit work including WGA Presentation of our Annual Report on the Audit to the GRBV committee. Grant claim audit work including housing benefit subsidy claim.



# 8. Appendices

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## Appendix 1: Your audit management team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 16 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network. We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

### Your audit management team



#### Nick Bennett

##### Audit Partner

[nick.bennett@scott-moncrieff.com](mailto:nick.bennett@scott-moncrieff.com)

Nick has over 25 years' experience of public sector auditing and has been heavily involved in developing public sector accounting standards. Nick's experience and expertise is acknowledged both by clients and by other professionals involved right across the public sector.



#### Karen Jones

##### Director

[karen.jones@scott-moncrieff.com](mailto:karen.jones@scott-moncrieff.com)

Karen is one of our directors responsible for the audit of our Audit Scotland external audit appointments. She has considerable experience in planning and delivering audits, producing management reports and liaising with senior officers.



## Paul Kelly

### Director

[paul.kelly@scott-moncrieff.com](mailto:paul.kelly@scott-moncrieff.com)

Paul leads the delivery of computer audit services and has significant experience of delivering a range of services including network infrastructure and security reviews and determining compliance with the requirements of the information security standard, BS7799.



## Georgina Philp

### Audit Manager

[georgina.philp@scott-moncrieff.com](mailto:georgina.philp@scott-moncrieff.com)

Georgina is a manager within our Public Sector Practice and has over 7 years of experience delivering public sector audits.



## Mitch Collins

### BTC Manager

[mitch.collins@scott-moncrieff.com](mailto:mitch.collins@scott-moncrieff.com)

Mitch supports Paul in the delivery of computer audit services to the Council, including the provision of data analytic services. Mitch will be working alongside internal audit in the delivery of the systems access controls audit and payroll audit.



## Rachel Wynne

### Assistant Manager

[rachel.Wynne@scott-moncrieff.com](mailto:rachel.Wynne@scott-moncrieff.com)

Rachel joined the firm in 2014 as a public sector audit trainee and has since achieved her CA qualification. She has experience delivering external audit services to a range of public sector bodies, including local government.



## Nicola MacKenzie

### Assistant Manager

[nicola.mackenzie@scott-moncrieff.com](mailto:nicola.mackenzie@scott-moncrieff.com)

Nicola joined Scott-Moncrieff in 2014 as a public sector audit trainee and has since achieved her CA qualification. She has experience across a range of sectors, delivering both external and internal audit to our public sector clients.



## Nadia Napier

### Audit senior

[nadia.napier@scott-moncrieff.com](mailto:nadia.napier@scott-moncrieff.com)

Nadia joined Scott-Moncrieff in 2015 as a public sector audit trainee and has since achieved her CA qualification. She has been involved in the audit of the Council since the start of our appointment.

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## Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

### Group non-audit services

Scott-Moncrieff provides taxation services and accounting services to CEC Holdings group and Transport for Edinburgh group. All tax services are provided by independent partners and staff who have no involvement in the audit of those financial statements. The approximate value of non-audit services provided is approximately £58,000.

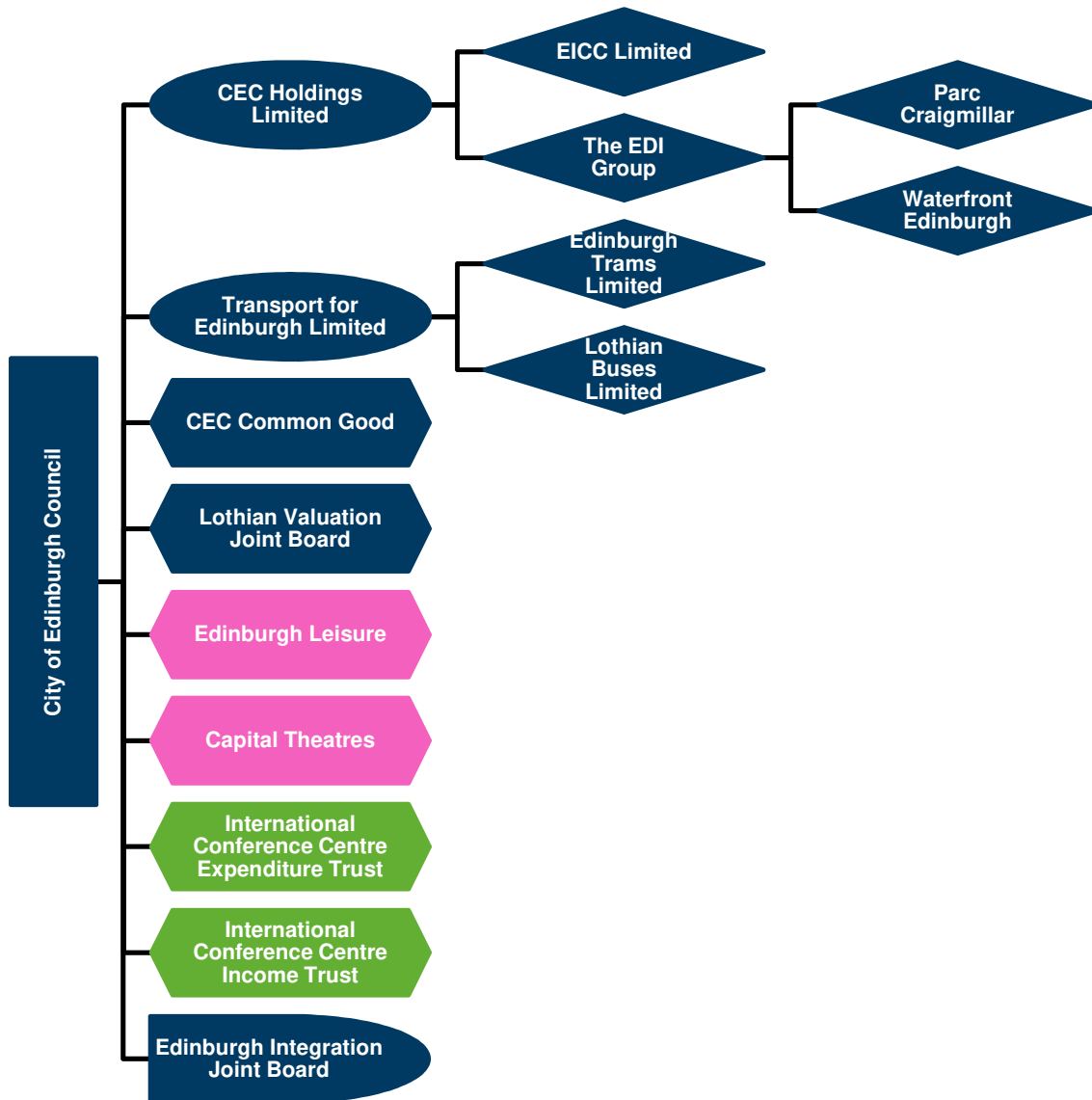
We confirm that we will comply with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the Council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.



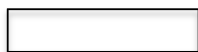


## Appendix 3: Group financial statements

The exhibit below sets out the structure of the Council's group:



**Key:**



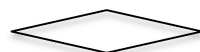
Council



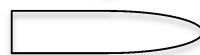
Subsidiary



Associate



Component body of subsidiary



Joint Venture



Audited by Scott-Moncrieff (core team or separate team)

Audited by component auditor (not assessed as significant component)

Not audited (not assessed as significant component)

Note: Only significant components for each subsidiary have been disclosed in the diagram above.



## Appendix 4: Grant claims and returns to be audited in 2018/19

Grant claim/return	Indicative certification date
Education maintenance allowance	31 July 2019
Whole of Government Accounts	28 September 2019
Non domestic rate income return	6 October 2019
Housing benefit subsidy claim	29 November 2019



## Appendix 5: Statement of understanding

### Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the Council and Scott-Moncrieff.

### Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant Council staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

### Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the Council's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Council during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Head of Finance (s95 officer).

### Internal audit

It is the responsibility of the Council to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists. We will liaise with internal audit to ensure an efficient audit process.

### Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be

maintained and a summary to be made available to us after each year end.

### Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

### Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

### Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Nick Bennett. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

### Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

### Agreement of terms

We shall be grateful if the GRBV committee would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



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Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.