

The City of Edinburgh Council

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for The City of Edinburgh Council
February 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for the 2023/24 external audit of The City of Edinburgh Council. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- audit opinions on other statutory information published with the financial statements in the annual accounts, including the Management Commentary, the 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
- review of The City of Edinburgh Council's arrangements for preparing and publishing statutory performance information.

Respective responsibilities of the auditor and council

2. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and The City of Edinburgh Council. Key responsibilities are summarised below.

Auditor responsibilities

3. The responsibilities of appointed 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.

4. Auditors in the public sector give independent opinions on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at The City of Edinburgh Council. In doing this, we aim to support improvement and accountability.

5. The Accounts Commission has appointed Michael Oliphant, Audit Director, as external auditor of The City of Edinburgh Council for the period from 2022/23

until 2026/27. The 2023/24 financial year is therefore the second year of the five-year audit appointment.

The City of Edinburgh Council's responsibilities

6. The City of Edinburgh Council is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

7. 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.

Adding Value

8. We aim to add value by: tailoring audit work to the circumstances of the council and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Governance, Risk and Best Value Committee; and by recommending and encouraging good practice. In so doing, we aim to help the council promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts

Introduction

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

10. As appointed auditors, we are required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report. This is done in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum (which interprets the ISAs for the public sector) and guidance from Audit Scotland.

11. Our work is focused on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. 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 audits to obtain reasonable assurance about 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 2023/24 audit

13. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for The City of Edinburgh Council and its group are set out in [Exhibit 1](#).

Exhibit 1

2023/24 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 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.</p> | £49 million | £52 million |

| | | |
|--|----------------|----------------|
| 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 are required. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality. | £32 million | £34 million |
|--|----------------|----------------|

| | | |
|---|-----------------|-----------------|
| Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. | £0.5 million | £0.5 million |
|---|-----------------|-----------------|

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. 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.

15. 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.

16. 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 risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

| Significant risk of material misstatement | Management's 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 ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that</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. • Evaluate significant transactions outside the normal course of business. |

| Significant risk of material misstatement | Management's sources of assurance | Planned audit response |
|--|---|---|
| <p>otherwise appear to be operating effectively.</p> | | <ul style="list-style-type: none"> • Focussed testing of accounting accruals and prepayments. |
| <p>2 Valuation of non-current assets</p> <p>The City of Edinburgh Council disclosed non-current assets with a value of more than £5.8 billion as at 31 March 2023.</p> <p>The measurement, valuation and disclosures of these material balances require significant accounting estimates and judgement.</p> <p>In addition, there will be a full revaluation of the council's dwellings in 2023/24, which takes place every five years. This valuation is 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 qualified internal valuers provide valuations of non-current assets in accordance with accounting and relevant standards. • Council dwellings are valued using the Beacon Method in accordance with mandatory guidance from the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). | <ul style="list-style-type: none"> • Assessment of management's experts (valuers) in conjunction with consideration of their findings. • Obtain an understanding of the management's involvement in the valuation process. • Confirm asset values in valuation certificates are correctly reflected within the accounts. • 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 other service</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 to assess completeness and accuracy of expenditure. • Monitoring of the budgetary process and reporting. • Substantive testing of accruals and prepayments. |

| Significant risk of material misstatement | Management's sources of assurance | Planned audit response |
|--|-----------------------------------|------------------------|
| expenses, we identified there is a risk that expenditure may be misstated. | | |

Source: Audit Scotland

17. As set out in ISA (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.

18. 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. 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.

Other areas of audit focus

20. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

21. The areas of specific audit focus are:

- System changes:** There are various planned upgrades or modifications to financial systems being implemented during 2023/24, or in the months shortly after. This includes an upgrade to the general ledger, a new HR/payroll system and a new accounts receivable system. There is a risk that data migrated to new systems is not accurate or complete, that historical records cannot be retrieved to support amounts in the financial statements, and that council staff are not available to support the audit due to their involvement in implementing new systems. We will review the council's arrangements in these areas to gain assurance that the underlying data used to prepare the financial statements is complete and accurate.
- Pensions valuations:** Significant estimation and judgements are required in the measurement, valuation and disclosures of the council's pensions valuations under IAS 19. These valuations are based on specialist actuarial and management assumptions. We will assess of the work of the actuary, including consideration of the appropriateness

of the assumptions used. We will assess the council's procedures for ensuring actuarial valuations provided are appropriate, and confirm pension valuations from the actuary's conclusions are correctly reflected within the 2023/24 accounts.

Group Consideration

22. As group auditors, we are required under 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.

23. 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. 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.

24. The audit of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of these component auditors and review their relevant working papers where required. We will also consider the assurances the council obtains for its group accounts. 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.

Wider Scope and Best Value

Introduction

25. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit. This requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

26. In summary, the four wider scope areas are:

- **Financial management** – this 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** – we will look ahead to consider whether the council is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans 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

27. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2023/24 wider scope risks

| Description of risk | Management's sources of assurance | Planned audit response |
|------------------------------------|---|---|
| 1. Financial sustainability | <ul style="list-style-type: none"> • Regular budget monitoring reported to members | <ul style="list-style-type: none"> • Monitoring of the financial position throughout the year and providing an update in |

| Description of risk | Management's sources of assurance | Planned audit response |
|--|---|--|
| <p>In January 2024, the council reported to the Finance and Resources Committee that, whilst the council is devising measures and options to provide the potential for a balanced budget to be set for 2024/25, significant incremental gaps remain in subsequent years of the budget framework, rising to £160 million by 2028/29.</p> <p>Financial sustainability remains a risk with ongoing financial pressures in the short to medium term. These include expected decreases in total grant funding for the Early Years service, further demand-led pressures in the homelessness service, anticipated additional costs as a result of Reinforced Autoclaved Aerated Concrete (RAAC) and future pay awards.</p> | <ul style="list-style-type: none"> The medium-term financial framework outlines the planning assumptions in managing the savings gaps | <p>our 2023/24 Annual Audit Report.</p> <ul style="list-style-type: none"> Consideration of the council's progress in developing a medium-term financial plan. |
| <p>2. Cyber security adversely affected by the continued use of legacy IT systems and older software for key financial systems</p> <p>The council has an over-reliance on legacy systems such as SWIFT for social care payments.</p> <p>Relying on legacy systems increases the risk of IT application failure, and can present data quality and heighten cyber security risks. It is also critical that underlying data is accurate and complete.</p> | <ul style="list-style-type: none"> Regular reporting on technology and information risks to the Governance Risk and Best Value Committee SWIFT replacement has been agreed by Corporate Leadership Team (CLT) and the overall governance of the project sits within City of Edinburgh Council | <ul style="list-style-type: none"> Consider the council's progress in upgrades and development of new systems. We will consider the adequacy of the council's arrangements for managing and mitigating the risks that use of legacy IT systems presents. We will consider how the council obtains assurances from its service providers over cyber security and business continuity arrangements. |

Source: Audit Scotland

28. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Accounts Commission to

consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Best Value

29. At least once every five years, the Controller of Audit will report to the Accounts Commission on council's performance in meeting its Best Value duties. The City of Edinburgh Council has been selected to report to the Accounts Commission in October 2024.

30. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within our annual audit work. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties.

31. In addition, the arrangements to secure Best Value at the council will be assessed over the period of the audit appointment and will include an annual evaluation of risks and improvement areas 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.

32. As part of our annual work on Best Value, we also conduct thematic reviews as directed by the Accounts Commission. In 2023/24, the thematic review across the sector will be on workforce innovation and will consider how councils are responding to the current workforce challenge through building capacity, increasing productivity, and innovation. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

34. We will provide:

- an Independent Auditor's Report to the council and the Accounts Commission setting out our opinions on the annual accounts
- the council and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

35. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Accounts Commission. In determining the target reporting date, due regard is paid to the dates for approving the annual accounts set out in regulations of 30 September 2024.

36. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 4 2023/24 Audit outputs

| Audit output | Governance, Risk and Best Value Committee date |
|------------------------------|--|
| Annual Audit Plan | 19 March 2024 |
| Best Value Management Report | 7 May 2024 |
| Independent Auditor's Report | 17 September 2024 |
| Annual Audit Report | 17 September 2024 |

Source: Audit Scotland

37. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.



Timetable

38. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

39. 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 5

Proposed annual accounts timetable

|  Key stage |  Provisional Date |
|--|--|
| Consideration of the unaudited annual accounts by those charged with governance | 27 June 2024 |
| Latest submission date for the receipt of the unaudited annual accounts with complete working papers package | 30 June 2024 |
| Latest date for final clearance meeting with the Service Director, Finance and Procurement | August 2024 |
| Issue of draft Letter of Representation and proposed Independent Auditor's Report | September 2024 |
| Agreement of audited and unsigned annual accounts | September 2024 |
| Issue of Annual Audit Report to those charged with governance. | September 2024 |
| Signed Independent Auditor's Report | September 2024 |
| Certified Non-Domestic Rates Return | November 2024 |
| Certified Housing Benefit subsidy claim | January 2025 |
| Latest date for WGA assurance | January 2025 |

Source: Audit Scotland

Audit fee

40. In determining the audit fee, we have taken account of the risk exposure of the council and the planned management assurances in place. Fee levels are

also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £722,950 as set out in [Exhibit 6](#).

Exhibit 6

Audit fees (including VAT)

| Fee component | Fees (£) |
|--|----------------|
| External Auditor Remuneration | 424,200 |
| Pooled costs | 15,460 |
| Contribution to Performance and Best Value | 153,080 |
| Sectoral Cap Adjustment | 130,210 |
| Total 2023/24 fee | 722,950 |

Source: Audit Scotland

41. In setting the fee for 2023/24, we have assumed that the council has effective governance arrangements and will prepare a comprehensive and accurate set of annual 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

42. It is the responsibility of the council to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

43. While we are not planning to place formal reliance on the work of internal audit in 2023/24, 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:

- Procurement – Contract Standing Orders
- Supplier and Contract Management
- Key Financial Systems – Debtors
- Enterprise Resource Planning System Implementation
- CGI - IT Currency Management, Obsolescence, and Innovation Review.
- Health and Social Care Partnership: financial sustainability
- Cyber: Directorates Incident Response
- Council budget setting process: lessons learned.

Independence and objectivity

44. The appointed auditor is independent of the council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

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

46. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the council.

Audit Quality

47. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

48. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.
- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

49. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

50. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

51. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

The City of Edinburgh Council

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk