



# City of Edinburgh Council

2019/20 Annual Audit Report to the Council  
and the Controller of Audit

November 2020



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# Key messages



<p><b>Annual accounts</b></p>	<p>The annual accounts for the year ended 31 March 2020 were approved by the Finance and Resources Committee on 5 November 2020. We report within our independent auditor's report:</p> <ul style="list-style-type: none"> <li>• An unqualified opinion on the annual accounts; and</li> <li>• An unqualified opinion on other prescribed matters.</li> </ul> <p>We have drawn attention in our independent auditor's report to the following matters:</p> <ul style="list-style-type: none"> <li>• the effects of a material uncertainty, caused by COVID-19, on the property values; and</li> <li>• 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 2019/20.</li> <li>• Our opinion is not modified in respect of these matters.</li> </ul>
 <p><b>Financial Sustainability</b></p>	<p>The Council's three year revenue budget strategy and a 10 year capital budget strategy were developed prior to the impact of COVID-19 becoming known. These strategies will require to be updated given the significant cost impact of COVID-19 on council services and income levels over the short and medium term. Current estimates of this impact to date are £81.6million. The Council has worked hard to reduce the anticipated budget deficit for 2020/21 given the significant impact of the pandemic but at the time of the audit this still stood at £12.2million. A longer term financial strategy should be put in place when it becomes clearer what the medium term impact on council services is on income generating activities and council associated ALEOs.</p>
 <p><b>Financial Management</b></p>	<p>The Council had appropriate arrangements in place for managing its financial position during 2019/20. It did however report an unplanned net overspend of £4.9million for 2019/20 which was met from a drawdown of earmarked reserves. A planned, favourable outturn position was impacted by £8.4million of COVID-19 related expenditure. The approved 2019/20 budget was predicated on the delivery of £38.7million of directorate-specific and corporate savings. 77% of approved savings by value were delivered.</p> <p>The City of Edinburgh Council's level of unearmarked reserves is 1.37% of expenditure. It is unlikely that this will be sufficient to deal with its future financial challenges. In response to the additional pressures COVID-19 presents, the Council has already committed to use £19.6million of earmarked reserves to meet the estimated deficit.</p> <p>Around 94% of the general fund capital programme and 103% of the HRA programme was delivered in 2019/20.</p>

 <p><b>Governance &amp; Transparency</b></p>	<p>The Council modified its political management arrangements in August 2019 to further improve its decision-making effectiveness. In March 2020 and May 2020 in response to the COVID-19 pandemic, emergency arrangements were put in place to deal with the significant issues facing the Council. In our view the Council has responded promptly and effectively in its political management arrangements to the COVID-19 crisis.</p> <p>In response to a recommendation within our 2018/19 Annual Report on the Audit, the Council agreed by January 2020 to review its existing protocols with elected members and senior management to ascertain where improvements were required. The Council is currently reviewing this protocol although COVID-19 has delayed the completion of this.</p>
 <p><b>Value for Money</b></p>	<p>Performance is measured annually and against other Scottish authorities. The Council in 2019/20 has demonstrated improvements in performance in several areas including waste and cleaning, school education and processing times for benefits and grant claims. Performance has however declined in five of the nine adult social care indicators. The latest 2018/19 Local Government Benchmarking Framework information shows that the Council performs better than other councils in around half of national benchmarking indicators.</p> <p>Reporting against the new Statutory Performance Indicators Direction requires improvement. In particular the Council needs to address the new requirements of reporting progress against its duty of Best Value.</p>

## Conclusion

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

**Azets**  
**November 2020**

# Introduction

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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 2019/20.

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISAs (UK)) 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"

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## Introduction

1. This report summarises the findings from our 2019/20 audit of the City of Edinburgh Council (“the Council”).
2. We outlined the scope of our audit in our External Audit Plan. The core elements of our work include:
  - an audit of the 2019/20 annual accounts, for both the Council and its group and the charitable trusts, and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
  - 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 including Whole of Government Accounts;
  - providing existing evidence and intelligence for, and participating in, shared risk assessment (SRA) processes;
  - to audit and report on Best Value and the Strategic Audit Priorities (refer to paragraph 10 and Appendices 3 and 4);
  - monitoring the Council’s participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.

### Exhibit 1: Audit dimensions within the Code of Audit Practice



3. The Council is responsible for preparing annual report accounts which 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.

4. The 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 on appropriate actions. We give each recommendation a grading to help management assess its significance and prioritise the actions required.
5. We would like to thank all management and staff for their co-operation and assistance during our audit.

## 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 complied with the Financial Reporting Council's (FRC) Ethical Standards. 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 1 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 Azets 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 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.

## Best Value

10. Councils have a statutory duty introduced in the Local Government Scotland Act 2003 to make arrangements to secure Best Value. The audit of Best Value is a continuous process that forms part of the annual audit of every council. Findings are reported each year through the Annual Audit Report. In addition, the Controller of Audit will present a Best Value Assurance Report to the Accounts Commission at least once during the five-year audit appointment for each council.
11. A Best Value review was undertaken on the City of Edinburgh Council in 2020 with detailed work commencing in February and March 2020. This immediately preceded the lockdown due to the COVID-19 pandemic. As a result, work continued during lockdown to ensure where appropriate, findings were updated to reflect the impact of the pandemic. The work was undertaken by a team which included Audit Scotland staff experienced in undertaking similar Best Value reviews across other



Scottish authorities and members of the local audit team from Azets.

can be reported directly to any member of your audit team.

12. The findings of the review are included in a detailed report which will be formally issued in the next few weeks. The detailed report including these key messages will be submitted to the Accounts Commission on 2 November after which the Accounts Commission findings and the detailed report will be published. Areas covered within the Best Value report include:

- Does the council have clear strategic direction?
- How well is the council performing?
- Is the council working well with its partners?
- Is the council demonstrating continuous improvement?

13. As a result, whilst we have commented on some aspects of the use of resources by the Council we have not commented on or replicated the above areas which are covered in the Best Value report.

14. The Best Value report also includes recommendations to help the Council address the improvement areas identified in the report. As your external auditors for the remaining two years of our appointment we will continue to audit Best Value. This work will include a follow-up on the findings from this report as well as more detailed audit work on other Best Value characteristics as appropriate.

## Openness and transparency

16. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Feedback

15. 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

# Annual accounts

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The annual accounts are the Council's 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 2019/20 annual accounts.

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## Annual accounts

### Unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2020 were approved by the Finance and Resources Committee on 5 November 2020. 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 drawn attention in our independent auditor's report to the following matters:

- the effects of a material uncertainty, caused by COVID-19, on the property values; and
- 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 2019/20.

Our opinion is not modified in respect of these matters.

### Overall conclusion

17. The annual accounts for the year ended 31 March 2020 were considered by the Governance, Risk and Best Value Committee on 3 November 2020 and approved by the Finance and Resources Committee on 5 November 2020. We report within our independent auditor's report:

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

18. We have drawn attention to the following matters in our audit report:

- Note 6 "Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty" and Note 15.7 "Property, Plant and Equipment" of the annual accounts, describe the effects of a material uncertainty, caused by COVID-19, on the property values (paragraphs 28-34). Our opinion is not modified in respect of this matter.
- the Council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over a three year period (paragraphs 65-67). 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.

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 below.

## Our assessment of risks of material misstatement

19. The assessed risks of material misstatement described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and

## Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 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*.


*Noted in the 2019/20 External Audit Plan*

20. We have not identified any indication of management override in the year. We have reviewed the Council's accounting records and obtained evidence to ensure that transactions were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

## 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.


*Noted in the 2019/20 External Audit Plan*

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21. At the planning stage of our audit, we conclude that the revenue recognition risk was present in all revenue streams except for council tax income, non-domestic rates, housing rents and non-ring fenced government grants.
  22. Based on audit work performed, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated the Council's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

## 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.

*Noted in the 2019/20 External Audit Plan*

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23. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the Council's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.


## Asset valuation and additions

The Council's revised general fund capital budget for 2019/20 is £289million. As at period 8, the Council was reporting a projected outturn of £263million. The housing revenue account capital budget for 2019/20 is £109million. As at period 8, the Council was reporting a projected outturn of £101million.

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. As we concluded in our 2018/19 Annual Audit Report, significant efforts were committed to developing valuation arrangements in 2018/19, however further improvements are required.

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

*Noted in the 2019/20 External Audit Plan*

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24. During 2019/20, the Council reported capital additions of £377.352million. The Residual Waste Treatment plant at Millerhill accounts for £111.941million of capital additions in the year.
  25. We carried out sample testing on additions and concluded, based on the audit work performed, that additions had been accounted for in the audited annual accounts in accordance with Council's accounting policies and the applicable accounting standards.

### Valuations

26. We reviewed the Council's valuation process and noted the following:
27. Valuations are carried out by internal valuers. We considered the instructions and information provided to the valuer and performed procedures to confirm the accuracy and completeness of the information. Instructions are disseminated to the individual valuers through the valuation handbook and supporting valuation templates. The results of the valuation exercise are formally communicated to the Council through a valuation report for each asset valued and an overarching valuation report. From our review of the instructions provided to the valuer, the valuers report and assessment of the valuer's expertise, we are satisfied that we can rely on their work.
28. During the pandemic, the Royal Institution of Chartered Surveyors (RICS) published guidance which outlines the challenges with regard to the valuation of assets during this period, including the potential for valuations to be "qualified" with a "material valuation uncertainty".

29. The valuation report prepared by the Council's valuer stated the following:

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**“ Material Valuation Uncertainty**

*The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.*

*Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.*

*Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, valuations of this property will be kept under review.*

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30. The Council is required to revalue its properties with sufficient regularity to ensure that the carrying amount does not differ materially from the current value as at 31 March. A material uncertainty in a valuer's report does not mean that the valuation cannot be relied upon or that there is a misstatement. However, it indicates that less certainty can be attached to the valuation than would otherwise be the case.
31. The Council has made reference to this uncertainty within Note 6 “Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty” with further detail provided in Note 15.7 “Property, Plant and Equipment” to the Annual Accounts.
32. IAS 1 ‘Presentation of Finance Statements’, requires entities to disclose information about assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The standard notes that the nature and extent of the information provided may vary according to the nature of the circumstances but includes as an example of the type of disclosures to be made, the sensitivity of carrying amounts to the methods,
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assumptions and estimates underlying their calculation, including the reasons for the sensitivity.

33. The Council has disclosed in its financial statements that *'the range of uncertainty has not been identified and therefore we are unable to quantify the potential impact on the accounts'* and has therefore not disclosed any sensitivities on the property valuations. In future years, we would encourage the Council to carry out a sensitivity analysis to help users of the financial statements understand the judgements management have made about the sources of estimation uncertainty.

Action plan point 1

34. We concluded that the material uncertainty over the property valuations is of such importance that it is fundamental to users' understanding of the annual accounts. Based on our audit work performed and conclusions, we have included an emphasis of matter paragraph in our independent auditor's report which draws attention to the disclosures made in the annual accounts. Our audit opinion is not modified in respect of this matter. This treatment within the auditor's report has been adopted by auditors across most Scottish local authorities.

#### Council Dwellings

35. Council dwellings are valued using the beacon method which aggregates the vacant possession value of each unit of housing stock based on the value of a beacon or sample property. An adjustment factor is applied to reflect the lower rent yield from social housing compared to market rates.
36. We highlighted in 2018/19 that the change in valuation identified through the Council's five yearly revaluation exercise reflected significant material movements in the four years to 31 March 2018. The Council agreed to consider an appropriate percentage increase to the council dwelling values each year, based on the growth in the housing sector along with other checks to ensure that the key assumptions and estimates over valuations remained reasonable. We have confirmed that the Council has undertaken this exercise. A 4% uplift factor was applied based on a sample of Beacon properties revalued in year. The appropriateness of the discount for social rent was also reviewed based on the sample of revaluations undertaken.

#### Remaining useful life

37. Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that may be incurred in relation to an individual asset. We noted in 2018/19 that the updated useful lives had not been reflected in the fixed asset register and depreciation calculations for 2018/19. We have



confirmed that the Council has now updated the useful lives in the fixed asset registers.

### Impairment

38. The Council has implemented condition surveys as part of the five year rolling programme. The surveys identify assets where the condition has changed and an assessment is made as to whether a revaluation is necessary.
39. The condition surveys performed in 2019/20 are a strong source of evidence to indicate whether an impairment may have occurred. However, these only consider a proportion of the Council's operational estate and do not take cognisance of other sources of information such as the level of maintenance and repairs required in the year. While no indication of material impairment was identified, we would encourage the Council to further develop its procedures for assessing whether there has been an impairment of its estates portfolio (refer to prior year action plan at Appendix 5).

### Disposals

40. During 2019/20, the Council reported disposals of £20.443million. The disposals predominantly arose from £14.986million in sales of newly constructed dwellings to Edinburgh Living MMR LLP.

### 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. There is a risk that the assumptions used are not appropriate.

*Noted in the 2019/20 External Audit Plan*

41. We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.
42. We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

43. The net pension liability within the audited annual accounts has been revised to take account of the latest reliable, available information on the 'McCloud Judgement':

#### McCloud judgement

44. This case relates to an employment tribunal ruling that transitional provisions impacting on a public sector final salary scheme were unlawfully age discriminatory. This was upheld in the Courts in December 2018 although the Government at that stage sought leave to appeal this judgement. In June 2019, the Supreme Court rejected the Government's request for a further appeal.
45. In July 2020, the Government released its consultation on applying the remedy to address the age discrimination inherent within the transitional protections that were adopted by the public service schemes in 2014 and 2015. The SPPA on behalf of Scottish Ministers also released a consultation document which sets out its preferred policy approach for remedying the discrimination in the Local Government Pension Scheme. The Council's Actuaries highlighted that the remedy consultation could have a material impact on the treatment of McCloud in the March 2020 actuarial pension valuations.
46. Estimates require to be based on the latest available, reliable information, including information that becomes available after 31 March. The issue of the consultation paper from SPPA on the McCloud judgement is an adjusting event as it provides evidence of conditions that existed as at 31 March 2020.
47. The financial effect of this pension issue is a past service gain of £17.218million. As a consequence, the net pension liability of £540.753million as reported in the unaudited annual accounts is now a net pension liability of £523.535million.

#### Goodwin tribunal

48. The Goodwin tribunal relates to a recent employment tribunal that changes the pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, the male spouse survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005. The change therefore affects the pension of male spouse survivors where their entitlement arose (i.e. where the female member died) on or after 5 December 2005.
49. Management instructed its Actuaries to calculate an estimated cost of the Goodwin impact on the Employer's future obligations. The Actuaries estimated that the closing obligations as at 31 March 2020 may be around 0.13% higher as a result of the Goodwin tribunal.

Based on this information, management assessed the impact on the Council's pension liability to be immaterial and no adjustment has been made in respect of the Goodwin tribunal.

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## Update to our initial risk assessment

50. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk<sup>1</sup>.

### COVID-19

The COVID-19 pandemic is presenting unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, arrangements for governance, decision making and performance management have been adapted, and many organisations are forecasting large operating deficits due to loss of income and/ or additional cost pressures. It is uncertain how long these challenges will persist.

The implications of these risks and uncertainties are under consideration by the Council. We continue to monitor government and relevant announcements as they pertain to the audit and have adapted our audit approach as required.

51. In response to COVID-19 we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. These areas included:
- Property valuations
  - Content of the annual accounts
  - Access to audit evidence
  - Timescales/administrative processes.

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<sup>1</sup> A key audit risk is one which may result in a material misstatement to the financial statements or

significantly impact on our audit judgements and conclusions on the wider scope dimensions.

### Property valuations

52. As noted at paragraphs 28-34 of this report, the valuer included a 'material uncertainty' disclaimer over the asset valuations for the year ended 31 March 2020.
53. We concluded that the material uncertainty over the property valuations is of such importance that it is fundamental to users' understanding of the financial statements. Based on our audit work performed and conclusions, we have included an emphasis of matter paragraph in our independent auditor's report which draws attention to the disclosures made in the annual accounts. Our audit opinion is not modified in respect of this matter.

### Content of the annual accounts

54. In response to the impact of the COVID-19 pandemic, the Scottish Government issued Finance Circular 10/2020 which allows bodies to disapply specified requirements for Finance Circular 5/2015 (which provides statutory guidance on the preparation of a Management Commentary).
55. The Council took the decision to include where applicable to the organisation, the full disclosures in the Management Commentary.

### Access to audit evidence

56. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.

57. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.
58. We are pleased to report we received all audit evidence requested to allow us to form our audit opinion.
59. We received the unaudited annual accounts and supporting papers of a high standard. Our thanks go to staff at the Council for their assistance with our work.

### Timescales/Administrative processes

60. Schedule 6 of the Coronavirus (Scotland) Act 2020 allows a local government body to postpone submitting the unaudited accounts to auditors and publishing the audited accounts until it is reasonably practicable. The Scottish Government has provided guidance on this in Finance Circular 10/2020. The guidance advises that 30 November should be considered a reasonably practicable date for publishing the audited accounts.
61. Audit Scotland has revised the deadline for auditors to submit the audited annual accounts from 30 September to 30 November 2020. However, it is for local auditors to agree a timetable with each local government body with a view to completing the process as early possible while still delivering a high quality audit.
62. The annual accounts were considered by the Finance and Resources Committee on 5 November 2020; thereby meeting the revised timetable as set out above.

63. We have been working closely with the Council throughout the audit to ensure that this timetable is adhered to.

## Other risk factors

64. In addition to the identification of significant audit risks (paragraph 19), we 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:

### Significant trading operations

65. 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 2020 in respect of its one significant trading operation; Edinburgh Catering Services – Other Catering. We have reported this matter in our independent auditor’s report.
66. Despite improvements in recent years’ financial performance, the Council’s Edinburgh Catering Services – Other Catering trading operation reported a deficit of £48,000 in 2019/20 and a cumulative three-year deficit of £0.126million. We have reported that Edinburgh Catering Services has failed to meet this financial objective in each of the four years of our audit appointment.
67. The Council notes in the annual accounts that the impact of COVID-19 will make achieving a breakeven position challenging. A tariff increase

in line with inflation is due on re-commencement of services. Re-modelling the service will be considered, to accommodate changes in demand and the lack of commercial activity at the City Chambers.

### Common good

68. 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.

### Common good fund annual accounts

69. The Common Good Fund stands separately from the Council’s annual accounts and has been described as “the ancient patrimony of the community”.
70. During 2019/20, a surplus of £312,000 was reported on the common good fund. Overall useable common good funds stood at £2.665million as at 31 March 2020.
71. In 2016, the Council’s Finance and Resources Committee approved the use of the common good fund for planned maintenance of part 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. Since this earmarked fund was created in 2016, £123,000 has been used on the Scott Monument, £33,000 on surveys at the City Observatory, £8,600 on Queensferry Harbour and £12,600 on Portobello Municipal Clock.

72. During our 2019/20 audit of the common good fund annual accounts we noted the following:

#### Common good fund income and expenditure

73. The common good fund comprehensive income and expenditure statement reports a full disclosure of the income and expenditure which relates to the common good fund. Property costs expenditure for the period totalled £3.394million which has been offset by rental income for the period of £1.160million. In order to achieve a “breakeven position” on property costs, the Council has offset the expenditure with an income recharge from the Council of £2.163million and capital funding of £71,000.

74. During the year, the Council concluded on a lease agreement with the Chris Stewart Group (CSG) to take a 125 year lease of 329 High Street at a nominal annual rent in return for an initial premium reflecting the market value for the property. All of this initial premium was disclosed as income in the unaudited accounts. The audited accounts now show this as a lease premium on the balance sheet which will be “released” over the term of the lease.

#### Common good asset registers

75. 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.

76. 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.

77. The guidance identifies that a local authority 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.’

78. The Council’s common good register was published for consultation in September 2018 and members of the public were able to provide feedback on the register until 31 December 2018. The first post-consultation draft of the register was published on the Council’s Common Good Webpage on 28 June 2019, complying with Scottish Government Guidance. The register has remained on the website for the period and the Council has provided updates over the representations received.

79. In September 2019, the first draft of the register was presented to the Finance and Resources Committee. During 2019/20, the Council has sought legal counsel opinion on the classification of some of the assets and is currently undertaking a review of Civic Regalia and the Silver Safes.

80. As part of our audit work we compared the published register to the asset register (“accounting asset register”) which is used to compile the Common Good annual accounts. We noted the following:

- Five assets included in the published register as common good are not on the accounting asset register and therefore not included in the annual accounts (the asset values have yet to be determined); and
  - Four assets are included on the accounting asset register but are not disclosed in the published register. These assets are under investigation by Council Solicitors to determine whether they should be classified as common good.
81. In line with the Scottish Government guidance; ‘In cases where there have been numerous or complex representations, and the local authority is still carrying out investigations, a note should be added to the register making clear that some representations are still being followed up. It is proposed that an annex is produced which lists all of the property still under investigation, along with an indication of when these investigations are likely to be concluded.’
82. We reviewed the Council’s published common good register and assets still under investigation are detailed in a schedule annexed to the Common Good Register, therefore complying with Scottish Government guidance. However, in order to ensure completeness and transparency in the operation of the common good fund, we would encourage the Council to update its published common good asset register to include all assets currently under investigation (refer to prior year action plan at Appendix 5).

## An overview of the scope of our audit

83. The scope of our audit was detailed in our External Audit Plan. 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.
84. 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.
85. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. 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 management team. In performing our work we applied the concept of materiality, which is explained below.

## Our application of materiality

86. Materiality is an expression of the relative significance of a matter in the context of the financial statements 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 keep this assessment under review throughout the audit.

87. Performance materiality is the working level of materiality used to determine the nature, timing and extent of audit procedures carried out. 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.
88. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of any uncorrected and undetected misstatements exceed overall materiality.
89. Our initial assessment of materiality for the group annual accounts was £22.3million and for the Council single entity annual accounts £20.3million. On receipt of the unaudited annual accounts, we reassessed materiality and kept these as per our initial assessment. We consider that our updated assessment has remained appropriate throughout our audit.

Materiality	Council £million	Group £million
<b>Overall</b>	20.3	22.3
<b>materiality:</b> Our assessment of materiality is set with reference to gross expenditure <sup>2</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.		
<b>Performance</b>	15.225	16.725
<b>materiality:</b> using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.		

90. We noted in our External Audit Plan that we would 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

<sup>2</sup> Our assessment of materiality equates to approximately 1% of the group and Council's 2019/20 gross expenditure as disclosed in the 2019/20 unaudited annual accounts.



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

## Audit differences

91. Material audit differences we identified during the audit have been detailed in the letter of representation. In summary these adjustments were as follows (on a group basis):

- Property, plant and equipment: net increase in assets of £0.758million.
- Long term assets (pension): incorporation of revised actuarial pension information for Transport for Edinburgh, net increase in pension asset of £30.584million.
- Investments and liabilities in associates and joint ventures: updated following receipt of audited accounts net reduction in investment of £3.274million.
- Group adjustments following receipt of audited accounts for group bodies; net increase of asset position of £3.352million.
- PPP transactions: update to accounting model for PPP Residual waste resulting in reduction in liabilities of £6.535million.
- Provisions: recognition of new provision for working time directives of £60,000.
- Business rates incentivisation scheme: recognition of £387,000 income for two financial years.
- Pension liabilities: incorporation of revised actuarial information;

reduction in net pension liabilities £17.218million.

- Overall impact on group net assets: increase in net assets of £55.500million.

92. The overall impact on usable reserves was an increase of £38.966million. In respect of the Council; there was an increase of £8.6million to useable reserves; of which £8.276million was to the donated asset fund and £0.324million as increase to the General Fund balance. The increase to the General Fund balance represents the reduction in drawdown required from reserves to meet the revised outturn position.

93. We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

## Council representations

94. We have requested that a signed representation letter be presented to us at the date of signing the annual accounts. This letter is to be signed by the section 95 officer on behalf of the Council.

## Group audit

95. The Council has a complex group which requires consolidation of a range of subsidiaries, associates and joint ventures. The group structure is detailed within the Council's annual accounts.

96. As part of our audit we reviewed the consolidation entries made within the group accounts and confirmed entries back to the financial statements of the group bodies.

97. The Code sets out that the financial statements of all entities within the group accounts are required to be prepared to the same date. Where entities within the group do not have the same year-end as the Council, either additional financial statements should be prepared or where this is impracticable, the financial statements should be adjusted for the effects of significant transactions and events that occur between the two dates.
98. In 2019/20, an adjustment was made to the Council's group accounts for net pension assets as reported by Transport for Edinburgh (whose financial statements are prepared to 31 December). The overall impact was an increase in net pension assets of £30.584million.
99. Overall, we concluded that the results of the group bodies had been appropriately consolidated into the Council's audited group accounts.
100. As part of our audit planning process we assess the group, for the purposes of approach to the audit of the group. As set out in our External Audit Plan we deemed the following subsidiaries to be significant in the context of the group audit:
- CEC Holdings; and
  - Transport for Edinburgh.
101. We revisited our assessment, following receipt of the unaudited accounts. Our assessment was updated to include Edinburgh Living MMR LLP as a significant component. In addition, we no longer classified CEC Holdings as a significant component:
- Edinburgh Living MMR LLP – In 2015, the Council agreed to enter into a partnership with Scottish Futures Trust (SFT) to accelerate housebuilding through the acquisition of homes for market rent and mid-market rent. Edinburgh Living MMR LLP had investments in 131 properties at a value of £27.75million at 31 December 2019. We concluded that this is a significant component in 2019/20 due to the following; this is the first year in which accounts have been prepared for this body, the identified risks noted by the component auditor, the value of the investment properties (and with reference to the impact of COVID-19 on those values).
  - CEC Holdings: In early 2017, the Council confirmed that operational activities undertaken by EDI Group would in the future be delivered through an in-house council model. The Council instructed directors of the EDI Group to begin a process of closure, with the majority of land transferring to the Council and most of the staff leaving the company in June 2018. The company will continue to trade until such time as all projects currently being undertaken by the EDI Group have either concluded or have been transferred to the Council. The impact of this decision however no longer poses a risk of material misstatement to the Council's group accounts (including consideration of the financial balances within CEC Holdings as they relate to the EDI Group) and therefore we have concluded for the 2019/20 audit that this is no longer a significant component.

102. Azets is the appointed auditor to Transport for Edinburgh and Edinburgh Living MMR LLP. During our audit we liaised with the audit engagement teams to confirm that their programmes of work were adequate for our purposes.
103. We have nothing to report in respect of the following matters:
- No significant deficiencies in the system of internal control or instances of fraud were identified by the component auditor; and
  - There were no limitations on the group audit.

## Legality

104. 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.
105. 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

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

### The Local Authority Accounts (Scotland) Regulations 2014

107. 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<sup>3</sup> as they relate to the annual accounts.
108. The Scottish Government included in its Finance Circular 10/2020 guidance on the publication and inspection of the unaudited annual accounts as a result of the COVID-19 pandemic.
109. In 2018/19 we received correspondence relating to the notice of the public right to inspect. We concluded in 2019/20 that action had been taken, where applicable to 2019/20 and the revised arrangements for COVID-19, to address these issues.
110. Overall we concluded that appropriate arrangements were in place to comply with the Regulations and the guidance as set out in Finance Circular 10/2020.
111. We did receive one objection to the annual accounts in 2019/20. We upheld the objection in relation to disclosures within the unaudited annual accounts regarding the St James Redevelopment – Growth Accelerator Model. These disclosures have now been updated in the audited annual accounts.

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<sup>3</sup> 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.

### Management commentary

112. 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.
113. 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 (refer to paragraphs 54-55 of this report).

### Annual governance statement

114. 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.
115. We are satisfied that the governance statement within the annual accounts is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016.

### Remuneration report

116. 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.

### Members' salaries and expenses

117. The Remuneration Report discloses salaries and expenses paid to elected members. The Council also publishes this information in detail on its website. The Council, in preparing this publication, uses source records from, for example, individual elected members claims.
118. We noted during our audit, differences between the published information on the Council's website and the ledger. While we concluded that this is not material to the annual accounts we would recommend that the Council carry out regular reconciliations between the ledger and the published information on elected members remuneration and expenses.

Action plan point 2

### Charitable trust funds

119. The Council administers six charitable trust funds. Over the last few years the Council has rationalised the number of charitable trusts down from over 100 to six.
120. 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.

121. We have audited the Council's 2019/20 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;
- We have, however, drawn attention in our independent auditor's report to the fact that the City of Edinburgh Council Charitable Funds (Boyd Anderson) have been prepared using a break-up basis of accounting as the trustees consider that it is not a going concern. Our opinion is not modified in respect of this matter.
- 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.

### Qualitative aspects of accounting practices and financial reporting

122. During the course of our audit, we considered 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 financial statements. Our audit conclusions on these qualitative aspects are as follows:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the Council.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions 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 and pension liabilities. We consider the estimates made, and

Qualitative aspect considered	Audit conclusion
	<p>the related disclosures, to be appropriate to the Council.</p> <p>We have included an emphasis of matter in our independent auditor's report drawing attention to the material uncertainty disclosure on property valuations.</p> <p>We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.</p>
<p>The appropriateness of the going concern assumption</p>	<p>We have reviewed the financial forecasts for 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Council will continue to operate for at least 12 months from the signing date.</p>
<p>The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.</p>	<p>We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.</p>
<p>The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.</p>	<p>From the testing performed, we identified no significant unusual transactions in the period.</p>
<p>Apparent misstatements in the annual report or material inconsistencies with the financial statements.</p>	<p>The management commentary contains no material misstatements or inconsistencies with the accounts.</p>
<p>Any significant financial statement disclosures to bring to your attention.</p>	<p>There are no significant annual accounts disclosures that we consider should be brought to your attention other than the material uncertainty disclosure on property valuations noted above. All the disclosures required by relevant legislation and</p>

Qualitative aspect considered	Audit conclusion
	applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit. Our audit this year has been carried out remotely. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

# 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 and the way in which they should be delivered.



The Council's three-year revenue budget strategy and a 10 year capital budget strategy were developed prior to impact of COVID-19 becoming known. These strategies will require to be updated given the significant cost impact of COVID-19 on council services and income levels over the short and medium term. Current estimates of this impact to date are £81.6million. The Council has worked hard to reduce the anticipated budget deficit for 2020/21 given the significant impact of the pandemic but at the time of the audit this still stood at £12.2million. A longer term financial strategy should be put in place when it becomes clearer what the medium term impact on council services is on income generating activities and Council associated ALEOs.



## Significant audit risk

123. Our audit plan identified a significant risk to financial sustainability under our wider scope responsibilities.

### Financial sustainability

During our 2018/19 audit, we noted that the Council has a well-developed and responsive Medium-Term Revenue Funding Framework.

In October 2019, the Finance and Resources Committee considered an update on the development of an evolving four year change strategy, with a specific focus on the budget-setting approach for 2020/21. This report identified a requirement to deliver at least £86.7m of recurring annual savings beyond those previously approved, with £36m of these required in 2020/21.

Extensive work has been undertaken to develop necessary savings proposals to bridge the gap between expenditure and available funding over the next three years, aligned to the three underpinning themes of the Change Strategy.

In February 2020, the Finance and Resource Committee considered the proposed savings which, if all approved, would allow the Council to set a balanced three-year budget. The achievement of these savings presents a significant financial challenge to the Council.

*Noted in the 2019/20 External Audit Plan*

124. The Council's three-year revenue budget strategy and a 10 year capital budget strategy were developed prior to impact of COVID-19 becoming known. These strategies will require to be updated given the significant cost impact of COVID 19 on council services and income levels over the short and medium term. Current estimates of this impact to date are £81.6million. The Council has worked hard to reduce the anticipated budget deficit for 2020/21 given the significant impact of the pandemic but at the time of the audit this still stood at £12.2million. A longer term financial strategy should be put in place when it becomes clearer what the medium term impact on council services is on income generating activities and Council associated ALEOs.

## Medium term financial planning

125. In February 2020 the Council approved a three year revenue budget

strategy covering the years 2020/21 to 2022/23 together with a 2020-2030 capital budget strategy. The revenue budget strategy required the delivery of estimated recurring savings of £34.87million in 2020/21 and

£87.25million by 2022/23. The Council also approved a Change Strategy which set out proposals for delivering £87.975million of savings and income generation.

126. The agreement of a three year revenue budget and long term capital budget was a positive achievement, particularly given the delays in the announcement of UK and Scottish Government budgets. We note however that a three-year revenue budget is at the lower end of what Audit Scotland would consider as adequate medium-term financial planning and would recommend that the Council agrees a longer term financial planning framework for its revenue budget.

Action plan point 3

127. Since the approval of the budget strategy COVID-19 has impacted significantly on the Council's financial plans. The Council recognised the need for greater scrutiny during the uncertain period of COVID-19 and implemented additional monitoring by members and officers. Since April 2020 the Policy and Sustainability Committee and latterly the Finance and Resources Committee has received monthly updates of the revenue impacts on the 2020/21 budget. We welcome this approach to financial management. Whilst reports to date have focussed on the 202/21 implications the Council is aware that it requires to revisit its three-year revenue budget and the capital plan given the exceptional circumstances.

128. In May 2020, the Council presented a report on its revised 2020/21 Revenue Budget to the Policy and Sustainability Committee. The report set out £101.5million of additional net expenditure pressures, which included £81.6million of Covid-19-related costs. The Council identified around £45million from savings, reserves and government funding for COVID-19, to offset this additional expenditure, but it still predicted a £56.5million shortfall in its 2020/21 budget.

129. The Council further revised its position in June, July and August identifying lower levels of additional net expenditure and a greater use of savings and reserves.

130. The most recent update to the 2020/21 revenue budget position in September 2020 notes that there is a remaining in-year shortfall of £12.2million which requires to be addressed. Directorates are continuing to examine ways of reducing this shortfall further. In the years 2020/21 to 2023/24, the Council anticipates its cumulative budget shortfall to be £70million.

131. The remaining in-year deficit comprises the following:

Additional net expenditure pressures	£million	£million
Estimated Covid-19 specific expenditure and loss of income		81.6
Council services (excluding Health and Social Care):		
• Additional expenditure: £15.3million		
• Reduction in income: £44.2million		
• Savings in expenditure: (£4.9million)		
• ALEO related: £27million		
<hr/>		
Net residual pressures/anticipated shortfalls in service delivery		3.0
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Available funding	(19.9)	
<hr/>		
2020/21 budget unallocated monies	(4.8)	
<hr/>		
Use of earmarked reserves	(19.6)	
<hr/>		
Time related and corporate savings	(17.2)	
<hr/>		
Potential further funding	(11.0)	
<hr/>		
Sub-total		(72.4)
<hr/>		
<b>Remaining shortfall</b>		<b>12.2</b>
<hr/>		

132. The current position is based on assumptions that services gradually resume across the city. It is estimated that each month's further lockdown would cost approximately £10million.

133. There are continued discussions with the Scottish Government through COSLA regarding the development of an income compensation scheme. The circumstances of the Council and its Arm's-Length External Organisations (ALEO's) mean that any

scheme which is agreed will be of benefit to the Council as a source of funding.

134. The Council is also exploring the potential applicability of the package of financial flexibilities agreed between the Scottish Government and COSLA to address the funding pressures faced by local government due to COVID-19. The flexibilities include:

- Application of capital receipts to finance COVID-19 related revenue expenditure
- Revision of the statutory charge for leases and service concession arrangements; allowing councils to charge the debt element over the life of the asset rather than the contract period
- Loans fund repayment holiday; permitting councils to defer loans fund repayments due to be repaid in either 2020/21 or 2021/22.

## ALEO's and the impact on Council finances as a result of COVID-19

135. As noted in the Following the Public Pound section of this report almost all of the ALEOs undertake services which have been greatly affected by COVID-19. The ALEOs have required support from the Council due to the significant impact on their business. The September report to Finance and Resources set out the latest position:

### Lothian Buses (£12million cost to the Council)

136. Passenger numbers fell by 90% during lockdown and have only recovered to 60% of normal levels. Significant losses were incurred by the company only partially met by Scottish and UK Government support. Council support was required and in addition two years of an anticipated £6million dividend receipt per annum from the company was withdrawn.

### Edinburgh Leisure (£6million cost to the Council)

137. The closure of all facilities during lockdown and the phased reopening from

September 2020 meant significant losses have been incurred by the charity.

### Edinburgh Trams (£6million cost to the Council)

138. Passenger numbers fell by 98% during lockdown and still remain 75% below budgeted levels. Scottish Government funding was confirmed and additional discussions are taking place with Transport Scotland for further support. However the net cost to the Council is still estimated at £6million.
139. There are also on-going discussions regarding any additional support required for Transport for Edinburgh, Edinburgh International Conference Centre and Capital Theatres (comprising the Kings Theatre Festival theatre and The Studio) all of which have been significantly impacted by the pandemic.

### Edinburgh Integration Joint Board (EIJB)

140. The Council approved to pass on in full the £8million increase in health and social care monies received via the Scottish Government's budget. This represented a 3.8% increase over the 2019/20 budget with the Council's initial financial offer to the EIJB totalling £226million for 2020/21. Following the initial Council budget approval, a further £95million across Scotland was identified for local authorities. The Council approved to allocate £2million of its £7.4million share to the EIJB. Additional funding of £1.2million has been confirmed in respect of the additional cost of the 3.3% Living Wage increase and discussions are on-going with the Scottish Government in relation to an

estimated funding gap of £3.4m. Despite this significant investment, substantial savings require to be delivered in year to maintain financial balance.

141. The EIJB's financial plan for 2020/21 recognises a savings requirement of £15.9million, of which detailed savings plans totalling £11.91million have been identified. Work is still ongoing to quantify the short- and medium-term impact of COVID-19 on EIJB's financial position and delivery of savings plans and the development of a medium term financial strategy has been further delayed as a result. The financial and service performance of the EIJB remains a high risk issue and the Council needs to work together with the EIJB and NHS Lothian to monitor the in-year position and develop medium term financial plans.

## Capital investment programme

142. The Council's Capital Budget Strategy 2020-2030 was approved in February 2020 as part of the budget process. It was subsequently consolidated with other key strategies into the Council's Capital Strategy which was approved by Council in March 2020. The strategy sets out a capital plan of £2,324.8million to 2029/30. The strategy highlights that £154.602million is unfunded and will require the Council to find additional revenue savings in future years, or lead to projects having to be removed from the capital investment programme or delayed.

143. Significant general fund capital projects within the strategy include:

- Wave 4 Schools

- Asset management works
- Infrastructure for population growth
- Trams to Newhaven
- Investment in carriageways and footways
- New schools and extensions
- St James Infrastructure Assets and Picardy Place
- Millerhill Waste Facility
- North Bridge Structural Works

144. COVID-19 however has significantly impacted on the delivering of the plan within the timescales and budgets previously planned. While the full impact on the programme is not yet known, the Council has forecast a net slippage position of £171million in 2020/21 on the general fund capital programme (with the approved budget for 2020/21 being £449.835million).

## Housing revenue account

145. The Council's housing revenue account five year budget strategy is underpinned by the following key strategic documents:

- Five year business plan: sets out planned investment of £2.5billion over a ten year period. Assumes a 2% annual increase in rents.
- Thirty year business plan
- Five year capital investment programme
- A Rapid Rehousing Transition Plan (RRTP)
- Mixed Tenure Improvement Strategy

- Strategy Housing Investment Plan (SHIP).
146. As reported to Housing, Homelessness and Fair Work Committee in September 2020, the HRA is forecasting a balanced position in 2020/21.
147. The HRA 10 year investment strategy and five-year capital programme set out planned capital investment of £910.245million over the next five years, rising to £2,457.997million over 10 years.
148. The capital budget for 2020/21 has been revised from the initial approved budget of £96.468million to £56.969million largely due to COVID-19.

# Financial management

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



The Council had appropriate arrangements in place for managing its financial position during 2019/20. It did however report a net overspend of £4.9million for 2019/20 which was met from an unplanned drawdown of earmarked reserves. A planned, favourable outturn position was impacted by £8.4million of COVID-19 related expenditure. The approved 2019/20 budget was predicated on the delivery of £38.7million of directorate-specific and corporate savings. 77% of approved savings by value were delivered.

The City of Edinburgh Council's level of unearmarked reserves is 1.37% of expenditure. It is unlikely that this will be sufficient to deal with its future financial challenges. In response to the additional pressures COVID-19 presents, the Council has already committed to use £19.6million of earmarked reserves.

Around 94% of the general fund capital programme and 103% of the HRA programme was delivered in 2019/20.

## Financial performance

149. The 2019/20 Comprehensive Income and Expenditure Statement shows that the Council spent a total of £2billion on the provision of public services and recorded an accounting deficit of £10.665million. The accounting deficit is partly technical as it includes elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting (the Code), and which are subsequently adjusted

to show their impact on statutory Council reserves.

150. The key measure of performance in the year is the movement in the Council's general fund balance. Following the required adjustments, the net impact on the general fund is a decrease of £24.733million to £120.112million. In total, cash backed (useable) reserves held by the Council increased by £46.257million in the year to £289.140million.

### Movement in the Council's useable reserves per the Annual Accounts 2019/20

	2019/20 £million	2018/19 £million	Movement £million
General Fund	120.112	144.845	(24.733)
Housing Revenue Account	0	0	0
Renewal and Repairs Fund	29.748	26.346	3.402
Capital Fund	48.935	55.908	(6.973)
Capital Grants Unapplied Account	28.452	15.784	12.668
Donated Assets Reserve	61.893	0	61.893
<b>Total useable reserves</b>	<b>289.140</b>	<b>242.883</b>	<b>46.257</b>

151. In 2019/20 £106.185million of the general fund balance was earmarked with the remainder representing an unallocated general fund of £13.927million. The unallocated general fund equates to 1.37% of the annual budgeted net expenditure.

152. The Council reviews its reserves policy on an annual basis, taking into account its known commitments. Earmarked General Fund Reserves are used for known future expenditure requirements. Unearmarked General Fund Reserves are held to cover unforeseen circumstances. The



Council can use some of the earmarked reserves flexibly if policies or commitments change.

153. In 2019/20, the Council applied a drawdown of earmarked reserves to address its year-end deficit on the general fund (£4.907million). This means that those earmarked reserves can no longer be used for the Council's original intended purpose. The table below illustrates which earmarked reserves were applied:

	To fund year-end deficit £million	Balance at 31 March 2020 £million
Dilapidations Fund	2.000	3.227
Workforce management	2.907	13.358

154. The Accounts Commission's Local Government Overview Report states that councils typically set their unearmarked reserves at between 1% and 4% of net expenditure. The City of Edinburgh Council's level of unearmarked reserves is 1.37% of expenditure. It is unlikely that this will be sufficient to deal with its future financial challenges. In response to the additional pressures COVID-19 presents, the Council has already committed to use £19.6million of earmarked reserves to meet the estimated deficit (paragraph 131).

## Revenue performance against budget

155. The Council reported a net overspend of £4.907million for 2019/20. A

planned, favourable outturn position was impacted by £8.4million of COVID-19 related expenditure. The most significant impact was the loss of a £6million anticipated dividend from Lothian Buses and a reduction in parking income (£1.3million).

156. The approved 2019/20 budget was predicated on the delivery of £38.7million of directorate-specific and corporate savings. 77% of approved savings by value were delivered.

## Housing revenue account (HRA)

157. The balance on the HRA is nil. In line with the HRA Business Plan, at the end of 2019/20 the HRA was balanced after making a contribution of £7.477million towards in-year capital investment.

## Capital expenditure

158. During 2019/20, the Council reported total capital additions of £390million; of which £278million were general fund additions and £112million were housing revenue account (HRA) additions. In so doing the Council delivered on 94% of the revised general fund capital programme and 103% of the HRA revised capital programme.

159. Projects contributing to the slippage on the general fund capital programme include:

- Early years programme and rising school rolls projects
- National Housing Trust (NHT)
- Edinburgh Living LLPs
- Major infrastructure projects

160. Acceleration in the programme of Asset Management Works however significantly offset the slippage in these projects.

## Treasury management

161. For the first time since 2012, the Council borrowed a significant level of funds (£236million) from the Public Works Loans Board (PWLB). The Council's debt outstanding increased during the year due to the new borrowing, but the interest cost for the year was lower than 2018/19. At 31 March 2020, the Council's debt was £37million below its Capital Financing Requirement.

162. Borrowing was undertaken during 2019/20 for the following:

- Edinburgh Living (£16.3million); borrowing was carried out to match the capital advances and loans made to Edinburgh Living MMR LLP for the acquisition of affordable housing;
- The Council's inverse LOBO loans were repaid prematurely and re-financed with a loan from PWLB (£40million)<sup>4</sup>;
- Trams to Newhaven (£150million)
- Housing Revenue Account (£30million)

## Systems of internal control

163. 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 includes documenting

the processes and key internal financial controls within the Council's key financial systems and performing walkthrough testing to confirm our understanding of those systems.

164. We did not identify any significant weaknesses in Council's accounting and internal control systems during our audit.

## Internal audit

165. The Council's internal audit service is an independent assurance function that provides an opinion on the Council's control environment. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

166. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of the work of internal audit.

## Prevention and detection of fraud and irregularity

167. In accordance with the Code of Audit Practice, we have reviewed the arrangements for the prevention and detection of fraud and irregularity. Overall, we found the Council's arrangements to be sufficient and appropriate.

168. Audit Scotland published a report "COVID-19 Emerging Fraud Risks" in July 2020. The report identified that the COVID-19 pandemic has brought significant challenges across the

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<sup>4</sup> A premium was repayable on redemption of the inverse LOBO loans of £46.9million.

Scottish public sector as bodies seek to deliver services for individuals, communities and businesses in an extremely difficult time.

procurement risk, COVID-19 funding, payroll, IT and cyber crime and health and wellbeing risk.

169. The report identifies six areas of expected increased risk due to the COVID-19 pandemic: governance risk,

170. In response, the Council provided a summary position in regard to these six risk areas:

Fraud risk area	Council position
Governance	Business continuity protocols were reviewed.  Internal Audit has not been used to cover operational roles.
Procurement	Enhancements to existing controls were introduced at the onset of the pandemic in recognition of increased risk.
COVID-19 funding	Risk assessment exercise performed.  Regular staff training provided on the fraud risks in relation to provision of funding.  Updates from the IRRV in relation to emerging scams circulated to relevant staff.
Payroll	No relaxation or suspension of controls.
IT and cyber crime	Provision of training to all staff in the form of E-learning on the subject of phishing scams and audit logs to prevent misuse of system access.  Security Incident Management procedures in place available to all staff through the Council's intranet.
Health and wellbeing	Wellbeing programme in place  Signposting to further sources of support for staff during the pandemic.

## National Fraud Initiative (NFI)

171. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
172. The most recent NFI exercise commenced in October 2018 and as part of our 2018/19 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 February 2020. Overall we concluded that the Council's arrangements with respect to NFI are satisfactory.

# 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.



The Council modified its political management arrangements in August 2019 to further improve its decision-making effectiveness. In March 2020 and May 2020 in response to the COVID-19 pandemic, emergency arrangements were put in place to deal with the significant issues facing the Council. In our view the Council has responded promptly and effectively in its political management arrangements to the COVID-19 crisis.

In response to a recommendation within our 2018/19 Annual Report on the Audit, the Council agreed by January 2020 to review its existing protocols with elected members and senior management to ascertain where improvements were required. The Council is currently reviewing its member/officer protocol. COVID-19 has delayed work on this review.

## Governance and transparency

### Governance arrangements

173. The Council's political management arrangements were modified in August 2019. Executive committee remits have been rebalanced and the former Corporate Policy and Strategy Committee given a stronger corporate, cross-cutting role with a refreshed membership including all executive committee conveners.
174. Following the COVID-19 emergency and in accordance with existing provisions within the Scheme of Delegation, a Leadership Advisory Panel was established by the Council. The Leadership Advisory Panel consisted of five Councillors, the Council Leader and Deputy Leader, and the Leaders of the Conservative, Green and Scottish Liberal Democrat Groups. The Leadership Advisory Panel was set up to deal with the initial emergency measures created by COVID-19 and the subsequent lock-down.
175. In May 2020 interim political management arrangements were put in place. A Policy and Sustainability Committee, comprising the conveners of all of the Council's executive committees and the majority of party group leaders was reconvened to sit every two weeks. Scrutiny of decision-making was provided by the Governance, Risk and Best Value Committee which met from June 2020 on a monthly basis. In addition groups were established to deal with planning and licensing issues. The Policy and Sustainability Committee continued to meet throughout the first months of the pandemic, holding virtual but web-cast meetings with papers available on the web-site.
176. In August 2020 it was agreed that all other committees could start to meet including the Finance and Resources Committee and the Policy and Sustainability Committee cycle was changed to monthly. It was agreed that all meetings would be held virtually until December 2020 when the political management arrangements would be reviewed.
177. The Council has responded promptly and effectively in its political management arrangements to the COVID-19 crisis.
178. During our 2018/19 audit, it became clear that the arrangements for sharing sensitive information between some councillors and the leadership team required to be reviewed. We noted the importance of all councillors and senior staff having a clear understanding of their rights and responsibilities in relation to information held by the Council.
179. We recommended that Councillors and the senior leadership team should review the existing protocols to ensure these were still appropriate and that both members and officers could comply fully with their responsibilities.
180. The Council agreed by January 2020 to review its existing protocols with elected members and senior management to ascertain where improvements were required. The Council is currently reviewing its member/officer protocol. The review included a discussion and survey of the majority of political group leaders, facilitated by the Improvement

Service. The review identified areas for improvement, including access to information and clarity of roles and responsibilities. COVID-19 has delayed work on the review. The Council also now intends to take account of the Scottish Government's planned review of the Code of Conduct for Councillors, which was again delayed by COVID-19 but commenced on 19 October (refer to prior year action plan at Appendix 5).

## Following the public pound

181. The Council uses a number of arm's-length external organisations (ALEOs) to provide services on its behalf, including Transport for Edinburgh Limited and Edinburgh Leisure. While the ALEOs are 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.
182. A Council Governance Hub, chaired by the Chief Executive, was established to scrutinise the management of the Council's ALEOs, seek assurance over the delivery of services and to ensure that the Council is aware of any risks.
183. In February 2020, the Council changed the scrutiny arrangements for its ALEOs to provide greater clarity and avoid duplication:
184. The Council's executive committees will scrutinise the future direction of each ALEO, service performance, including progress against service level agreements, and any emerging issues.

185. The GRBV Committee will scrutinise the ALEOs' financial performance, including the annual accounts, and any risks affecting the Council or any individual ALEO.
186. The Council had planned a wider review of its ALEOs during 2019/20 but this was delayed by COVID-19.
187. Almost all of the ALEOs undertake services that have been greatly affected by COVID-19, for example leisure services, cultural venues and transport. As reflected in the financial sustainability section of this report the Council anticipates significant implications for its income. The Council's current estimate of lost income and other required financial support is £27million. Services will continue to be affected for some time by social distancing requirements, public attitudes and market capacity. These factors will all affect future income forecasts.

## Standards of conduct

188. In our opinion, the Council's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

## Risk management

189. Well-developed risk management arrangements help councils to make effective decisions and secure better use of resources. The Council's GRBV committee is responsible for monitoring the effectiveness of the risk management arrangements in place with risk management responsibilities held at corporate, divisional and team level and leadership teams reviewing risks quarterly. Emerging risks are

- escalated to the Corporate Leadership Team (CLT) as appropriate.
190. The Council has reviewed and updated its risk management framework. It has established a 'three lines of defence' model:
- The 'first line' is the team responsible for consistent application of the risk management framework.
  - The 'second line' is the team responsible for establishing and communicating an appropriate organisational risk management and governance framework and a risk appetite statement framework.
  - The 'third line' provides independent assurance (for example, Internal Audit) on the controls established to manage risks.
191. The Council has restructured the team responsible for risk management. It has increased oversight by the Head of Legal and Risk and the Chief Internal Auditor, along with transferring more responsibility for risk management from the second to the first line of defence.
192. In response to the COVID-19 pandemic the Council's Incident Management Team agreed on the approach to be applied to the ongoing management, assessment, and recording of new and emerging COVID-19 risks and associated mitigating actions. A risk management plan was drawn up which continues to be updated to reflect any new and emerging COVID-19 risks. The risk management plan is discussed weekly at a Risk Forum and reviewed fortnightly at the incident management team.
193. The risk management plan drawn up in April 2020 included a total of nine strategic or high level COVID-19 risks, underpinned by 55 sub risks. The nine strategic risks are now supported by a further 20 sub risks identified; assessed; and recorded during the course of the pandemic.
194. The original and current risk assessment ratings for each of the COVID-19 strategic risks are detailed below. This assessment demonstrates that mitigating actions have reduced the risk in eight of the nine strategic risks.



Covid-19 Strategic Risks	Original Risk	Current Risk
Health and safety of citizens and service users.	Critical	High
Council response and governance	High	Medium
Health and availability of employees to deliver critical services	Critical	High
Council premises and security	Critical	Medium
Supply chain risk	Critical	Medium
Technology and information	Critical	Medium
Financial and economic risk	Critical	Critical
Fraud and serious organised crime risk	Medium	Low
Legal and commercial risk	Medium	Low

195. As part of our 2019/20 work we undertook a detailed review of the Council's risk management arrangements. This work was undertaken pre-COVID-19.

196. Our review identified that there is scope for the Council to further develop its approach to risk management. We concluded that at the CLT level risk is generally well managed, with appropriate articulation of the corporate risks and appropriate discussion. However, we identified two high risk areas to further improve processes.

197. There is a need to utilise information within training materials to clearly articulate how the risk framework should operate in practice, with appropriate training attended by relevant staff.

198. We also noted that risk registers have not been completed for all services, with capacity of the teams to devote sufficient time to this activity being a key limiting factor.

199. Our report was presented to the GRBV committee in August 2020. The Council accepted that capacity and knowledge at lower levels of the organisation were limited, meaning that not all risks may be clearly identified and/or addressed. Relevant risk management training has been provided to those within the second and third lines of defence and the Council plans to deliver training to relevant staff within the first line of defence.

# 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 reporting of its performance.



Performance is measured annually and against other Scottish authorities. The Council in 2019/20 has demonstrated improvements in performance in several areas including waste and cleaning, school education and processing times for benefits and grant claims. Performance has however declined in five of the nine adult social care indicators. The latest 2018/19 information shows that the Council performs better than other councils in around half of national benchmarking indicators.

Reporting against the new Statutory Performance indicators Direction requires improvement. In particular the Council needs to address the new requirements of reporting progress against its duty of Best Value.

## Value for money

### Public Performance Reporting 2019/20

200. It is the duty of a local authority to make arrangements for reporting to the public on the outcomes of the performance of its functions.
201. Public performance reporting is a fundamental requirement of Best Value. Local authorities must ensure that in approaching public performance reporting they: engage stakeholders, give an honest and balanced picture plus, information is published in a timely and engaging manner.
202. The Council's Annual Performance Report for 2019/20 was published in August 2020 and is available on the Council's web-site. It reports performance against a number of themes over the three years to 2019/20. Targets are set for all indicators and a RAG traffic lights systems sets out whether the indicator is on or ahead of target, within 5% of target or greater than 5% behind target.
203. The Council in 2019/20 has demonstrated improvements in performance in several areas including waste and cleaning, school education and processing times for benefits and grant claims. Performance has however declined in five of the nine adult social care indicators. The latest 2018/19 information shows that the Council performs better than other councils in around half of national benchmarking indicators.

### Local Government Benchmarking Framework

204. The Council is required to report its public performance in line with the Local Government Benchmarking Framework. The 2018/19 results were reported to the Corporate Policy and Sustainability Committee in August 2020. Whilst this report is available to the public we recommend that the analysis is published on the Council's web-site.

### Statutory Performance indicators

205. The Accounts Commission has a statutory power to define performance information that local authorities have to publish. The 2018 Direction, which applies for the first time in 2019/20 was enhanced to make more of a distinction for the public in the Council setting out and reporting on progress against outcomes agreed with partners and communities, reporting the performance the Council has prime responsibility for and reporting against the Council's best value duty.
206. There are two Statutory Performance Indicators:  
  
SPI 1: Each council will report a range of information setting out:
  - Performance in improving local public services provided by both (i) the council itself and (ii) by the council in conjunction with its partners and communities; and
  - Progress against the desired outcomes agreed with its partners and communities.

SPI 2: Each council will report a range of information setting out:

- The council's assessment of how it is performing against its duty of Best Value and how it plans to improve against this assessment.
- Audit assessments of its performance against its Best Value duty and how it has responded to these assessments.
- In particular how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities.

207. The information reported in the Annual Performance Report and the Local Government Benchmarking Framework is one of the main ways the Council provides updates to the public on how it is performing and demonstrating Best Value. It is not clear however how the Council has addressed the SPI 2 requirements regarding performance against Best Value responsibilities. We recommend that annual performance is mapped against the 7 Best Value themes:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality

and that these are published as part of the Annual Performance Report.

Action plan point 4

# 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;
- complying with legislation; 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 2019/20 Code of the state of the affairs of the Council and its group as at 31 March 2020 and of its income and expenditure 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 2019/20 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 use of the going concern basis of accounting in the preparation of the financial statements is appropriate or the Head of Finance has disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- the audited part of the Remuneration Report 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 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 audited part of the Remuneration Report 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.

## 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

Azets provides taxation services to CEC Holdings Group, Transport for Edinburgh Group, Edinburgh Living MMR LLP, Telford NHT LLP, Energy for Edinburgh and CEC Recovery Limited. All tax services are provided by independent partners and staff who have no involvement in the audit of those financial statements. The total value of taxation services provided is approximately £51,500.

### Confirmation of independence

We confirm that we will comply with FRC's Ethical Standard. 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 Azets and the Council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.



## Appendix 2: Our approach to the wider scope audit

Our approach to the wider scope audit (as set out in our 2019/20 External Audit Plan) builds upon our understanding of the Council which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.

During our audit we also considered the following risk areas as they relate to the Council:

- Fraud and corruption in respect of the procurement function
- EU withdrawal

Overall we concluded that the Council has appropriate arrangements in place in respect of these areas as noted below:

### Fraud and corruption in respect of the procurement function

As part of our 2019/20 audit we undertook an audit of procurement arrangements at the City of Edinburgh Council, concentrating on the arrangements preventing fraud and corruption in procurement.

The Council spent £844million between November 2018 and October 2019 on the procurement of goods and services including revenue and capital purchases. The procurement arrangements are set out in the Council's Contract Standing Orders dated 27 June 2019 in compliance with section 81 of the Local Government (Scotland) Act 1973. These standing orders require to be interpreted in accordance with the key principles of transparency, equal treatment, non-discrimination and proportionality.

We tested a sample of payments that the Council had made between November 2018 and October 2019 in relation to invoices, contracts and authorisation levels as per the scheme of delegation.

Our work focused on the following areas:

- Procurement purchases outside agreed frameworks.
- Compliance with thresholds set out in relevant legislation, delegated financial authority limits and the validity of reasons for extension of contracts.
- Cost, authorisation, segregation of duties and conflicts of interest.
- Monitoring the spend per contract including agreeing prices charged to contracts/suppliers' price list

We also considered the openness of the tender process, compliance with tender timetables, scoring criteria, the selection process, and the processes for awarding the contract to the successful party.

Overall, we have concluded that the arrangements for preventing and detecting fraud in procurement at City of Edinburgh Council are satisfactory.

The tendering process is in accordance with the contract thresholds set by the Procurement Reform (Scotland) Act, 2014 and the Public Contracts (Scotland) Regulations 2015. These thresholds applied from 1st April 2016. The procurement arrangements are compliant with the Council's Contract Standing Orders and with the key principles of transparency, equal treatment, non-discrimination, and proportionality.

The Council scored highly in the Procurement and Commercial Improvement Programme (PCIP) at 87% placing it in the F1 (highest performing) band according to the Scottish Government bandings.

Our detailed testing did not identify any fraudulent procurement transactions although a number of weaknesses were identified which the Procurement Team were already aware of. We found there was a weakness in tracking expenditure per contract. In the Council's Oracle system, the purchase order and invoice cannot be linked to the contract, therefore the year-to-date spend on the contract cannot be reported or monitored unless done manually by the budget holder. This is further complicated by the fact that some suppliers have more than one contract.

Where weaknesses were identified we agreed with management action to remedy these.

### **Impact of EU withdrawal**

Detailed work had been undertaken to manage the risks associated with the UK's withdrawal from the EU. Mitigating actions were identified and implemented by the relevant services in regard to these risks. The Council's response to COVID-19 has taken priority over the past six months, however, there has not been a significant change in circumstances in regard to the exit from the EU to respond to and Corporate Leadership Team has been updated on how the risks are being managed. The Brexit Resilience Working Group which is a sub-group of the Council Resilience Group will meet on 13 October 2020 to review the risk register and identify whether any further changes are recommended.

## Appendix 3: Best Value Programme

In October 2016, Audit Scotland introduced a new approach to auditing Best Value in Scottish Councils. The new approach continues to audit against the statutory duties but has an increased focus on the pace and depth of improvement at each council. Each council will be subject to a full Best Value Assurance report over a 5 year period.

Under the Code of Audit Practice (May 2016), and supplementary guidance issued by Audit Scotland, we are required to consider and make judgements on 8 Best Value themes over the course of our appointment. This work will build our assessment of the Council's approach to demonstrate Best Value, which will help to risk assess and inform the coverage of the full Best Value Assurance Report. In future years we will review progress being made by the Council against the Best Value findings. The table below outlines our coverage to date and plans for the remaining 2 years of our appointment.

Wider Scope Dimension	Year 1 2016-17	Year 2 2017-18	Year 3 2018-19	Year 4 2019 -20	Year 5 2020 - 21	Year 6 2021 - 22
Financial Management / Sustainability	Effective use of resources			Full Best Value review undertaken	Follow-up of BV report	Follow-up of all wider scope and BV reports
	Financial Governance Financial and service planning	Financial governance Resource management				
Governance and transparency	Governance & accountability					
	Governance, decision making and scrutiny Member training and development	Governance, decision making and scrutiny	Managing risk effectively	Full Best Value review undertaken	Follow-up of BV report	Follow-up of all wider scope and BV reports
		Partnership and collaborative working	Community responsiveness			
		Fairness and equality				
Value for Money		Performance outcomes and improvement Improvement		Full Best Value review undertaken	Follow-up of BV report	Follow-up of all wider scope and BV reports

## Appendix 4: Accounts Commission Strategic Priorities

The Accounts Commission, within its Strategy and Annual Action Plan sets out its plans and priorities to fulfil its oversight and scrutiny role, with the overriding aim to hold councils to account for the pace, depth and continuity of improvement facilitated by effective governance. We aim to support the Accounts Commission’s work by using our annual audit work to assess how the Council is progressing against the Commission’s priorities. The Strategic Plan for 2019-24 [https://www.audit-scotland.gov.uk/uploads/docs/report/2019/ac\\_strategy\\_plan\\_19-24.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/ac_strategy_plan_19-24.pdf) contains five strategic priorities.

Our assessment against the priorities is outlined below.

2019/20 Strategic Priority	Our assessment
<p>Having clear priorities with a focus on outcomes, supported by effective leadership and long term planning (governance and transparency).</p>	<p>The Council’s Business plan: “A Programme for the Capital: The City of Edinburgh Council Business plan 2017/22” was approved in August 2017.</p> <p>The Council has also led on the development of a 2050 City Vision which was finalised in 2020 after considerable public consultation.</p> <p>The Council has developed an Adaptation and Renewal Programme in response to Covid-19. The programme sets out how the council plans to: protect its staff and services; help rebuild Edinburgh’s economy; and support vulnerable residents.</p> <p>The ambitious plans within these documents are not set out in an overarching strategic plan and the Council acknowledges that it needs to set out its priorities more clearly.</p> <p>The Council has a number of longer-term financial plans including a three year Financial Strategy and a ten year Capital Investment Programme. A three-year revenue budget is at the lower end of what Audit Scotland would consider as adequate medium-term financial planning.</p>
<p>The strategic appraisal of options to reshape services in line with priorities. This should consider good practice, innovation and</p>	<p>The Council does consider options appraisal for major capital programmes and projects e.g. the tram extension. Options are also included in certain other areas such as the Council’s consideration of political management arrangements. However formal option appraisal for the</p>

2019/20 Strategic Priority	Our assessment
collaborative working with partners (financial sustainability).	delivery of services is patchy and this is an area the Council needs to improve on.
Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future (financial sustainability).	New members to the Council go through a comprehensive training programme. During a Council term any new members also receive this training. Workshops are held for elected members as and when required to ensure knowledge and skills support is available for complex or technical areas such as planning. Members' attendance at this training has been mixed.
Empowering local communities and involving them in the design and delivery of local services and planning for their local area (governance and transparency).	<p>The Council has established close working relationships with a range of partners but has not yet established effective community planning governance arrangements. The Edinburgh Partnership has struggled to develop effective Locality Improvement Plans. Revised new plans were due to be finalised in June 2020 but this has been delayed by Covid-19.</p> <p>Since the Community Empowerment Act came into force in 2015 there have been two asset transfers completed with a further six approved by the Council and awaiting legal completion.</p>
Reporting the body's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.	<p>The Annual Performance Report reports annual performance across a range of KPIs from one year to the next. This was published on the Council web-site in September 2020. The Council also measures and reports performance against other local authorities as part of the Local Government Benchmarking Framework. Whilst there is a link to this on the Council web-site there is no summary of Edinburgh's performance.</p> <p>The 52 Coalition Commitments are part of the Council's performance reporting. The status of each commitment is reported annually to Council and 6-monthly to Executive Committees.</p> <p>The performance reports to the Council's senior leadership team include trends and performance against targets and allow managers to agree actions to address performance issues. Performance reporting to elected members still requires some improvement for example the inclusion of</p>

<b>2019/20 Strategic Priority</b>	<b>Our assessment</b>
	specific targets and performance measures to allow monitoring of progress. The Council plans to develop a new performance management framework as part of its Adaptations and Renewal Programme.

## Appendix 5: Action Plan

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

### 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.

Rating	Assessment rationale
<b>Critical</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability.</li> </ul>
<b>High</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul>
<b>Medium</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>
<b>Low</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation's operational performance; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation.</li> </ul>
<b>Advisory</b>	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

## Current year action plan

Action plan point	Issue & recommendation	Management comments
1. Sources of estimation uncertainty – sensitivity analysis	IAS 1 'Presentation of Finance Statements', requires entities to disclose information about assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The standard notes that the nature and extent of the information provided may vary according to the nature of the circumstances but includes as an example of the type of disclosures to be made, the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity.	To ensure full compliance with IAS 1 'Presentation of Finance Statements', a sensitivity analysis will be undertaken to help users of the financial statements understand the judgements made about any sources of estimation uncertainty. Due to the onset of COVID-19 lockdown restrictions around the time of the 2019/20 Annual Accounts closedown, there was insufficient information available to conduct this analysis for these accounts.
Rating		
Medium		
Paragraph Ref		
33	The Council has disclosed in its annual accounts, in relation to property valuations that 'the range of uncertainty has not been identified and therefore are unable to quantify the potential impact on the accounts' and has therefore not disclosed any sensitivities on the property valuations.	<b>Responsible officer:</b> Senior Accountant, Capital and Major Projects, Finance  <b>Implementation date:</b> March 2021



Action plan point	Issue & recommendation	Management comments
	<p><b>Risk</b></p> <p>There is a risk of non-compliance with accounting standards.</p> <p><b>Recommendation</b></p> <p>In future years, we would encourage the Council to carry out a sensitivity analysis to help users of the financial statements understand the judgements management have made about any sources of estimation uncertainty.</p>	

Action plan point	Issue & recommendation	Management comments
<p>2. Members expenses</p> <p>Rating</p> <p>Medium</p> <p>Paragraph Ref</p> <p>118</p>	<p>The Remuneration Report discloses salaries and expenses paid to elected members. The Council also publishes this information in detail on its website. The Council, in preparing this publication, uses source records from, for example, individual elected members claims.</p> <p>We noted during our audit, differences between the published information on the Council's website and the ledger. While we concluded that this is not material to the annual accounts we would recommend that the Council carry out regular reconciliations between the ledger and the published information on elected members remuneration and expenses.</p>	<p>The need to carry out such a reconciliation is acknowledged and a corresponding procedure will be put in place to ensure this is undertaken on an at-least six-monthly basis.</p> <p><b>Responsible officer:</b> Election and Members' Services Manager</p> <p><b>Implementation date:</b> March 2021</p>

Action plan point	Issue & recommendation	Management comments
3. Long term financial plan	<p>The agreement of a three year revenue budget and long term capital budget was a positive achievement, particularly given the delays in the announcement of UK and Scottish Government budgets. We note however that a three-year revenue budget is at the lower end of what Audit Scotland would consider as adequate medium-term financial planning and would recommend that the council agrees a longer term financial planning framework for its revenue budget.</p>	<p>In recognising the continuing uncertainty resulting from both the pandemic's longer-term impacts and a succession of one-year financial settlements, the primary focus will remain on setting a balanced, three-year revenue budget. Once greater certainty is obtained in these areas, opportunities to plan over a longer timescale will be considered and reported to the Finance and Resources Committee. At this stage, however, it is difficult to state with accuracy when this might be.</p> <p><b>Responsible officer:</b> Head of Finance</p> <p><b>Implementation date:</b> TBC</p>
Rating		
Medium		
Paragraph Ref		
126		

Action plan point	Issue & recommendation	Management comments
4. Public Performance Reporting	<p>The information reported in the Annual Performance Report and the Local Government Benchmarking Framework is one of the main ways the Council provides updates to the public on how it is performing and demonstrating Best Value. It is not clear however how the Council has addressed the SPI 2 requirements regarding performance against Best Value responsibilities. We recommend that annual performance is mapped against the 7 Best Value themes.</p>	<p>The Council is developing a new business plan and performance framework which will be in place by the next financial year. As part of this process we will consider how we demonstrate our performance against Best Value responsibilities and in particular compliance with the SPI 2 requirements. In the interim we will map our existing KPIs against the seven best value themes as part of our annual review of the Councils KPIs.</p>
Rating		
Medium		
Paragraph Ref		
207		
		<p><b>Responsible officer:</b> Change and Delivery Manager (Data, Performance and Business Planning), Strategy and Communications</p> <p><b>Implementation date:</b> September 2021</p>

## Follow up of prior year recommendations

We have followed up on progress in implementing actions raised in the prior year/s. The table below summarises progress made by the Council in implementing these actions.

	Rating	Year recommendation raised		
		2016/17	2017/18	2018/19
In progress	High	1	4	2
	Medium	-	-	1
Complete	High	-	-	2
	Medium	2	1	3
<b>Total</b>		<b>3</b>	<b>5</b>	<b>8</b>

## Actions outstanding or in progress from previous years

### 2018/19 recommendations which are in progress in 2019/20

#### Elected member and officer protocols

Initial rating	Recommendation	Management comments
Medium	Councillors and the senior leadership team should review the current protocols to ensure these are still appropriate and that both members and officers can comply fully with their responsibilities.	<p>The Council has clear protocols for access to documentation and these are outlined in the member/officer protocol. This document is set to be reviewed in 2019 and an exercise will be carried out with elected members and senior management to ascertain where the protocol needs to be improved including access to documentation.</p> <p><b>Responsible officer:</b> Democracy, Governance and Resilience Senior Manager</p> <p><b>Implementation date:</b> January 2020</p>
Current status	Update	
In progress	A review was carried out on the Member/Officer Protocol in 2019 and this included workshops with the Governance, Risk and Best Value Committee and officers separately and then a facilitated workshop (by the Improvement Service) with a cross-section of elected members and officers. The protocol was then to be taken back to committee before approval. This has, however, been paused whilst the Council awaits the review of the Councillors' Code of Conduct and associated appendix on member/officer relations so as to ensure it is consistent.	

## Implementation of audit recommendations

Initial rating	Recommendation	Management comments
<p><b>High</b></p>	<p>In August 2019 internal audit reported that 47 internal audit findings (those overdue where management action had not been actioned or evidenced) were outstanding. Of these 26 were more than one year old. 118 management actions were also identified as overdue. There were high rated findings in both overdue management actions and internal audit findings.</p> <p>Whilst we are satisfied that audit is seen as an important element of the internal control framework by senior management and Councillors there needs to be a greater prioritisation of addressing issues raised by internal audit across the Council.</p>	<p>While significant progress has been made in verifying historic and/or re-opened findings, it is acknowledged that more needs to be done to implement and evidence completion of some more recent audit actions. To this end, Directorate action plans have been developed and are subject to regular monitoring and CLT consideration including, in the case of more complex findings, opportunities to provide interim or alternative assurance with respect to the issues concerned.</p> <p><b>Responsible officer:</b> Chief Executive and all Executive Directors</p> <p><b>Implementation date:</b> On-going</p>
Current status	Update	
<p><b>In progress</b></p>	<p>As at July 2020 there were 82 open internal audit findings across the Council. This was a significant deterioration in performance in comparison with previous quarters as a result of the impact of Covid-19. The Council agreed an approach whereby management would assess the significance of the risks of open internal audit findings and then prioritise the most significant risks for closure with extensions applied to the remainder of findings.</p> <p>We recognise the impact of the pandemic on council services however it is essential that in future all internal audit findings are closed in line with the revised protocol.</p>	

## Service performance

Initial rating	Recommendation	Management comments
<p><b>High</b></p>	<p>Whilst there has been some improvement in some of the Councils key indicators we are disappointed to note that there is a continuation of areas of poor performance within Adult Social Care Services, Environmental Services and Homelessness.</p> <p>Significant improvements are required, including the pace of change in implementing such improvements</p>	<p><b>Adult Social Care Services</b></p> <p>The EIJB is continuing to work with partners to support the delivery of sustainable improvement. The recent establishment of a Performance and Delivery Committee should provide clearer oversight, more focussed scrutiny and regular progress updates.</p> <p><b>Responsible officer:</b> Chief Officer, Health and Social Care Partnership</p> <p><b>Implementation date:</b> On-going</p> <p><b>Environmental Services</b></p> <p>A number of improvement actions have been identified and are planned for implementation as follows:</p> <p>Commence operation of the two new Waste Transfer Stations in the East (Seafield) and West (Bankhead) of the city to improve waste collection reliability (Head of Place Management, October 2019);</p> <p>Finalise the design of the new communal waste and recycling collection service (Head of Place Management, March 2020)</p> <p>Complete the rollout of the Routesmart system to ensure that all waste and recycling routes are delivered and monitored for effectiveness (Waste and Cleansing Manager, March 2020).</p> <p><b>Homelessness</b></p> <p>Having already secured more than 500 shared house spaces, we are actively working towards identifying alternative forms of accommodation such as</p>

Initial rating	Recommendation	Management comments
<div style="background-color: red; width: 100%; height: 100%;"></div>		<p>temporary furnished tenancies to meet the targets set in the RRTP.</p> <p>Efforts are also continuing to facilitate a steady supply of housing through the housebuilding programme, rent deposit scheme, increased access to mid-market rent properties and increases in preventative work.</p> <p><b>Responsible officer:</b> Homelessness and Housing Support Senior Manager</p> <p><b>Implementation date:</b> On-going</p>
Current status	Update	
<div style="background-color: yellow; width: 100%; height: 100%;"></div>	<p>The Council in 2019/20 has demonstrated improvements in performance in several areas including waste and cleaning, school education and processing times for benefits and grant claims. Performance has however declined in five of the nine adult social care indicators.</p>	



## 2017/18 recommendations which are outstanding or in progress in 2019/20

### Property, plant and equipment

Initial rating	Recommendation	Management comments
High	<ul style="list-style-type: none"> <li>Instructions formally highlight the need to assess whether there is any indication of impairment. The valuer used the results of condition surveys performed in 2018/19 as a key source of evidence. Whilst we deem this to be an appropriate source of evidence, it only provides assurance over a proportion of the Council's operational estate and does not take cognisance of other sources of information, such as the level of repairs and maintenance required in the year. We would encourage the Council to further develop its procedures for assessing whether there has been an impairment.</li> </ul>	<p>The Operational Estate Manager is currently in discussions with Facilities Management regarding what data is available on repairs that could be used to improve the identification of impairments.</p> <p>Once this has been reviewed, we will look at ways to develop the final procedure and ensure that impairments are assessed in accordance with that procedure.</p> <p><b>Responsible officer:</b> Operational Estate Manager, Resources</p> <p><b>Implementation date:</b> TBC</p>
Current status	Update	
In progress	In 2019/20, we have used data available on repairs and maintenance to improve the identification of impairments. A formal procedure has been	

Initial rating	Recommendation	Management comments
[Redacted]		put in place in accordance with that procedure and included within the Checklist for Asset Valuation Process.

## Common good asset register

Initial rating	Recommendation	Management comments
<p><b>High</b></p>	<p>The Council, in preparing the 2018/19 common good fund annual accounts should review the accounting policies for property, plant and equipment and heritage assets to ensure that:</p> <ul style="list-style-type: none"> <li>• The assets are classified correctly;</li> <li>• The appropriate valuation basis has been applied; and</li> <li>• Depreciation is applied dependent on the accounting policy and classification of the asset.</li> </ul>	<p>The first version of the Common Good Register was published on the Council's Common Good webpage on 28 June 2019, complying with Scottish Government guidance.</p> <p>The Register will now be presented to the Finance and Resources Committee for approval on 26 September 2019 as part of the Common Good Annual Performance Report.</p> <p>Assets still under consideration comprise a schedule annexed to the Common Good Register. The Common Good status of these assets is currently being considered by legal counsel and the Council Solicitor and this is stated in the asset register.</p> <p>Annexing a list of "property still under investigation" complies with Scottish Government Guidance.</p> <p>Work on categorising civic regalia and artefacts that are assets of the Common Good fund is advancing well and the list is to be finalised at a future meeting of the Common Good Project.</p> <p>Those categorised as assets of the Common Good will be added to the register which is live on the Council's webpage.</p> <p><b>Responsible officer:</b> Principal Accountant (Corporate Accounts), Finance</p> <p><b>Implementation date:</b> March 2020</p>

<b>Current status</b>	<b>Update</b>
<b>In progress</b>	<p>Work on categorising civic regalia and artefacts that are assets of the Common Good fund is advancing well but has been delayed by the COVID-19 lockdown and the changes to working practices. This workstream will not be able to proceed until it is safe to return to the office to catalogue the items. Once this work has been completed, we will subsequently need to value the assets to be transferred.</p> <p>While one further workstream remains outstanding, this does not, however, alter the land and property assets as listed in the Common Good Asset Register as published. This work comprises larger assets that are “split”, having been acquired at different times under different titles, some being deemed Common Good and others not so, being held on other accounts. This workstream had commenced but will also not be able to be completed until it is safe to return to the office to review the title deeds and plans.</p> <p>Those categorised as assets of the Common Good will be added to the register which is live on the Council’s webpage.</p>

## Financial sustainability – Health and Social Care

Initial rating	Recommendation	Management comments
<b>High</b>	The EIJB continues to face financial pressures. The EIJB’s financial plan in 2019/20, despite a challenging efficiencies programme and the release of unallocated funds, remained unbalanced by £7.1million as at 31 August 2019. The financial and service performance of the EIJB remains a high risk issue and the Council needs to work together with the EIJB and NHS Lothian to reach an agreed financial settlement.	<p>The EIJB Medium Term Financial Plan will be presented to the Board in December 2019 following the approval of the Strategic Plan 2019-2022.</p> <p><b>Responsible officer:</b> EIJB Chief Finance Officer</p> <p><b>Implementation date:</b> December 2019</p>
Current status	Update	
<b>In progress</b>	The EIJB continues to face significant financial pressures despite significant investment. Development of the EIJB medium term financial plan has been delayed and ongoing work halted as a result of the emerging pressures and impact of COVID-19. The EIJB has committed to developing their medium term strategy by December 2020 and the Council needs to work together with the EIJB and NHS Lothian to deliver this.	

## Health and Social Care performance

Initial rating	Recommendation	Management comments
<b>High</b>	<p>Whilst there has been some improvement in performance, it remains too early to conclude whether this can be sustained. The approval of a new Strategic Plan should provide a framework for delivering real improvement however there is a danger that this is compromised by the significant financial challenges faced by the IJB in reaching a balance position.</p>	<p>The IJB is continuing to work with partners to support the delivery of sustainable improvement. The recent establishment of a Performance and Delivery Committee should provide clearer oversight, more focussed scrutiny and regular progress updates.</p> <p><b>Responsible officer:</b> Chief Officer, Edinburgh Health and Social Care Partnership</p> <p><b>Implementation date:</b> On-going</p>
Current status	Update	
<b>In progress</b>	<p>The committee conducted its first meeting in September 2019 and met bi-monthly until all committee meetings were suspended in April 2020.</p> <p>A performance report is presented at each Performance and Delivery committee, providing an overview of performance against the seven key local indicators and national Ministerial Strategic Group measures. Detailed dashboards are supported by a narrative report which highlights key risks and noteworthy changes to performance.</p> <p>Performance reports are significant in length with the most recent committee report in excess of 60 pages. Whilst the level of detail may be beneficial to some members, this does not support efficient scrutiny. Members should focus discussions on area of concern or underperformance and the current reporting format does not succinctly summarise or highlight these areas.</p> <p>Performance reports would benefit from the inclusion of a performance scorecard that summarises for each indicator whether performance has improved, declined or remained constant and how this compares against targets or thresholds. A RAG rating could be used to draw members' attention to areas of underperformance or concern</p>	

## 2016/17 recommendations which are outstanding or in progress in 2019/20

### Delayed discharges

Initial rating	Recommendation	Management comments
<b>High</b>	<p>Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland.</p> <p>We recommend that improving performance in this area remains a priority.</p>	<p>The IJB is continuing to work with partners to support the delivery of sustainable improvement. The recent establishment of a Performance and Delivery Committee should provide clearer oversight, more focussed scrutiny and regular progress updates.</p> <p><b>Responsible officer:</b> Chief Officer, Edinburgh Health and Social Care Partnership</p> <p><b>Implementation date:</b> On-going</p>
Current status	Update	
<b>In progress</b>	<p>The IJB has historically underperformed against its delayed discharges target (the number of days people spend in hospital when they are ready to be discharged) but reported a significant improvement in the 2019/20 annual performance report.</p> <p>In March 2020 partnerships were asked to prepare mobilisation plans in response to the COVID-19 pandemic with the aim of creating capacity and space within hospitals. As associated target to reduced delayed discharges was set across Scotland.</p> <p>The partnership identified a number of actions to reduce delays, free up beds in acute services and develop capacity within the community. This had a significant impact on performance and the IJB reported an improvement of 27% compared to 2018/19. However, the IJB continues to significantly underperform compared to the Scottish average (50% higher) and remains in the bottom quartile, ranking 27th compared to other integration authorities (2018/19: ranked 31st).</p> <p>Partnerships across Scotland managed to reduce delayed discharges, A&amp;E attendances and hospital admissions in March and April as the pandemic hit. A national lessons learned exercise was completed in July 2020 highlighting local initiatives and examples of good practice that could support a sustainable improvement in performance.</p>	

## Actions raised in prior year/s which have now been completed/closed

### Actions raised in 2018/19

#### Recommendation **Property, Plant and Equipment**

All key assumptions and estimates made in the valuation of council dwellings should be reviewed on an annual basis, with the outcome formally reported to the Council. The Council should consider performing interim check valuations of Council dwellings.

<b>Rating</b>	High	<b>Implementation date</b>	March 2020
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#### Complete

The HRA Asset Register takes account of the changes in housing stock and the valuation this year was uplifted by 4% based on the 2018/19 Action Plan recommendation.

From the beacons revalued, the average uplift in value in this sample was 4.36%. This was rounded down to 4% having compared it to market reports of changes in the housing market during the financial year.

The adjustment factor for the beacons sample was also reviewed. The average adjustment factor per this check is 40%, however, given the small sample size and relatively small change from the 38% adjustment factor introduced last year, we do not propose changing the adjustment factor for 2019/20 and have continued to use 38%.

#### Recommendation **Public Inspection Notice**

We highlighted issues with regards to the public inspection in 2017/18 and recommend the Council make arrangements to ensure full compliance in 2019/20.

<b>Rating</b>	Medium	<b>Implementation date</b>	June 2020 (for 2019/20 inspection process)
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#### Complete

While the onset of the pandemic resulted in a need to make significant changes to the inspection process, all key requirements were met within the requisite timescales.



**Actions raised in 2018/19**

**Recommendation Committee reporting**

In considering committee remits the Council considered committee statistics including the volume of reports being submitted to committees. We recommend that further consideration is given as to whether the content of reports can be improved in terms of their clarity and use of technology.

Rating	Medium	Implementation date	January 2020
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**Complete**

The Council reviewed its political management arrangements in August 2020 to respond to the pandemic. This identified that there had been a reduction in the total number of reports and the average number of pages (per report) considered by committees since the changes were made in 2019 to balance committee workload and amend the committee report template so it was clearer, took less resource and more effective.

The further use of technology was explored with an online report management system trialled by committee and service area staff. It is not considered that it is the right time, with the majority of office-based staff working from home, to be bringing in new processes in report management. Currently the potential benefits are outweighed by the challenges and also in the context of an improved position as reported in August 2020.

## Actions raised in 2018/19

### Recommendation Risk Management

We noted that risk no longer features as a standing heading on Council reports requiring decisions.

We recommend that is re-introduced to ensure it is properly considered in decision-making.

<b>Rating</b>	<b>Medium</b>	<b>Implementation date</b>	n/a
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#### Complete

The “risk” heading has been removed from the template but risk has not been removed as a key element of the content of the report. The stakeholder/community impact section includes engagement, equalities, risk, governance, health and safety, compliance and regulatory implications and report writers are required to cover these individual elements when preparing a report. The report writing guidance retains a section titled risk and authors are still required to cover risk in the same manner as before.

### Recommendation CGI contract management

Overall, the evidence received from CGI has not been sufficient to allow us to form an opinion on whether recommendations have been addressed. Based on the evidence that has been provided, there is limited evidence of progress against the majority of recommendations.

Whilst we are satisfied that audit is seen as an important element of the internal control framework by senior management and Councillors there needs to be a greater prioritisation of addressing issues raised by external audit across the Council.

<b>Rating</b>	<b>High</b>	<b>Implementation date</b>	December 2019
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#### Complete

Additional evidence requested was provided to Azets in September/October 2019.

While no formal closure note has been issued, from having liaised with Internal Audit colleagues, we understand there to be no outstanding issues.

### Actions raised in 2017/18

**Recommendation** The Council should ensure that arrangements are in place to regularly report to the Edinburgh Partnership on the delivery of outcomes.

<b>Rating</b>	Medium	<b>Implementation date</b>	December 2019
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#### Complete

A verbal update on the LOIP was provided at the Edinburgh Partnership Board on 18 December 2019, followed by submission of an annual progress report at its meeting on 17 March 2020. The agenda for this meeting was deferred, however, to accommodate discussion on the COVID emergency. The report was subsequently considered and agreed at the meeting on 29 September 2020. In terms of the Children's Services Plan this was considered by the Board on 24 September 2019, as was the Criminal Justice Outcome Improvement Plan. An annual report on the latter was also considered at the Board on 29 September 2020.

### Actions raised in 2016/17

#### **Recommendation Register of interests**

Our review of the Councillors' register of interests in 2018/19, identified a number of Councillors for which either not all interests had been disclosed or for which the registers had not been updated to reflect the fact that the interests had ceased

<b>Rating</b>	Medium	<b>Implementation date</b>	Ongoing
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#### Complete

Records of the Register of Interests are now kept and published through Modern Gov. Reminders are provided to elected members and staff directly supporting members are aware of the responsibilities to register interests timeously. It does, however, remain the responsibility of individual elected members and not the Council.

**Actions raised in 2016/17**

**Recommendation Publication of the Council’s Corporate Governance framework self-assessment**

We continue to note that there has been no change to this process, which means that the GRBV has not had the opportunity to consider whether the assurance statements reflect their understanding of risk or consider the adequacy of planned governance improvements.

<b>Rating</b>	<b>Medium</b>	<b>Implementation date</b>	December 2019
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<b>Complete</b>	Changes to process and an adherence to timescales meant the Annual Governance Statement was considered by the Governance, Risk and Best Value Committee at its first opportunity on 9 June 2020.
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