

Finance and Resources Committee

10.00am, Thursday, 28 September 2017

The City of Edinburgh Council Charitable Trusts – Report to those charged with Governance on the 2016/17 Audit

Item number	7.3
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Executive Summary

The report updates the Committee with the External Auditor's view on matters arising from the Charitable Trusts audit in compliance with International Standard on Auditing 260.

An unqualified audit opinion has been issued on the Trustee's Annual Report and Accounts for 2016/17.

The City of Edinburgh Council Charitable Trusts – Report to those charged with Governance on the 2016/17 Audit

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to:
- 1.1.1 Approve the Audited Trustee's Annual Report and Accounts for 2016/17 and note that these will be submitted to the External Auditor by 29 September 2017 and to OSCR by 31 December 2017;
 - 1.1.2 Note the commentary on the management of the Charitable Trusts included in the Audit Management Report in Appendix 1; and
 - 1.1.3 Note that the Usher Hall Conservation Trust will now be formally wound up, as approved by the Finance and Resources Committee on 23 February 2017.

2. Background

- 2.1 The purpose of this report is to update the Committee with the External Auditor's view on matters arising from the annual audit in compliance with International Standard on Auditing 260 (ISA 260).
- 2.2 The Committee's remit includes the review of all matters relating to external audit of the Charitable Trusts.
- 2.3 The External Auditor is required to comply with International Standard on Auditing 260. As part of the standard, the Auditor is required to highlight relationships that bear on independence, unadjusted misstatements and material weaknesses in internal control.
- 2.4 The Finance and Resources Committee, as the trustee, has overall responsibility for ensuring that:
- i. there are appropriate systems of control;
 - ii. proper accounting records are maintained which disclose the financial position of the charities;
 - iii. suitable accounting policies are selected and applied consistently;
 - iv. judgements and estimates are reasonable and prudent;
 - v. assets of the charities are safeguarded against unauthorised use or disposition;

- vi. reasonable steps for the prevention and detection of fraud are taken; and
- vii. reasonable assurances are provided that the charities are operating efficiently and effectively.

3. Main report

Key Points from the Audit Management Report for 2016/17

- 3.1 The independent auditor's report to the trustee of The City of Edinburgh Council Charitable Trust Funds, included as Appendix 1, is unqualified.
- 3.2 The Audited Trustee's Annual Report and Accounts for 2016/17 are included in Appendix 2 of this report. The key points the External Auditor has drawn to members' attention are:
 - i. The Lauriston Castle Trust external revaluation has not been included in the Audited Accounts as the supporting documentation for the final valuation was not available in time for the signing of the accounts. This means that the value in the financial statements reflects the valuation as at the previous reporting date, 31 March 2016.

This revaluation has been outstanding for a considerable length of time but it is understood that the final documentation is nearing completion. Once the valuation is received, it will be reflected in the Trustee's Annual Report and Accounts for 2017/18.

- ii. A lack of segregation of duties over the posting of journals. Journals could potentially be used to override controls and create fraudulent errors, therefore it is essential that appropriate controls are in operation.

While a range of compensating controls mitigating any risk of monetary gain is already in place, arrangements to introduce proportionate additional independent review will be examined with a view to implementation as part of the 2017/18 accounts closure process.

- iii. During audit testing the External Auditor noted that dividend income had been accounted for on a cash basis rather than an accruals basis. Whilst on its own this is an acceptable accounting treatment, as the Trusts have accounted for expenditure on an accruals basis, income should be treated in the same manner for consistency.

During preparation of the 2017/18 Accounts, dividend income will be accounted for on an accruals basis rather than a cash basis and contact will be made with the Trusts' investment managers early in 2018 to ensure this information is available in a timely manner for the accounts closure.

Plans for the Future Period

- 3.3 The Usher Hall will now be formally wound up as approved by the Finance and Resources Committee on 23 February 2017. The disbursement of the funds of the Boyd Anderson Trust as approved by Finance and Resources Committee on 14 January 2016 will be progressed.

4. Measures of success

- 4.1 The Charitable Trusts receive an unqualified audit certificate from the External Auditor by 30 September 2017.

5. Financial impact

- 5.1 There is no direct financial impact arising from the report's contents.

6. Risk, policy, compliance and governance impact

- 6.1 The Committee's remit includes the review of all matters relating to external audit of the Charitable Trusts.

7. Equalities impact

- 7.1 There is no direct equality- or rights-related impact arising from the report's contents.

8. Sustainability impact

- 8.1 There are no impacts on carbon, adaptation to climate change and sustainable development arising directly from this report.

9. Consultation and engagement

- 9.1 The Annual Report and Accounts were made available for public inspection from 3 July 2017 for a period of 15 working days in accordance with the provisions of Part VII of the Local Government (Scotland) Act 1973 and the Local Authority Accounts (Scotland) Regulations 2014. The Council received no requests for further information under these Regulations.

10. Background reading/external references

- 10.1 ['Boyd Anderson Trust'](#), Finance and Resources Committee, 14 January 2016
- 10.2 ['Charitable Trusts Reserves Policy'](#), Finance and Resources Committee, 17 March 2016
- 10.3 ['The City of Edinburgh Council Charitable Trusts – Report to those charged with Governance on the 2015/16 Audit'](#), Finance and Resources Committee, 29 September 2016

- 10.4 ['Winding Up of Usher Hall Charitable Trust'](#), Finance and Resources Committee, 23 February 2017
- 10.5 ['Guidance and good practice for Charity Trustees'](#), OSCR Website

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11. Appendices

Appendix 1 – The City of Edinburgh Council Charitable Trusts Audit Management Report for year ended 31 March 2017

Appendix 2 – Audited Trustee's Annual Report and Accounts 2016/17



Scott-Moncrieff
business advisers and accountants

The City of Edinburgh Council Charitable Trusts

Audit management report for the year ended
31 March 2017

September 2017

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Introduction

Introduction

1. International Standards on Auditing (UK & Ireland) 260, “Communication with those charged with governance” and 265 “Communicating deficiencies in internal control to those charged with governance” require Scott-Moncrieff to report to those charged with governance the significant findings from our audit.
2. This report aims to provide the trustees with constructive observations arising from the audit process. We set out in this report details of:
 - any expected modifications to our audit reports;
 - any unadjusted items in the financial statements (except any unadjusted items which are clearly trivial) including the effect of unadjusted items related to prior periods on the current period;
 - any material weaknesses in systems we have identified during the course of our audit work and our views about the quality of accounting practices and financial reporting procedures; and
 - any other relevant matters.
3. Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Our audit does not necessarily disclose every weakness and for this reason the matters referred to may not be the only shortcomings which exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We take this opportunity to remind you that:
 - This report has been prepared for the sole use of the trustees of The City of Edinburgh Council Charitable Trusts;
 - A copy of this report will be submitted to Audit Scotland; and
 - No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.
5. The report has been discussed and agreed with City of Edinburgh Council management.
6. We would like to thank council management and staff for their kind co-operation and assistance during our audit.

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Financial statements

Financial statements

Audit conclusion

7. In our opinion the financial statements of those charities listed below (collectively referred to as 'The City of Edinburgh Council Charitable Trust Funds') give a true and fair view and comply with the Charities Accounts (Scotland) Regulations 2006 (as amended), the Charities and Trustee Investment (Scotland) Act 2005, and all relevant accounting standards.

The City of Edinburgh Council Charitable Trust Funds

- Jean F. Watson (SC018971)
- Edinburgh Education Trust (SC042754)
- Nelson Halls Trust (SC018946)
- City of Edinburgh Council Charitable Funds (Boyd Anderson) (SC025067)
- Usher Hall Conservation Trust (SC030180)
- Lauriston Castle Trust (SC020737)
- The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945)

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8. We are pleased to report that our independent auditor's report to the trustees of The City of Edinburgh Council Charitable Trust Funds is unqualified. In our opinion, from information provided to us during the audit, no events or conditions appear to exist which cast doubt on the charitable trust funds' ability to continue as a going concern.
 9. Our audit opinion is based on approval of the financial statements and signing of the letter of

representation, a draft of which has been included as an appendix to this report. Within the letter of representation, the trustees have confirmed that there are no subsequent events that require amendment to the financial statements.

Basis of preparation

10. The financial statements have been prepared using the connected charities provisions under The Charities Accounts (Scotland) Regulations 2006. Regulation 7 (as amended in 2010) permits a single set of accounts for charities if they have common or related purposes, or shared management (i.e. connected charities). This would be the case where charities have common trustees. The City of Edinburgh Council acts as sole Trustee for these charitable trust funds.

Our assessment of risks of material misstatement

11. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on each set of financial statements is not modified with respect to any of the risks described in Exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Revenue recognition

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

Noted in 2016/17 External Audit Plan



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

2. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240.

Noted in 2016/17 External Audit Plan



13. We have not identified any indications of management override in the year. We have reviewed the charitable trust funds' accounting records, obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year-end.
14. During our review of the financial controls processes however, we did note a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. While our audit work did not identify any indications of management override, we recommend that a review process is put in place over the preparation and posting of journals to the ledger.

Action plan point 1

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

3. Lauriston Castle Trust external valuation

In 2014/15 Audit Scotland noted that the Lauriston collection had not been revalued since 1997. The Trust planned an external revaluation of the Trust assets in 2015/16 the results of which would be incorporated into the 2015/16 accounts.

An external revaluation of the collection commenced in January 2016 but the final results of that revaluation were not finalised until after the certification of the accounts on 29 September 2016.

There is a risk that the result of this valuation are incorrectly accounted for in the 2016/17 financial statements.

Noted in 2016/17 External Audit Plan



- 15. An external revaluation of the collection commenced in 2016 but has yet to be completed. The financial statements therefore reflect the valuation as at the previous reporting date (31 March 2016). The unaudited accounts presented for audit included a provisional figure for the revaluation of the Lauriston collection (gain of £1.012million). As the final figures for the revaluation of the collection are unavailable this has been reversed out of the audited financial statements.

Our application of materiality

- 16. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.
- 17. Our initial assessment of materiality for each Trust is set out in the following table. We revised our initial assessment, following receipt of the unaudited financial statements and they remained at these levels throughout our audit.
- 18. Our assessment of materiality is set with reference to a range of benchmarks (including incoming resources and any surplus/deficit on provision of services). We consider these to be the principal considerations for the users of the accounts when assessing the financial performance of the charitable trust funds.

	Initial materiality	Final materiality
Jean F. Watson	£108,670	£110,619
Edinburgh Education Trust	£15,140	£16,440
Nelson Halls Trust	£3,805	£3,988
Boyd Anderson	£2,125	£1,548
Usher Hall Conservation Trust	£1,255	£889
Lauriston Castle Trust	£123,210	£140,939
The Royal Scots Memorial Trust	£555	£564

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

Area risk assessment	Weighting
High	50%
Medium	60%
Low	75%

20. We noted within our External Audit Plan that we would report to trustees all audit differences in excess of 2% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the financial statements.

Audit differences

21. We identified one audit adjustment; the details of which are disclosed in appendix 2 and referred to in paragraph 15 (Lauriston Castle Trust external valuation).
22. We identified some presentational adjustments during our audit which are reflected in the final sets of financial statements.
23. Appendix 2 also details one audit difference we identified during the audit process which has not been adjusted for. We have agreed with council management that this amount is not material and therefore has not been incorporated into the financial statements.

An overview of the scope of our audit

24. The scope of our audit was detailed in our City of Edinburgh Council External Audit Plan, which was presented to the council's Governance, Risk and Best Value Committee in March 2017. The plan explained that we follow a risk-based

approach to audit planning that reflects our overall assessment of the relevant risks that apply to the charitable trust funds. 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.

25. 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.
26. Our standard audit approach is based on performing substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Accounting systems and internal controls

27. During the course of our audit of the financial statements, we examined the principal internal controls which the trustees have established to enable them to ensure, as far as possible, the accuracy and reliability of each of the charitable trust fund's accounting records and to safeguard the charitable trust fund's assets.
28. It should be noted that our audit was planned and performed in order to allow us to provide an opinion on the financial statements and it should not be relied upon to reveal all errors and weaknesses that may exist.
29. Our work identified two areas for improvement during our final audit (one of which is referred to at paragraph 14). We outline the issues identified and our recommendations at Appendix 4.

Action plan point 1 and 2

Fraud and irregularity

30. Responsibility for preventing and detecting fraud and other irregularities lies with the trustees of the charitable trust funds. We are not required to search specifically for such matters and our audit should not be relied upon to disclose them. However, we planned and conducted our audit so as to give a reasonable expectation of detecting any material

misstatements in the financial statements resulting from improprieties or breach of regulations.

31. We are pleased to report that we did not identify any issues of concern in relation to fraud and irregularity.

Legality

32. We planned and performed our audit recognising that non-compliance with statute or regulations may materially affect the financial statements.
33. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Going concern and subsequent events

34. We are required under International Standard on Auditing (UK & Ireland) 570, "Going Concern" to consider the appropriateness of the trustees' use of the going concern assumption in the preparation of the financial statements, and to consider whether there are material uncertainties about each charitable trust fund's ability to continue as a going concern which need to be disclosed in the financial statements.
35. The term "subsequent events" is used to refer to events occurring between the year-end date of the financial statements and the date of the auditor's report. International Standard on Auditing (UK & Ireland) 560, "Subsequent events" requires us to assess all such matters before signing our audit report.
36. In order to gain assurance on these matters our work has included (where applicable):
- reviewing bank facilities;
 - enquiring of senior management and the charitable trust fund's solicitors concerning litigation, claims and assessments; and
 - performing sample testing of post balance sheet transactions.
37. We confirm that there are no issues affecting each charitable trust fund's ability to continue as a going concern.
38. No subsequent events were identified requiring amendment to or disclosure in the financial statements.

39. In February 2017, the Finance and Resources Committee agreed that Usher Halls Trust would be wound-up after all of its funds are transferred to the Usher Hall to contribute to the purchase of a new Steinway grand piano. This is expected to happen in 2017/18 and OSCR will be notified.
40. In January 2016, the Finance and Resources Committee agreed that £64,000 of the Boyd Anderson Funds would be used to build a modular log cabin type classroom and storage space at Lagganlia. Construction works have not yet been completed and the monies have not been transferred. A proposal for the remaining funds will be presented to committee in 2017/18. Once these funds have been utilised and permission granted from the Trustees and OSCR, the Trust will be wound up.
41. These two matters have been disclosed in the Trustee's annual report.

Other matters identified during our audit

The Local Authority Accounts (Scotland) Regulations 2014

42. As part of our audit, we reviewed the charitable trust fund's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulation 9¹ as it relates to the financial statements. Overall, we concluded that appropriate arrangements were in place to comply with these Regulations (as they apply to charities).

Allianz Investment Funds

43. On 1 April 2016, the council was notified that two funds managed by Allianz Investment Managers, accounting for £1.432million of investments, were to be wound up. These funds were liquidated on 30 June 2016 and paid out on 6 July 2016, at which point the monies received from Allianz were deposited in a trusts bank account (a total value of £1.487million including an in-year realised investment gain of £54,702). The Acting Executive Director of Resources recommended that the funds, along with an additional £100,000 from the Edinburgh Education Trust,

¹ Regulation 9 relates to the notice of public right to inspect and object to the accounts.

were invested in the COIF Charities Investment Fund managed by CCLA.

Qualitative aspects of accounting practices and financial reporting

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

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the financial statements, and consider these to be appropriate to the charitable trust funds.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The Trustees do not consider there to be any accounting judgements required in preparing the financial statements.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the financial statements.	We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the financial statements (beyond the existing disclosures made).
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 in the financial statements.	From our testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the trustees' report or material inconsistencies with the financial statements.	There are no misstatement or material inconsistencies between the trustees' report and the financial statements.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

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Appendices

Appendix 1: Respective responsibilities of the trustees and the Auditor

Responsibility of the trustees

Under legislation relating to charities in Scotland, the trustees are required to prepare financial statements for each financial year which give a true and fair view of the state of the charity's affairs and of its incoming resources and application of resources, including its surplus or deficit for that year, and which have been properly prepared from and are in agreement with the accounting records of the Trust and comply with relevant disclosure requirements.

In preparing those financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Trust will continue its activities.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the Trust's financial position and enable them to ensure that the financial statements comply with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). The trustees also have general responsibility for taking such steps as are reasonably open to them to safeguard the Trust's assets and to prevent and detect fraud and other irregularities.

Responsibilities of the auditor

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 charitable trust funds covered by this report fall within the scope of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

The audit includes the consideration of internal controls relevant to the preparation of the financial statements but we do not express an opinion on the effectiveness of internal control. We are also required to communicate any significant matters arising from the audit of the financial statements that are relevant to those charged with governance in overseeing the financial reporting process.

The matters being reported are limited to those deficiencies in control that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to those charged with governance.

International Standards on Auditing (UK and Ireland) do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.

Independence

International Standard on Auditing (UK & Ireland) 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.

We can confirm that we have complied with the Financial Reporting Council's Ethical Standards for Auditors. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Appendix 2: Audit differences

Adjusted audit differences

We identified the following adjustment during the audit. We have discussed this adjustment with council management and agreed that it should be incorporated into the financial statements.

	Balance Sheet		Statement of Financial Activities		Recognised gains and losses per SOFA		
	Dr	Cr	Dr	Cr	Dr	Cr	
	£'000	£'000	£'000	£'000	£'000	£'000	
1	Gains on revaluation of fixed assets					1,012	
		Heritable property		1,012			

Being reversal of the revaluation of Lauriston Castle.

<i>Net impact on income/(expenditure) in year</i>	-
<i>Net impact on movement in funds in year</i>	(1,012)
<i>Charity Funds per unaudited accounts</i>	15,683
<i>Revised Charity Funds</i>	14,671

Unadjusted audit difference

We identified the following unadjusted audit difference during the audit. We agreed with council management that this amount is not material and therefore has not been incorporated into the financial statements.

	Balance Sheet		Statement of Financial Activities		Recognised gains and losses per SOFA		
	Dr	Cr	Dr	Cr	Dr	Cr	
	£	£	£	£	£	£	
1	Investment income						
				J F Watson	5,215		
				Nelson Halls Trust	1,170		
				Edinburgh Education Trust	4,400		
				Lauriston Castle Trust	233		
				The Royal Scots Memorial Trust	177		
		Investments		11,195			

Being overstatement of investment income (as accounted for a cash basis) in 2016/17. For noting amounts related to dividend income for 2015/16. The amounts to be accrued for 2016/17 have not been identified.

Appendix 3: List of entities key financials

The list of entities on which we have reported, and which are covered by this report are included in the table below. All financial statements were prepared on an accruals basis.

	2016/17 £'000	2015/16 £'000	Commentary
Jean F. Watson (SC018971)			
Income	47	27	To assist in the purchase of 'Moon', £9,500 was received from the National Fund for Acquisitions administered by the National Museums of Scotland and £5,000 was received from Friends of City Art Centre.
Expenditure	(6)	(3)	The prior year figure has been restated to reflect the purchase of 'Craggs at Dawn'. As a result, assets increased by £4,000 and expenditure decreased by the same amount.
Net gains/(losses) on investments	56	(45)	
Net income/(expenditure)	97	(21)	
Unrestricted funds	983	942	
Endowment funds	914	858	
Revaluation reserve	4,377	4,377	
Total funds	6,274	6,177	
Edinburgh Education Trust (SC042754)			
Income	30	21	Increase in dividend income received in comparison with the prior year.
Expenditure	(13)	(17)	The Trust funded £7,569 of activities for looked after children and £1,316 of school prizes. In comparison, in 2015/16 the Trust funded £11,021 of activities for looked after children and £1,688 of school prizes.
Net gains/(losses) on investments	50	(38)	
Net income/(expenditure)	67	(34)	

	2016/17 £'000	2015/16 £'000	Commentary
Unrestricted funds	43	126	During the year, £100,000 from the Edinburgh Education Trust, was invested in the COIF Charities Investment Fund managed by CCLA. £100,000 was transferred from unrestricted funds into the endowment funds.
Endowment funds	876	726	
Total funds	919	852	
Nelson Halls Trust (SC018946)			
Income	7	6	
Expenditure	(7)	(6)	
Net gains/(losses) on investments	13	(10)	
Net income/(expenditure)	13	(10)	
Unrestricted funds	3	2	
Endowment funds	224	212	
Total funds	227	214	
City of Edinburgh Council Charitable Funds (Boyd Anderson) (SC025067)			
Income	1	-	
Expenditure	(6)	(2)	
Net gains/(losses) on investments	-	-	
Net income/(expenditure)	(5)	(2)	

	2016/17 £'000	2015/16 £'000	Commentary
Unrestricted funds	113	118	In January 2016, the Finance and Resources Committee agreed that £64,000 would be used to build a modular log cabin type classroom and storage space at Lagganlia. Construction works have not yet been completed and the monies have not been transferred. A proposal for the remaining funds will be presented to Committee in 2017/28. Once these funds have been utilised and permission granted from the Trustees and OSCR, the Trust will be wound up.
Total funds	113	118	
Usher Hall Conservation Trust (SC030180)			
Income	-	-	
Expenditure	(3)	(2)	
Net gains/(losses) on investments	-	-	
Net income/(expenditure)	(3)	(2)	
Unrestricted funds	65	68	In February 2017, the Finance and Resources Committee agreed that the Trust would be wound-up after all of its funds are transferred to the Usher Hall to contribute to the purchase of a new Steinway grand piano. This is expected to happen in 2017/18 and OSCR will be notified.
Total funds	65	68	
Lauriston Castle Trust (SC020737)			
Income	1	1	
Expenditure	(1)	(1)	
Net gains/(losses) on investments	2	(2)	
Net income/(expenditure)	2	(2)	

	2016/17 £'000	2015/16 £'000	Commentary
Unrestricted funds	-	-	
Endowment funds	40	38	
Revaluation reserve	7,001	7,001	
Total funds	7,041	7,039	
The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945)			
Income	1	1	
Expenditure	(1)	(2)	
Net gains/(losses) on investments	2	(2)	
Net income/(expenditure)	2	(3)	
Unrestricted funds	1	2	
Endowment funds	31	28	
Total funds	32	30	

Appendix 4: Accounting systems and internal control

During the course of our audit of the financial statements, we examined the principal internal controls which the council has established to enable them to ensure, as far as possible, the accuracy and reliability of the charitable trust fund's accounting records and to safeguard its assets.

It should be noted that our audit was planned and performed in order to allow us to provide an opinion on the financial statements and it should not be relied upon to reveal all errors and weaknesses that may exist.

Action plan – audit recommendations

The weaknesses noted from our work are detailed in the action plan below.

		Number of audit observations
Grade	Definition	
5	Very high risk exposure – Major concerns requiring immediate attention	-
4	High risk exposure – Absence/failure of significant key controls	-
3	Moderate risk exposure – Not all key control procedures are working effectively	2
2	Limited risk exposure – Minor control procedures are not in place/not working effectively	-
1	Efficiency/housekeeping point	-

Recommendations from 2016/17

Action plan point	Issue & Recommendation	Management Comments
1. Authorisation of journals	Our review of the journals environment found that there was a lack of segregation of duties over the posting of journals. Journals are prepared and posted without any secondary review or authorisation.	<p>While a range of compensating controls mitigating any risk of monetary gain is already in place, arrangements to introduce proportionate additional independent review will be examined with a view to implementation as part of the 2017/18 accounts closure process</p> <p>Action owner: Charitable Trust Accountant, Finance</p> <p>Due Date: March 2018</p>
Rating	Journals can be used to override controls and create fraudulent errors therefore, it is essential appropriate controls are in place	
Grade 3	While our audit review in respect of the 2016/17 financial year did not identify any indications of management override we recommend that a review process is put in place for the preparation and posting of journals to the ledger.	
Paragraph ref		
14		

Action plan point	Issue & Recommendation	Management Comments
2. Accounting for dividend income	During our audit testing we noted that dividend income has been accounted for on a cash basis instead of an accruals basis.	<p>The Council will ensure that during preparation of the 2017/18 accounts, dividend income is accounted for on an accruals basis and will contact the Trusts' investment managers early in 2018 to ensure this information is available in a timely manner.</p> <p>Action owner: Charitable Trusts Accountant, Finance</p> <p>Due Date: March 2018</p>
Rating	Dividend income should be accounted for on an accruals basis.	
Grade 3		
Paragraph ref		
29		

Appendix 5: Management representation letter

LETTER OF REPRESENTATION: THE CITY OF EDINBURGH COUNCIL CHARITABLE TRUSTS

Dear Sirs

The City of Edinburgh Council Charitable Trusts

This representation letter is provided in connection with your audit of the financial statements of The City of Edinburgh Council Charitable Trusts for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with UK Generally Accepted Accounting Practice.

On behalf of the trustee of the charities, I am directed to confirm to you, in respect of the financial statements of the charitable trust funds for the year ended 31 March 2017, the following:-

Financial statements and accounting records

1. We have fulfilled our responsibilities under the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 for preparing financial statements which give a true and fair view in accordance with UK Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and for making accurate representations to you.
2. We have provided you with:
 - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
3. All transactions have been recorded in the accounting records and are reflected in the financial statements.
4. Except as disclosed in the financial statements, the results for the year were not materially affected by:
 - any change in accounting policies;
 - transactions of a type not usually undertaken by the charitable trust funds;
 - circumstances of an exceptional or non-recurrent nature; or
 - charges or credits relating to prior periods.
5. All grants, donations and other incoming resources, the receipt of which is subject to specific terms and conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.
6. All income has been recorded, all restricted endowment funds have been properly applied and all constructive obligations have been recognised.
7. We have reviewed going concern considerations and are satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this opinion we have taken into account all relevant matters of which we are aware and have considered a future period of at least one year from the date on which the financial statements are to be approved.

8. We have also considered the adequacy of the disclosures in the financial statements relating to going concern and are satisfied that sufficient disclosure has been made in the financial statements in order to give a true and fair view.
9. We confirm the financial statements are free of material misstatements, including omissions. We believe that the uncorrected audit difference identified during the audit is immaterial to the financial statements. This item is attached to this letter of representation, together with our reasons for not correcting for it.

Fraud

10. We acknowledge as trustees our responsibilities for the design and implementation of internal control in order to prevent and detect fraud and to prevent and detect error.
11. In our opinion, the risks that the financial statements may be materially misstated as a result of fraud are low for the following reason:
 - The Trust Accountant runs a general ledger transactions query report on an at-least monthly basis, promptly reviewing any unexpected items and instigating corrective action as appropriate. Given the relatively low level of transactions, these can be investigated on an individual basis.
12. We have disclosed to you all information in relation to fraud or suspected fraud of which we are aware and that affects the entity and involves:
 - management
 - employees who have significant roles in internal control
 - others where the fraud could have a material effect on the financial statements.
13. We are not aware of any allegations of fraud or suspected fraud with a potential effect on the financial statements which have been communicated to us by employees, former employees, regulators or other third parties.

Compliance with laws and regulation, and contractual agreements

14. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
15. The charitable trust funds have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Accounting estimates

16. In our opinion the significant assumptions used by us in making accounting estimates are reasonable.

Related parties

17. We have disclosed to you the identity of the charity's related parties and all related party relationships and transactions of which we are aware.
18. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of UK Generally Accepted Accounting Practice.
19. In particular, no trustee, shadow trustee, their connected persons or other officers had any indebtedness, agreement concerning indebtedness or disclosable interest in a transaction with the Trust at any time during the year.

Assets and liabilities

20. The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:
 - losses arising from sale and purchase commitments;
 - agreements and options to buy back assets previously sold;

- assets pledged as collateral.

21. We have disclosed to you all known actual or possible litigation or claims whose effects should be considered when preparing the financial statements and that they have been accounted for and disclosed in accordance with UK Generally Accepted Accounting Practice.
22. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
23. The Trust has satisfactory title to all assets and there are no liens or encumbrances on the charity's assets, other than as disclosed in the financial statements.
24. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and all guarantees that we have given to third parties.

Subsequent events

25. All events subsequent to the date of the financial statements and for which UK Generally Accepted Accounting Practice require adjustment or disclosure have been adjusted or disclosed. Should any material events occur which may necessitate revision of the figures included in the financial statements or inclusion in the notes thereto, we will advise you accordingly.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

.....

Signed on behalf of the trustee of the charities

On..... (date)

The above individual is signing this letter on behalf of the trustee of the charities confirming that:

- a) so far as each member of the Finance and Resources Committee is aware, there is no relevant audit information of which the charitable trust funds is unaware; and
- b) each member of the Finance and Resources Committee has taken all the steps that ought to have been taken, including making appropriate enquiries of fellow members and of the charitable trust funds for that purpose, in order to be aware of any information needed by the charitable trust funds' auditor in connection with preparing their report and to establish that the charitable trust funds' auditor is aware of that information.



Scott-Moncrieff
business advisers and accountants

**The City of Edinburgh Council Charitable Trusts
Audited Trustee's Annual Report and Accounts
for the year ended 31 March 2017**

Legal and Administrative Information

Trustee

The City of Edinburgh Council acts as sole trustee for the charities in this report. The delegated responsibility for charitable trusts was transferred from the Pensions and Trusts Committee to the Finance and Budget Committee as part of the review of governance arrangements under the Committee Terms of Reference and Delegated Functions approved by Council on 20 September 2012 (Section 6.6). The Finance and Budget Committee has since been renamed the Finance and Resources Committee and now has delegated responsibility from Council to act in the role of trustee of its charities. The individual members of the Committee are listed on page 6 of the Trustee Report.

In addition to the above a separate Committee exists to manage the Jean F. Watson Bequest Art Collection. The Committee on the Jean F. Watson Bequest has the following delegated authority: "With monies from the Jean F. Watson Bequest, to purchase and commission for the City's collection, works of artists and craftspeople born, practising in, or otherwise associated with Scotland, and in particular Edinburgh; all decisions to be guided by the Collection and Disposal Policy for the City Museums and Galleries."

Registered Office

The City of Edinburgh Council
City Chambers
High Street
Edinburgh
EH1 1YJ

Auditor

Scott-Moncrieff
Exchange Place 3
Sempie Street
Edinburgh
EH3 8BL

Bankers

Royal Bank of Scotland
36 St Andrew Square
Edinburgh
EH2 2AD

Investment Managers

CCLA Investment Management Ltd
Senator House
85 Queen Victoria Street
London
EC4V 4ET

M&G Charities
PO Box 9038
Chelmsford
CM99 2XF

Trustee's Audited Annual Report 2016/17

The trustee presents the Audited Annual Report and Accounts of the City of Edinburgh Council Charitable Trusts for the year ending 31 March 2017. The Annual Accounts have been prepared in accordance with the accounting policies set out in note 1 to the accounts and comply with the Charities Accounts (Scotland) Regulations 2006 and the principles of Accounting and Reporting by Charities: Statement of Recommended Practice effective 01/01/2015 (FRS 102), commonly referred to as the SORP.

Structure, Governance and Management

The charities that the Council administers are constituted in a variety of different ways. Details of how each charity was originally established are available from the Council.

The Trustee section on the previous page describes the Committees of the Council which are involved with administration. All committee members are elected Councillors. Members of the Finance and Resources Committee have been provided with copies of the OSCR guidance which explains the role and responsibilities of charity trustees. Risk management is covered as part of the Council's general risk management procedures.

All major decisions relating to the strategic operation of the Trusts are undertaken by the Finance and Resources Committee. There is also a dedicated Jean F. Watson Committee which meets to discuss the finances and make decisions on art acquisitions. The Children's Panel meets to approve funding for the Edinburgh Education Trust.

Reference and Administrative Details

At the year end the Council acted as sole trustee for a total of seven trusts which have charitable status and are registered with the Office of the Scottish Charity Regulator (OSCR). A list of all the charities can be found on page 3 of this report and in the accounts.

The Council administers these charities but their assets are not available to the Council and have not been included in the Council's balance sheet, or its wider Group balance sheet.

Responsibilities of the Trustee

Charity law requires charity trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and of the surplus or deficit of the charity for that period.

The Council, as the trustee, has overall responsibility for the following:

1. Ensuring that there are appropriate systems of controls, financial and otherwise.
2. Keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the charities and enable them to ensure that the financial statements comply with the Charities Accounts (Scotland) Regulations 2006 and the SORP.
3. Selecting suitable accounting policies and applying them consistently.
4. Making judgements and estimates that are reasonable and prudent.
5. Safeguarding the assets of the charities.
6. Taking reasonable steps for the prevention and detection of fraud and other irregularities.
7. Providing reasonable assurance that:
 - the charities are operating efficiently and effectively;
 - the charitable assets are safeguarded against unauthorised use or disposition;
 - proper records are maintained and financial information used by the charities is reliable;
 - the charities comply with relevant laws and regulations.

The systems of internal control are designed to provide reasonable, but not absolute assurance against material misstatement or loss. They include:

1. A strategic plan approved by the charity trustee;
2. Regular consideration by the charity trustee of financial results and non-financial performance indicators;
3. Delegation of authority and segregation of duties;
4. Identification and management of risks.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included in the council's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Exemptions From Disclosure

None.

Funds held as Custodian Trustee on Behalf of Others

None.

Trustee's Audited Annual Report 2016/17
Objectives and Activities

Details of the charitable purposes of the charities as at 31 March 2017 are as follows:

Official Name (Name Used in Accounts)	Scottish Charity Registration Number	Purpose	Market Value at 31/3/17 £'000
Jean Fletcher Watson (<i>Jean F. Watson</i>)	SC018971	The purchase of works of art by artists who have connections with the city	6,274
Edinburgh Education Trust (<i>Edinburgh Education Trust</i>)	SC042754	To fund activities to support Looked after Children and school prizes	919
Nelson Halls Trust (<i>Nelson Halls</i>)	SC018946	Maintenance of the four "Nelson Halls" in Edinburgh to provide reading rooms for the poor	227
City of Edinburgh Council Charitable Funds (<i>Boyd Anderson</i>)	SC025067	Provision of outdoor education and skiing opportunities	113
Usher Hall Conservation Trust (<i>Usher Hall</i>)	SC030180	Raise funds for the renovation of the Usher Hall	65
Lauriston Castle Trust (<i>Lauriston Castle</i>)	SC020737	To make the artefacts and buildings available to be viewed by the public	7,041
The Royal Scots (The Royal Regiment) Monument Trust Fund (<i>The Royal Scots Trust</i>)	SC018945	Maintenance of the Royal Scots Monument	32
Total			14,671

The Catherine Cowper Trust is not included in the accounts as it is not a registered charity.

The main activities undertaken in relation to the Trusts' purposes are outlined below;

Jean F. Watson purchased 'Moon' by Alison Watt during the financial year. An additional planned purchase will be progressed and finalised throughout the next financial year.

The Edinburgh Education Trust funded £7,569 of activities for looked after children (£11,021 2015/16) and £1,316 of school prizes (£1,668 2015/16). An improved process has been introduced to ensure that this funding is allocated to the recipients in a more timely and direct manner than had been the case previously.

The Nelson Halls are open to the public as part of the libraries and community centres they are attached to.

At the January 2016 Finance and Resources Committee, it was agreed that £64,000 of the Boyd Anderson funds would be used to build a modular log cabin type classroom and storage space at Lagganlia. Construction works have not yet been completed at Lagganlia, therefore these monies have not yet been transferred. A proposal for the remaining £49,434 will be made to Committee in 2017/18. Once these funds have been utilised and permission granted from the Trustees and OSCR, the Trust will be wound up.

At the February 2017 Finance and Resources Committee, it was agreed that the Usher Hall Conservation Trust would be wound-up after all of its funds were transferred to the Usher Hall to contribute to the purchase of a new Steinway grand piano. This will happen in early 2017/18 and OSCR will be notified.

The Lauriston Castle is open to the public with the interest received in 2016/17 used to cover some of the running costs.

For The Royal Scots Trust, the interest received in 2016/17 was used to cover some of the running costs.

Achievements and Performance

To assist Jean F. Watson in the purchase of 'Moon', £9,500 was received from the National Fund for Acquisitions administered by the National Museums of Scotland and £5,000 was received from Friends of City Art Centre.

There was £4,185 of expenditure incurred across five of the Trusts in 2016/17 for investment advice with the intention of improving investment returns in future periods. (£nil 2015/16)

Trustee's Audited Annual Report 2016/17 Achievements and Performance - continued

Financial Investments Performance

Performance information for 12 months to 1 November 2016 by Charibond Charities Fixed Interest Common Investment Fund was a total return (capital performance with gross income reinvested) of 9.3% compared to the FTSE British Government All Stocks Index - a broad index of UK government bonds which does not include corporate bonds - which returned 9.1% over the same period. Charibond's gross redemption yield after expenses on 1 November 2016 was 1.8% compared with the gross redemption yield of 1.3% on 10-year UK government bonds (gilts). However, if recent low interest rates were to be sustained, the distribution will be cut again in 2017.

The Allianz Global Investors managed Chariguard UK Equity Fund and the Chariguard Overseas Equity Fund were wound up with the funds liquidated as at 30 June 2016 and these paid out on 4 July 2016, with a total value of £1,487,394 and an in-year realised investment gain of £54,702.

Arlingclose were requested to undertake an investment options report. This report considered factors such as; past capital and income return, size of fund, investment approach and objectives, ethical considerations and annual charges.

It was recommended to, and approved by, the Acting Executive Director of Resources that the £1,487,394 paid out by Allianz, as well as an additional £100,000 from the Edinburgh Education Trust, were invested in the COIF Charities Investment Fund managed by CCLA.

The longer term total return performance (gross) for the 12 months to end March is outlined in the table below;

	2017	2016	2015	2014	2013
Fund	+20%	+0.4%	+14.7%	+7.2%	+18.5%
Comparator	+20.4%	-1.5%	+11.1%	+8.1%	+13.7%

The COIF Charities Investment Fund is split 50.4% in overseas equities, 26.2% in UK equities, 20.2% in Property/Other Assets, 0.3% in Fixed Interest and 2.9% in Cash as at 31 March 2017. The overseas equities split are split as follows: - North America 29.3%, Europe 12.8%, Japan 4.3%, Pacific Ex. Japan 3.3%, Other Americas 0.7%.

Asset allocation was helpful to performance, in particular the exposure to international equities. The contribution from stock selection, however, was mixed, boosted by a low weighting to energy but held back by low returns from the health sector.

Financial Review

The financial statements present the financial position of the trusts for the year ended 31 March 2017. This section describes briefly the key points of each statement. Financial statements and notes have been rounded to the nearest thousand. All of the unrestricted funds of the charities are general and not designated.

The Statement of Financial Activities shows the total income to be £87,000 in 2016/17. (2015/16 £56,000). This increase in income compared to the previous year is due to the well timed investment in the COIF Charities Investment Fund, which saw additional dividend income received in the year and a further £100,000 being invested by Edinburgh Education Trust. The £14,500 of grant income received for purchasing art, resulted in a significant boost in income.

The expenditure in the year is higher than last year at £37,000 compared to £33,000. This movement is primarily a result of governance costs being £2,000 higher in 2016/17 as a result of the net impact of investment advice of £4,185 being charged directly to the Trusts and the central support costs being slightly lower than in the previous year. An analysis of expenditure is detailed in Notes 3, 4 and 5 with the values against Nelson Halls, Lauriston Castle and The Royal Scots Trusts being allocated to the maintenance of the assets.

The Balance Sheet Statement shows the fixed asset investments have increased from £1.843m to £2.066m. Movements on the valuation of the investments are further analysed in note 8, 16 and 17.

Trustee's Audited Annual Report 2016/17

Financial Review - continued

Fixed asset properties and collections have been included in the accounts at their most recent valuations. The £87,000 decrease in cash is further analysed in the Cash Flow Statement (£7,000 increase in 2015/16). The detail of the breakdown of the £23,000 owed by each Trust as at 31 March 2017 is included within Note 17 of the Accounts with the year on year comparative included in Note 10 and additional detail on who is owed monies provided in Note 12.

Reserves Policy

The Charitable Trusts should follow the prevailing general principle that the "Capital" of the funds is held effectively as a permanent endowment, with only the annual income available for disbursement in the year. If the Trustee requires to use "Capital" balances, Finance and Resources Committee approval would be required on a case by case basis. This policy was approved at the 17 March 2016 Finance and Resources Committee.

The annual income for Jean F. Watson averages around £25,000. This income can be used to purchase additional artwork, preserve existing artwork or to pay for any expenses of administering the Trust. Any unused income in the year remains within the Trusts bank account. The Trust has total funds of £6,274,000, consisting of £914,000 in Investments, £5,275,000 in Fixed Assets, £89,000 in Cash less Creditors of £4,000.

The annual income for the Edinburgh Education Trust averages around £20,000. This income is used for the advancement of education, academic and physical, formal and informal, to include the giving of bursaries and prizes as well as assistance for residents who find themselves in a state of financial hardship within the City of Edinburgh District or to pay for any expenses of administering the Trust. Any unused income in the year remains within the Trusts bank account. The Trust has total funds of £919,000, consisting of £876,000 in Investments, £45,000 in Cash less Creditors of £2,000.

The annual income for Nelson Halls averages around £5,000. This income should be used in full towards costs incurred by the City of Edinburgh Council for the maintenance of the Halls. The Trust has total funds of £227,000, consisting of £205,000 in Investments, £19,000 in Heritable Assets, £10,000 in Cash less Creditors of £7,000.

No reserves policy has been created for Boyd Anderson as the existing funds have been agreed to be disbursed as per the report to Finance and Resources Committee on 14 January 2016.

The annual income for Usher Hall averages around £250. This income is used towards costs incurred by the City of Edinburgh Council for the maintenance of the Usher Hall. On 23 February 2017, the Finance and Resources Committee agreed to transfer £68,000 less the annual governance costs (including Audit fee) to assist in covering the cost of the new grand piano. The Trust has total funds of £65,000, consisting of £68,000 in Cash less Creditors of £3,000.

The annual income for the Lauriston Castle averages around £1,000. This income is used in full to cover costs incurred by the City of Edinburgh Council for the maintenance of the Castle. The Trust has total funds of £7,041,000, consisting of £7,001,000 in Heritable Assets, £40,000 in Investments, £1,000 in Cash less Creditors of £1,000.

The annual income for The Royal Scots Trust averages around £800. This income is used in full to cover costs incurred by the City of Edinburgh Council for the maintenance of the Monument. The Trust has total funds of £32,000, consisting of £31,000 in Investments and £2,000 In Cash less Creditors of £1,000.

The Heritable Assets and the Investments stated above are endowment funds and are therefore not available for general purposes. An analysis of Heritable Assets is included within Note 7 to the Accounts.

Trustee's Audited Annual Report 2016/17

Financial Review - continued

Plans for Future Period

The strategy to radically restructure the trusts by a combination of: transfers to suitable external charities; consolidation; and expenditure of capital is almost complete. Future plans include the full disbursement of the remaining funds of the Boyd Anderson Trust and the official winding up of Usher Hall Conservation Trust in the 2017/18 financial year, which will leave five Trusts remaining.

Since the end of the 2015/16 financial year the Trusts have improved processes regarding the transfer of funds and this should be continued in 2017/18 to ensure individuals are aware of the money available to them and that this is transferred promptly. Forecasting will be carried out by finance staff in 2017/18 to ensure that they are also aware of the likely money available in 2018/19 to enable longer-term planning.

Signed on behalf of the trustee of the charities:

Councillor Alasdair Rankin

Convener of the Finance and Resources Committee

Date:

The other members of the Finance and Resources Committee as at 31 March 2017 are outlined below;

Councillor Bill Cook (*Vice Convener*)
Councillor Gavin Corbett
Councillor Denis Dixon
Councillor Paul Edie
Councillor Paul Godzik
Councillor Joan Griffiths
Councillor Bill Henderson
Councillor Ricky Henderson
Councillor Allan Jackson
Councillor Adam McVey
Councillor David Walker
Councillor Iain Whyte

Members of the Jean F. Watson Committee as at 31 March 2017 are outlined below;

Councillor Lewis (*Convener*)
Councillor Fullerton
Councillor Aitken
Councillor Keil
Councillor Paterson
Councillor Redpath

The other members of the Finance and Resources Committee as at 28 September 2017 are outlined below;

Councillor Marion Donaldson (*Vice Convener*)
Councillor Claire Bridgman
Councillor Gavin Corbett
Councillor Derek Howie
Councillor Graham Hutchison
Councillor Andrew Johnston
Councillor Claire Miller
Councillor Neil Ross
Councillor Mandy Watt
Councillor Iain Whyte

Members of the Jean F. Watson Committee as at 28 September 2017 are outlined below;

Councillor Fullerton (*Convener*)
Councillor Aldridge
Councillor Donaldson
Councillor Doran
Councillor McNeese-Mechan
Councillor Mitchell
Councillor Mowat
Councillor Rae

The City of Edinburgh Council Charitable Trusts
Statement of Financial Activities
For the year ended 31 March 2017

	Note	2016/17			Re-stated 2015/16		
		Unrestricted funds	Endowment funds	Total funds	Unrestricted funds	Endowment funds	Total funds
		£'000	£'000	£'000	£'000	£'000	£'000
Income and Endowments from:							
<i>Charitable activities</i>	2	14	-	14	2	-	2
<i>Investments</i>	2	73	-	73	54	-	54
Total		<u>87</u>	<u>-</u>	<u>87</u>	<u>56</u>	<u>-</u>	<u>56</u>
Expenditure on:							
<i>Raising Funds</i>	3	(4)	-	(4)	-	-	-
<i>Charitable activities</i>	4, 5	(33)	-	(33)	(33)	-	(33)
Total		<u>(37)</u>	<u>-</u>	<u>(37)</u>	<u>(33)</u>	<u>-</u>	<u>(33)</u>
<i>Net gains / (losses) on investments</i>	16	-	123	123	-	(97)	(97)
Total		<u>-</u>	<u>123</u>	<u>123</u>	<u>-</u>	<u>(97)</u>	<u>(97)</u>
Net income / (expenditure)		<u>50</u>	<u>123</u>	<u>173</u>	<u>23</u>	<u>(97)</u>	<u>(74)</u>
Transfers between funds		<u>(100)</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net movement in funds		<u>(50)</u>	<u>223</u>	<u>173</u>	<u>23</u>	<u>(97)</u>	<u>(74)</u>
Reconciliation of funds							
<i>Capital as 1 April</i>		1,250	1,637	2,887	1,227	1,734	2,961
<i>Revaluation Reserve</i>		4,377	7,001	11,378	4,377	7,001	11,378
<i>Market Value Adjustment</i>		8	225	233	8	225	233
<i>Total funds brought forward</i>		<u>5,635</u>	<u>8,863</u>	<u>14,498</u>	<u>5,612</u>	<u>8,960</u>	<u>14,572</u>
Total funds carried forward	17	<u>5,585</u>	<u>9,086</u>	<u>14,671</u>	<u>5,635</u>	<u>8,863</u>	<u>14,498</u>

The City of Edinburgh Council Charitable Trusts
Balance Sheet
As at 31 March 2017

		2016/17			Re-stated 2015/16		
	Note	Unrestricted funds	Endowment funds	Total funds	Unrestricted funds	Endowment funds	Total funds
		£'000	£'000	£'000	£'000	£'000	£'000
Fixed Assets:							
<i>Jean F. Watson Collection</i>	6	5,275	-	5,275	5,236	-	5,236
<i>Heritable Property</i>	7	-	7,020	7,020	-	7,020	7,020
<i>Investments</i>	8	-	2,066	2,066	-	1,843	1,843
Total fixed assets		5,275	9,086	14,361	5,236	8,863	14,099
Current Assets:							
<i>Cash at Bank</i>	9	333	-	333	420	-	420
Total current assets		333	-	333	420	-	420
Liabilities:							
<i>Creditors due within one year</i>	10, 12	(23)	-	(23)	(21)	-	(21)
Total Liabilities		(23)	-	(23)	(21)	-	(21)
Net Current Assets		310	-	310	399	-	399
Total Net Assets		5,585	9,086	14,671	5,635	8,863	14,498
The funds of the charity:							
<i>Unrestricted Funds</i>	17	1,208	-	1,208	1,258	-	1,258
<i>Endowment Funds</i>	17	-	2,085	2,085	-	1,862	1,862
<i>Revaluation Reserve</i>	17	4,377	7,001	11,378	4,377	7,001	11,378
Total Charity Funds		5,585	9,086	14,671	5,635	8,863	14,498

The unaudited accounts were issued on 22 June 2017. The audited accounts were authorised for issue on 28 September 2017. I can confirm that these Annual Report and Accounts were approved for signature by the Finance and Resources Committee at its meeting on 28 September 2017.

Signed on behalf of the charity trustee:

Councillor Alasdair Rankin
Convener of the Finance and Resources Committee

Date:

The City of Edinburgh Council Charitable Trusts
Cash Flow Statement
As at 31 March 2017

	31 March 2017	31 March 2016
	£'000	£'000
Operating Activities		
<i>Dividend Income and Interest received (Note 2)</i>	(72)	(54)
<i>Grant Income for Purchase of Art</i>	(14)	-
Cash inflows generated from operating activities	<u>(86)</u>	<u>(54)</u>
<i>Cash paid for Investment Advice (Note 3)</i>	4	-
<i>Cash paid to Schools and Pupils (Note 4)</i>	9	13
<i>Cash paid for Purchase of Art (Note 6)</i>	39	4
<i>Cash paid to the Council</i>	21	30
Cash outflows generated from operating activities	<u>73</u>	<u>47</u>
Net cash flows from operating activities	<u>(13)</u>	<u>(7)</u>
Investing Activities		
<i>Additional Investment into COIF Charities Investment Fund</i>	100	-
Net cash flows from investing activities	<u>100</u>	<u>-</u>
Net cash flows from financing activities	<u>-</u>	<u>-</u>
Net (increase) / decrease in cash and cash equivalents	<u>87</u>	<u>(7)</u>
	April 2016	April 2015
<i>Cash and cash equivalents (Note 9)</i>	420	413
	March 2017	March 2016
<i>Cash and cash equivalents (Note 9)</i>	<u>333</u>	<u>420</u>
Net (increase) / decrease in cash and cash equivalents	<u>87</u>	<u>(7)</u>

The City of Edinburgh Council Charitable Trusts
Notes to the accounts
For the year ended 31 March 2017

1 Accounting policies

a) Basis of preparation

The 2016/17 financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) - (Charities SORP (FRS 102) and the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

These financial statements have been prepared on the basis that the Trusts for which the City of Edinburgh Council acts as sole Trustee are connected charities. As such, the accounts for the individual charities have been prepared on a collective basis. These financial statements contain all the relevant information that the individual charity accounts would have contained if they had been prepared on an individual basis. These Trusts meet the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy note(s).

These financial statements are presented in pounds sterling (GBP) as that is the currency in which the charitable trust funds' transactions are denominated.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires trustees to exercise their judgement in the process of applying the accounting policies. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates.

b) Fund accounting

Unrestricted funds are general funds that are available for use at the trustee's discretion in the furtherance of any of the objectives of the charities.

Almost all of the charities have an endowment fund consisting of invested capital and any heritable property. Endowment funds are held on trust to be retained for the benefit of the charity as a capital fund. The income arising from the investments is available for the purposes of each charity and is added to the relevant unrestricted fund. In most cases the trustee has discretion to expend endowment funds should the need arise.

c) Investment income

Investment income is accounted for in the period in which the charity is entitled to receive it and the amount can be measured with reasonable certainty.

d) Grant income

Revenue grants, including those from government, are recognised in the Statement of Financial Activities (SoFA) in the period in which the charitable trust is entitled to receipt and the amount can be measured with reasonable certainty. Such income is deferred when the charitable trust has to fulfil conditions before becoming entitled to it.

e) Expenditure

Expenditure is included in the financial statements on an accruals basis.

f) Heritable property and depreciation

Heritable properties are stated in the accounts at a revalued amount where this is available. Where this is not available historic cost has been used, this is the case for the Nelson Halls. Depreciation is not currently provided for heritable property.

The City of Edinburgh Council Charitable Trusts
Notes to the accounts
For the year ended 31 March 2017

1 Accounting policies - continued

g) Heritable assets and depreciation

Heritage assets are deemed to have indeterminate lives and a high residual value; hence it is not considered appropriate to charge depreciation. The type of assets includes collections of: paintings, ceramics, textiles, silverware, clocks and books. The valuations used for these assets are based on values for insurance purposes.

h) Investments

Investments are included at market value at the balance sheet date in accordance with the principles of the SORP. Any gain or loss on revaluation is shown on the Statement of Financial Activities.

i) Reserves policy

The endowment fund is maintained for the charity as a capital fund. The amount of income generated by investments is available for expenditure on charitable purposes. The Finance and Resources Committee agreed the current Reserves Policy on 17 March 2016.

j) Creditors

Creditors are obligations to pay for goods or services that have been acquired. They are recognised at the undiscounted amount owed to the supplier, which is normally the invoice price.

k) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and are measured at fair value.

l) Financial assets and financial liabilities

Financial instruments are recognised in the statements of financial activities when the charitable trust becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price unless the arrangement constitutes a financing transaction which includes transaction costs for financial instruments not subsequently measured at fair value. Subsequent to initial recognition, they are accounted for as set out below. A financing transaction is measured at the present value of the future payments discounted at the market rate of interest for similar debt instrument.

Financial instruments are classified as either 'basic' or 'other' in accordance with Chapter 11 of FRS102. At the end of each reporting period, basic financial instruments are measured at amortised cost using the effective rate method. All financial instruments not classified as basic are measured at fair value at the end of the reporting period with the resulting changes recognised in income or expenditure. Where the fair value cannot be reliably measured, they are recognised at cost less impairment.

Financial assets are derecognised when the contractual rights to the cash flows from asset to expire, or when the charitable company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

m) Critical judgements and estimates

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the charitable trust funds' accounting policies.

The trustees do not consider there to be any accounting judgements required in preparing these accounts. The trustees are satisfied that accounting policies are appropriate and applied consistently.

The City of Edinburgh Council Charitable Trusts
Notes to the accounts
For the year ended 31 March 2017

2 Analysis of Income	2016/17	2015/16	
	£'000	£'000	
<i>Dividend income</i>	72	53	
<i>Bank interest received</i>	1	1	
<i>Jean F. Watson grant received for purchase of art</i>	14	2	
Total Income	<u>87</u>	<u>56</u>	
3 Analysis of Expenditure on Raising Funds	2016/17	2015/16	
	£'000	£'000	
<i>Jean F. Watson - Investment Management Costs</i>	(2)	-	
<i>Edinburgh Education Trust - Investment Management Costs</i>	(2)	-	
Total Expenditure on Raising Funds	<u>(4)</u>	<u>-</u>	
4 Analysis of Expenditure on Charitable Activities	2016/17	Re-stated 2015/16	
	£'000	£'000	
<i>Edinburgh Education Trust - Grants to Individuals</i>	(8)	(11)	
<i>Edinburgh Education Trust - Grants to Schools</i>	(1)	(2)	
<i>Lauriston Castle - Maintenance of Assets</i>	(1)	(1)	
<i>Nelson Halls - Maintenance of Assets</i>	(7)	(5)	
<i>The Royal Scots Trusts - Maintenance of Assets</i>	(1)	(1)	
	<u>(18)</u>	<u>(20)</u>	
<i>Allocation of support costs</i>	(15)	(13)	
Total Expenditure on Charitable Activities	<u>(33)</u>	<u>(33)</u>	
5 Analysis of Support Costs	Governance	Finance	Total
<i>Edinburgh Education Trust</i>	(1)	(1)	(2)
<i>Boyd Anderson</i>	(3)	(3)	(6)
<i>Jean F. Watson</i>	(2)	(2)	(4)
<i>Usher Hall</i>	(2)	(1)	(3)
Total Support Costs	<u>(8)</u>	<u>(7)</u>	<u>(15)</u>

The basis of allocation for the governance and the finance support costs was the cash held at bank at the time of allocation.

No trustee received any remuneration or expenses during year ending 31 March 2017. There are no employees of the City of Edinburgh Council Charitable Trusts.

The City of Edinburgh Council Charitable Trusts
Notes to the accounts
For the year ended 31 March 2017

	2016/17	Re-stated 2015/16
	£'000	£'000
6 Jean F. Watson Collection		
<i>Balance brought forward at 1 April</i>	5,236	5,232
<i>Purchases during the year</i>	39	4
Balance carried forward at 31 March	<u>5,275</u>	<u>5,236</u>

In 1961 an agreement was signed by Miss Jean F. Watson and the Corporation of the City of Edinburgh which set up a fund to purchase works of art in memory of Miss Watson's parents. The Trust acquires works of art for public viewing in Edinburgh by artists who have connections with the city. The agreement allows for existing items in the collection to be sold and the proceeds used to purchase other works of art. The two purchases in the table above are the only purchases in the last five financial years and there have been no disposals. These are classified as heritage assets.

	2016/17	2015/16
	£'000	£'000
7 Analysis of Heritable Property		
<i>Nelson Halls</i>	19	19
<i>Lauriston Castle</i>	7,001	7,001
Total Heritable Property	<u>7,020</u>	<u>7,020</u>

The Lauriston Castle valuation includes £5m based on full inventory evaluation of the collection. An external revaluation of the collection commenced in 2015/16 but the final figures were still unavailable for inclusion in the 2016/17 Trustee's Annual Report and Accounts. The previous valuation of the Lauriston Castle was carried out in 1997 by Sotheby's, with the last full inventory evaluation of contents dating back to 1978.

The Nelson Halls properties have not been valued for the purposes of these accounts and are stated at cost. These buildings are now often incorporated into the fabric of existing buildings and are therefore difficult to revalue.

Additional information on heritable property can be found in the Trustee's Annual Report but there have been no acquisitions or disposals in the past five financial years, except for those mentioned for Jean F. Watson in Note 6 above.

8 Analysis of Investments	At 31/3/16	Realised Investments	Purchases at cost	Net Gain on revaluation	At 31/3/17
	£'000	£'000	£'000	£'000	£'000
<i>Edinburgh Education Trust</i>	725	(29)	(100)	(22)	876
<i>Jean F. Watson</i>	858	(30)	-	(26)	914
<i>Lauriston Castle</i>	38	(1)	-	(1)	40
<i>Nelson Halls</i>	193	(7)	-	(5)	205
<i>The Royal Scots Trust</i>	29	(1)	-	(1)	31
					-
Total Investments	<u>1,843</u>	<u>(68)</u>	<u>(100)</u>	<u>(55)</u>	<u>2,066</u>

The City of Edinburgh Council Charitable Trusts
Notes to the accounts
For the year ended 31 March 2017

9 Analysis of Cash and Cash Equivalents	2016/17	2015/16
	£'000	£'000
<i>Edinburgh Education Trust</i>	45	131
<i>Boyd Anderson</i>	118	120
<i>Jean F. Watson</i>	89	84
<i>Lauriston Castle</i>	1	4
<i>Nelson Halls</i>	10	8
<i>The Royal Scots Trust</i>	2	2
<i>Usher Hall</i>	68	71
Total Cash at Bank	<u>333</u>	<u>420</u>

10 Analysis of Creditors Due Within One Year	Unrestricted funds	Endowment funds	2016/17 Total	2015/16 Total
	£'000	£'000	£'000	£'000
<i>Amounts due to the Council</i>	(23)	-	(23)	(21)
Total Liabilities	<u>(23)</u>	<u>-</u>	<u>(23)</u>	<u>(21)</u>

Detail of the amounts due per Trust is available in Note 17.

11 Analysis of Financial Assets and Liabilities	2016/17	2015/16
	£'000	£'000
<i>Financial assets measured at amortised cost</i>	333	420
<i>Financial liabilities measured at amortised cost</i>	(23)	(21)
<i>Financial assets measured at market value</i>	2,066	1,843
Total Financial Assets and Liabilities	<u>2,376</u>	<u>2,242</u>

12 Related Party Transactions

During the year the City of Edinburgh Council made payments on behalf of the Charitable Trusts. At the end of the year £15,996 was owed to the Council by the Trusts (2015-16 £21,422) and £7,500 owed to Scott Moncrieff for the 2016/17 Audit. Detail of the amounts due per Trust is available in Note 17.

13 Prior Year Adjustment

The purchase of 'Craggs at Dawn' by Jean F. Watson has been reflected as an increase in fixed assets, which has increased assets by £4,000 and decreased expenditure by £4,000 in 2015/16.

14 Post Balance Sheet Event

Events after the balance sheet date

There have been no events since 31 March 2017, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

15 Audit Fee

The fee payable to Scott-Moncrieff in respect of the audit services for the Council's Charitable Trusts is £7,500 for 2016/17. (2015/16 £4,250 to Audit Scotland) This fee was included in the overall governance costs and allocated proportionately to each individual Trust.

The City of Edinburgh Council Charitable Trusts

Notes to the accounts

For the year ended 31 March 2017

16 Trusts at Market Value - Year Ended 31 March 2017

Charity Name	SC Number	Re-stated	Income in year	Expenditure in year	Gains on investments	Funds carried forward	Re-stated
		Funds brought forward					2015/16 Market Value
		£'000	£'000	£'000	£'000	£'000	£'000
Edinburgh Education Trust	SC042754	852	30	(13)	50	919	852
Boyd Anderson	SC025067	118	1	(6)	-	113	118
Jean F. Watson	SC018971	6,177	47	(6)	56	6,274	6,177
Lauriston Castle	SC020737	7,039	1	(1)	2	7,041	7,039
Nelson Halls	SC018946	214	7	(7)	13	227	214
The Royal Scots Trust	SC018945	30	1	(1)	2	32	30
Usher Hall	SC030180	68	-	(3)	-	65	68
Total Funds		14,498	87	(37)	123	14,671	14,498

The City of Edinburgh Council Charitable Trusts
Notes to the accounts
For the year ended 31 March 2017

17 Trusts at Market Value - Year Ended 31 March 2017

Charity Name	SC Number	Revaluation Reserve								2016/17 Market Value	Re-stated 2015/16 Market Value
		Unrestricted Funds				Endowment Funds					
		Cash at Bank	Amounts owed	Jean F. Watson Collection	Jean F. Watson Collection	Heritable Property	Heritable Property incl. Lauriston Castle	Investments	Investments Market Value Adjustment		
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
Edinburgh Education Trust	SC042754	45	(2)	-	-	-	-	844	32	919	852
Boyd Anderson	SC025067	118	(5)	-	-	-	-	-	-	113	118
Jean F. Watson	SC018971	89	(4)	898	4,377	-	-	881	33	6,274	6,177
Lauriston Castle	SC020737	1	(1)	-	-	7,001	-	39	1	7,041	7,039
Nelson Halls	SC018946	10	(7)	-	-	-	19	198	7	227	214
The Royal Scots Trust	SC018945	2	(1)	-	-	-	-	30	1	32	30
Usher Hall	SC030180	68	(3)	-	-	-	-	-	-	65	68
Total Funds		333	(23)	898	4,377	7,001	19	1,992	74	14,671	14,498