

The City of Edinburgh Council

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for City of Edinburgh Council

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of The City of Edinburgh Council. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts, leading to an independent audit opinion
- independent audit opinions on other statutory information published within the annual accounts including the Management Commentary, Annual Governance Statement and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- reviewing The City of Edinburgh Council's arrangements for preparing and publishing statutory performance information.

Audit Appointment

2. We are pleased to be appointed as the external auditor of The City of Edinburgh Council for the period 2022/23 to 2026/27 inclusive.

3. In the first year of the audit appointment, we invest significant time in gaining an understanding of the business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our work continues to be focused on risk.

Adding value

5. We aim to add value to The City of Edinburgh Council through our external audit work by being constructive and forward looking, by identifying and encouraging

good practice and making recommendations for improvement. In so doing, we will help the council promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and council

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the council. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at the council. In doing this, we aim to support improvement and accountability.

The City of Edinburgh Council's responsibilities

9. The council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. The council has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Financial statements audit planning

Introduction

11. The annual accounts are an essential part of demonstrating the council's stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the council and its group are set out below.

Exhibit 1

2022/23 Materiality levels for the council and its group

Materiality	Amount	Group
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the council's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.</p>	£47 million	£50 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement,</p>	£31 million	£33 million

we have assessed performance materiality at 65% of planning materiality.

Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £250,000 £250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the council, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Review of the Annual Governance Statement and the assurances obtained by the Section 95 officer in support of the statement • Detailed testing of journal entries • Focussed testing of accounting accruals and prepayments • Evaluate significant transactions outside the normal course of business

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Estimation and Judgements</p> <p>The City of Edinburgh Council disclosed non-current assets with a value of more than £5.8 billion as at 31st March 2022.</p> <p>Significant estimation and judgements are required in the measurement, valuation and disclosures of material account balances. This also includes pensions disclosures and service concession arrangements.</p> <p>There is a significant degree of subjectivity in valuations for these categories. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to financial disclosures.</p>	<ul style="list-style-type: none"> • The council's internal valuers provide valuations of non-current assets on a rolling basis • Hymans Robertson provides an actuary report to support pension disclosures in the accounts 	<ul style="list-style-type: none"> • Assessment of management experts (valuers and actuary) in conjunction with consideration of their findings • Confirm asset values in valuation certificates are correctly reflected within the 2022/23 accounts. • Assess assumptions applied in financial modelling of pension and PPP liabilities. • Evaluate the approach taken to ensure that assets not subject to revaluation in 2022/23 are not materially misstated. • Assess the adequacy of the council's disclosures regarding assumptions in relation to the valuation of assets and liabilities
<p>3. Risk of fraud over expenditure recognition</p> <p>In line with Practice Note 10: <i>Audit of financial statements and regularity of public sector bodies in the United Kingdom</i>, most public bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>We have evaluated the council's significant expenditure streams. Some significant expenditure areas, including staff costs, interest payments and non-cash costs, are not considered areas of risk. However, due to the extent and complexity of the council's service expenditure in other areas, we identified there is a risk that expenditure may be misstated.</p>	<ul style="list-style-type: none"> • Sound budgetary control and monitoring arrangements • Robust controls over expenditure and payment processes 	<ul style="list-style-type: none"> • Detailed testing of expenditure transactions, including cut-off testing, focussing on the areas of greatest risk • Audit testing of grants, including the sample testing of expenditure

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk as funding received from the General Revenue Grant and other grant funding bodies is clearly communicated and can be readily agreed to third party confirmations. In addition, the council's other income streams comprise of a high volume of low-value transactions and we have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements to a material effect.

19. As a result, we have not incorporated specific work into our audit plan in this area over and above our standard audit procedures.

Group consideration

20. As group auditors, we are required under International Standard on Auditing (ISA) (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

21. The council has a group which comprises component entities, including subsidiaries, associates and joint ventures, such as Edinburgh Joint Integration Board, Transport for Edinburgh, Edinburgh Leisure and Edinburgh Living MMR.

22. Our planned audit approach for the components is informed by our assessment of risk at the component level and our consideration of the size and nature of assets, liabilities and transaction streams. The audits of the financial information of these components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will also consider the assurances the council obtains for its group accounts.

23. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Audit of trusts registered as Scottish charities

24. The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the council are sole trustees, irrespective of the size of the charity.

25. The City of Edinburgh Council is the sole trustee for six trusts registered as Scottish charities, with total assets of some £16.2 million. The Finance and Resources Committee has delegated authority from the council to act in the role of the trustee. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. A separate set of

financial statements has been prepared using a break-up basis of accounting for the Boyd Anderson Trust (City of Edinburgh Council Charitable Funds), as the trustee considers that it is not a going concern. The remaining five trusts are incorporated into The City of Edinburgh Council Charitable Trusts accounts using the connected charities provisions under Regulation 7 of Charities Regulations.

26. We have identified the following significant risks of material misstatement in relation to the accounts of charitable trusts:

- **A risk of management override of controls.** As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. In response, we will conduct detailed testing of journal entries, focussed testing of accounting accruals and prepayments and evaluate significant transactions outside the normal course of business.
- **Valuation of heritage assets.** There is a significant degree of subjectivity in the measurement and valuation of non-current assets. In response to this risk, we will review and test the arrangements for heritage asset revaluations, including the assessment of impairments.

Materiality levels for the 2022/23 audit of trusts registered as Scottish charities

27. Materiality levels for the various trusts are set out in [Exhibit 3](#).

Exhibit 3

2022/23 Materiality levels for charitable trusts

Charitable trust	Planning Materiality (Based on 2% of audited 2021/22 net asset value)	Performance Materiality (Based on 75% of planning materiality)	Reporting Threshold
City of Edinburgh Council Charitable Trusts	£320,000	£240,000	£16,000
City of Edinburgh Council Charitable Funds (Boyd Anderson Trust)	£1,800	£1,300	£100

Source: Audit Scotland

Wider Scope and Best Value

Introduction

28. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

29. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the council. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the council demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

30. We have identified wider scope audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4**2022/23 wider scope risks**

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>The council's revenue budget framework details savings proposals over the next four years for council approval. The framework shows a savings gap of £3.7 million in 2023/24 rising to £91.9 million in 2026/27.</p> <p>Financial sustainability remains a risk with ongoing financial pressures in the short to medium term. This includes inflationary pressures on contracts, the impact of agreed pay awards, continued support for the homeless, support to refugees from Ukraine, and energy costs.</p>	<ul style="list-style-type: none"> • Regular budget monitoring • Medium term financial framework outlines the planning assumptions in managing the savings gaps in the short to medium term 	<ul style="list-style-type: none"> • Continue to monitor the financial position throughout the year and provide an update in our 2022/23 Annual Audit Report • Consider the long-term affordability of budget decisions • We will consider the council's progress in developing a medium-term financial plan
<p>2. Reliance on legacy IT systems and older software for key financial systems</p> <p>The council has an over-reliance on legacy systems such as AS400 for capital funded projects, and SWIFT for social care payments. The council uses Oracle R11 as its general ledger and there are plans for a significant upgrade this year.</p> <p>Relying on legacy systems increases the risk of IT application failure, and can present data quality and cyber security risks. It is also critical that underlying data is accurate and complete. There is a risk we are unable to access documentation to support</p>	<ul style="list-style-type: none"> • The council plans to upgrade its general ledger system in the summer of 2023 to version which offers greater functionality • A new system is in development and will replace the AS400 system 	<p>We will consider the council's arrangements for managing and mitigating the risks that use of legacy IT systems presents</p> <p>We will consider how the council obtains assurances from its service providers over cyber security and business continuity arrangements</p>

Description of risk	Sources of assurance	Planned audit response
our audit of the annual accounts.		

Source: Audit Scotland

31. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider climate change and cyber security threats.

Climate Change

32. Tackling climate change is one of the greatest global challenges. Scotland has a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

33. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on the council's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

34. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider the council's arrangements for managing and mitigating cyber security risks.

Best Value

35. Under the 2021 [Code of Audit Practice](#), the audit of Best Value in councils is fully integrated within our annual audit work.

36. Best Value at the council will be assessed comprehensively over the period of the audit appointment and will include an annual evaluation of the council's approach to demonstrating improvement in its strategic priorities and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement. This work will be integrated with the wider scope audit areas discussed above.

37. In addition to our annual work on Best Value we will conduct thematic reviews as directed by the Accounts Commission. In 2022/23 the thematic review across the sector will be on the effectiveness of council leadership in developing new local strategic priorities following the elections in May 2022. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

38. At least once every five years, the Controller of Audit will report to the Accounts Commission on the council's performance in meeting its Best Value duties. The first year of the programme will be from October 2023 to August 2024 and will cover the councils listed in [Exhibit 5](#).

Exhibit 5

Controller of Audit reports between October 2023 and August 2024

Falkirk	South Ayrshire
Moray	Dumfries and Galloway
Clackmannanshire	West Dunbartonshire
Orkney Islands	Dundee City

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

39. All Annual Audit Plans and audit outputs, as detailed in [Exhibit 6](#), including any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

40. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

41. We will provide an independent auditor's report to the council, the Scottish Parliament and the Accounts Commission setting out our opinions on the annual accounts. We will provide the council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

42. [Exhibit 6](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 September 2023.

Exhibit 6 2022/23 Audit outputs

Audit Output	Target date	Governance, Risk and Best Value Committee Date
Annual Audit Plan	7 March 2023	2 May 2023
Best Value Management Report	18 July 2023	1 August 2023
Independent Auditor's Report	12 September 2023	19 September 2023
Annual Audit Report	12 September 2023	19 September 2023



Source: Audit Scotland

Timetable

43. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 7](#) that has been discussed with management.

44. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 7 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	22 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Head of Finance	28 August 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	September 2023
Agreement of audited and unsigned annual report and accounts	September 2023
Issue of Annual Audit Report to those charged with governance.	September 2023
Signed Independent Auditor's Report	September 2023

Source: Audit Scotland

Audit fee

45. In determining the audit fee, we have taken account of the risk exposure of the Council and the planned management assurances in place. The proposed audit fee for 2022/23 is £682,060 as set out in Exhibit 8.

46. Our fees have increased in 2022/23 and to reflect the current audit market and the rising costs in delivering high-quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work that audit must cover.

Exhibit 8**Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	400,190
Contribution to Audit Scotland costs and pooled costs	15,180
Contribution to Performance and Best Value	153,990
Sectoral Cap Adjustment	112,700
2022/23 Audit fee	682,060
Audit of CEC Charitable Trusts	9,000
Total 2022/23 fee	691,060

Source: Audit Scotland

47. In setting the fee for 2022/23 we have assumed the council has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

48. It is the responsibility of the council to establish adequate internal audit arrangements. Internal audit is provided by a department of internal auditors led by the Interim Head of Internal Audit, within the Council's Legal and Assurance Directorate. International Auditing Standards require internal and external auditors to work closely together make best use of available audit resources. We seek to use of the work of Internal Audit wherever possible to avoid duplication.

49. We reviewed the internal audit plan for 2022/23 and while we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities, particularly in the following areas:

- CGI Risk Management:
- CGI Enterprise Management
- Security Operations Centre
- Preparation for IFRS 16 – Lease accounting

50. From the 2021/22 internal audit plan, we will review the following internal audit reports which were reported during the 2022/23 financial year and assess the impact of the findings on our work:

- Fraud and Serious Organised Crime
- Payment Card Industry Governance
- Allocation and Management of Purchase Cards

Independence and objectivity

51. Auditors appointed by the Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

52. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

53. The appointed auditor, and engagement lead, for The City of Edinburgh Council is Michael Oliphant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the council.

Audit Quality

54. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

55. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

56. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

57. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

58. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

The City of Edinburgh Council

Annual Audit Plan 2022/23

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