

Governance, Risk and Best Value Committee

10.00am, Thursday, 9 March 2017

City of Edinburgh Council: External Audit Plan 2016/17

Item number	7.7
Report number	
Executive/routine	
Wards	

Executive Summary

In October 2016, Scott-Moncrieff assumed the role of external auditor to the Council and a number of associated bodies for a five-year term covering the period from 2016/17 to 2020/21 inclusive. A number of introductory meetings with senior officials have now been held, informing the development of a draft 2016/17 audit plan for the Council and its charitable trusts.

Links

Coalition Pledges	P30
Council Priorities	CP13
Single Outcome Agreement	SO1 , SO2 , SO3 , SO4

City of Edinburgh Council: External Audit Plan 2016/17

1. Recommendations

- 1.1 Members of the Governance, Risk and Best Value Committee are asked to note:
- 1.1.1 the contents of the External Audit Plan for 2016/17; and
 - 1.1.2 that periodic updates on the work set out therein will be provided to the Committee.

2. Background

- 2.1 In October 2016, Scott-Moncrieff assumed the role of external auditor to the Council and a number of associated bodies for a five-year term covering the period from 2016/17 to 2020/21 inclusive. A number of introductory meetings with senior officials have now been held, identifying key systems and associated personnel, as well as internal and external environmental factors influencing the Council and its wider risk environment.
- 2.2 A timetable of activities and associated outputs has been developed, the first of which is development by March 2017 of the external audit plan for financial year 2016/17, included as Appendix 1. Staff from Scott-Moncrieff will attend the Committee meeting to provide an overview of the plan's contents and respond to any queries members may have.

3. Main report

- 3.1 The plan comprises sections setting out the responsibilities of Scott-Moncrieff as independent auditor, the proposed audit strategy and more technical commentary on the detailed audit work to be undertaken, before presenting key areas for consideration as part of the "wider scope audit". The wider scope audit reflects a revised approach to auditing Best Value, agreed by the Accounts Commission in June 2016, and will be adopted across the term of the appointment through a combination of on-going annual audit work and discrete packages of work examining specific areas. The key findings of this work will be reported through both the annual audit and a Best Value Assurance Report issued for each council

considered by the Accounts Commission at least once during the five-year appointment period.

- 3.2 The wider scope audit considers four key dimensions, namely:
- **Financial sustainability** – considering whether the audited body is planning effectively to allow it to continue to fulfil its functions in an affordable and sustainable manner;
 - **Financial management** – assessing financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively;
 - **Governance and transparency** – considering the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information; and
 - **Value for money** – using resources effectively and continually improving services.
- 3.3 Further details of the specific approach to be adopted to assess the Council's activities in each of these areas is included on pages 17 to 21 of the plan.
- 3.4 For 2016/17, in addition to the core audit of the financial statements, audit work will focus on the Council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The Governance, Risk and Best Value Committee considered the Council's own self-assessment against these areas as part of the annual review of its corporate governance framework in August 2016, with the positive overall evaluation reflected in both the Council's Annual Audit Report and Scott-Moncrieff's initial assessment.
- 3.5 The Accounts Commission has also agreed five strategic priorities that will guide 2016/17's work, these being:
- The clarity of a council's priorities and quality of long-term planning to achieve these priorities;
 - How effectively a council is evaluating and implementing options for significant changes in delivering services;
 - How effectively a council is ensuring members and officers have the right knowledge, skills and time to lead and manage delivery of its priorities;
 - How effectively a council is involving citizens in decisions about services; and
 - The quality of a council's public performance reporting regime to help citizens gauge improvement.
- 3.6 Performance and progress in each of these areas will be assessed as appropriate as part of the wider scope audit.
- 3.7 The penultimate section of the report provides an indicative timeline of key activities and audit outputs (culminating in the issuing of an opinion on the audited financial statements by 30 September 2017), along with the proposed fee for the Council's audit which, following a Scotland-wide review of fee levels, is 12% lower than for

2015/16. A brief profile of the key staff assigned to working with the Council is then included.

4. Financial impact

- 4.1 The proposed audit fee is consistent with the level of provision contained within the Council's approved budget for 2017/18.
- 4.2 The wider scope aspects of the external audit will assess the appropriateness and adequacy of the Council's arrangements in respect of financial management and sustainability.

5. Measures of success

- 5.1 The Council receives an unqualified audit certificate from the external auditor by 30 September 2017.
- 5.2 Appropriate steps are undertaken to address the measures within the action plan in accordance with the timescales indicated.

6. Risk, policy, compliance and governance impact

- 6.1 The Committee's remit includes the review of all matters relating to external audit, including reports and action plans to monitor implementation of external audit recommendations.
- 6.2 The wider scope aspects of the external audit will assess the appropriateness and adequacy of the Council's arrangements across these areas.

7. Equalities impact

- 7.1 There are no direct equalities and rights implications arising from the report's contents but taking appropriate account of equalities and rights issues forms an integral part of the delivery of Best Value.

8. Sustainability impact

- 8.1 There are no direct impacts on carbon, adaptation to climate change and sustainable development arising from this report but, as with equalities and rights, taking appropriate account of these aspects forms an integral part of the delivery of Best Value.

9. Consultation and engagement

- 9.1 The financial statements will be made available for public inspection in July 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.

10. Background reading/external references

- 10.1 [Corporate Governance Framework 2015-2016](#), GRBV August 2016

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11. Links

Coalition Pledges	P30 - Continue to maintain a sound financial position including long-term financial planning
Council Priorities	CP1 3 - Deliver lean and agile Council services
Single Outcome Agreement	SO1 - Edinburgh's economy delivers increased investment, jobs and opportunities for all SO2 – Edinburgh’s citizens experience improved health and well-being, with reduced inequalities in health SO3 – Edinburgh’s children and young people enjoy their childhood and fulfil their potential SO4 – Edinburgh’s communities are safer and have improved physical and social fabric
Appendices	Appendix 1 – External Audit Plan, 2016/17



Scott-Moncrieff
business advisers and accountants

City of Edinburgh Council

External Audit Plan
2016/17

March 2017

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1

Introduction

Introduction

1. This document summarises the work plan for our 2016/17 external audit of City of Edinburgh Council and the charitable trusts administered by the Council.
2. The core elements of our work include:
 - an audit of the 2016/17 annual accounts, for both the Council and the charitable trusts, and related matters;
 - an interim audit, taking into consideration the work of internal audit, on accounting systems;
 - a review of arrangements for governance and transparency, financial management, financial sustainability and value for money;
 - an assessment of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
 - provision of opinions on a number of grant claims and returns;
 - providing existing evidence and intelligence for, and participating in, shared risk assessment (SRA) processes leading to the preparation of a local scrutiny plan for the Council;
 - contributing to best value audits and other scrutiny responses agreed through the SRA process; and
 - any other work requested by Audit Scotland, for example, local performance audit work.
3. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission's work is governed mainly by the Local Government (Scotland) Act 1973.
4. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Scott-Moncrieff as external auditor of the Council for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2016/17 and summarises:
 - the responsibilities of Scott-Moncrieff as external auditors;
 - our audit strategy;
 - our planned audit work and how we will approach it;
 - our proposed audit outputs, timetable and fee; and
 - background to Scott-Moncrieff and the audit team.

Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.
7. Any comments you may have on the service we provide would be greatly appreciated at any time. Full contact details for your audit team can be found in Appendix 1.
8. While this plan is addressed to the Council, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Audit appointment

3. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission's work is governed mainly by the Local Government (Scotland) Act 1973.
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Responsibilities of Scott-Moncrieff

Responsibilities of Scott-Moncrieff

Code of Audit Practice

9. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.
10. A new Code of Audit Practice was published in 2016 and applies to external audits for financial years starting on or after 1 April 2016. This Code replaces the previous one issued in 2011.

Auditor responsibilities

11. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
12. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

Best Value

13. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year appointments.
14. A key feature of the new approach is that it integrates Best Value into the wider scope audit work, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific areas. Conclusions and judgements will be reported through:
 - The Annual Report on the Audit
 - An annual assurance and risks report that the Controller of Audit will provide to the

Exhibit 1: Audit dimensions of wider scope public audit

Audit area	Scope
Financial sustainability	Financial sustainability looks forward to the medium (two to five years) and the longer term (over five years) to consider whether the body is planning effectively to allow it to continue to fulfil its functions in an affordable and sustainable manner.
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
Governance and transparency	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.
Value for money	Value for money is concerned with using resources effectively and continually improving services.

Commission that will highlight findings from across all 32 councils

- A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.
15. In 2016/17 we will focus on the Council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. We

will also consider, where applicable, the Council's response to previous Best Value reports. Our work will be integrated into our audit approach, including our work on the wider scope audit dimensions and will be reported in our Annual Report on the Audit.

ensure that, so far as practicable, everything published is accurate and complete.

Strategic audit priorities for local government audits

16. For 2016/17, the Accounts Commission has agreed five Strategic Audit Priorities. These are:
- The clarity of a council's priorities and quality of long term planning to achieve these priorities;
 - How effectively a council is evaluating and implementing options for significant changes in delivering services;
 - How effectively a council is ensuring members and officers have the right knowledge, skills and time to lead and manage delivery of its priorities;
 - How effectively a council is involving citizens in decisions about services; and
 - The quality of a council's public performance reporting regime to help citizens gauge improvement.
17. We are required to consider these priorities in our 2016/17 audit work. The extent to which we will report on these will be dependent on the findings of our work as it relates to the four dimensions referred to above and is considered in section 6 of this plan.

Statutory performance information

18. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish for performance comparison and benchmarking purposes. The 2015 Statutory Performance Information Direction published by the Commission requires councils to report a range of information in accordance with, but not confined to, the requirements of the Local Government Benchmarking Framework (LGBF).
19. As external auditors we have a statutory duty to ensure that the Council has made such arrangements for collecting, recording and publishing performance data as are required to

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Audit strategy

Audit strategy

Risk-based audit approach

20. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Council. This ensures that our audit focuses on the

areas of highest risk. Our audit planning is based on:



21. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

Communications with those charged with governance

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

Professional standards and guidance

23. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK and Ireland) (ISAs), the International Standard on Quality Control 1 (UK and Ireland), Ethical Standards, and applicable Practice Notes and other guidance issued by the Auditing Practices Board (APB).

Partnership working

24. We will coordinate our work with Audit Scotland, internal audit and other external auditors, recognising the increasing integration of service delivery and partnership working within the public sector.

Shared risk assessment and joint scrutiny planning

25. A key aspect of the Scottish Government's scrutiny agenda is to better co-ordinate and streamline scrutiny and achieve greater effectiveness, while at the same time protecting the independence of scrutiny bodies. The Scottish Government requested that the Accounts Commission take on the role of facilitating and co-ordinating scrutiny. The scrutiny bodies that engage with the Council have established a shared risk assessment approach to identify the scrutiny risks facing the Council and develop a range of proportionate approaches in response to the risk assessment.

26. A local area network (LAN) has been established for each council in Scotland. The LAN brings together local scrutiny representatives, including external audit. Local area networks are responsible for drafting local scrutiny plans which set out planned scrutiny activity over the coming year.

27. We are currently participating in a refresh of the Council's shared risk assessment. The Council 2017/18 local scrutiny plan will be published on the Audit Scotland website in May 2017. We will update our 2016/17 external audit plan if required following completion of this exercise.

Audit Scotland

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

Internal audit

31. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the Council's total audit resource. The Council's internal audit service is provided in-house; with additional support from PWC. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the Council is used efficiently and effectively.



Annual accounts – City of Edinburgh Council

Annual accounts

Introduction

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

Approach to audit of annual accounts

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

Risk-based audit planning

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

An audit of key systems and internal controls

- 35. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.
- 36. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the Council's own policies and procedures.
- 37. We will take cognisance of any relevant internal audit reviews of systems and controls.
- 38. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

A final audit of the annual accounts

- 39. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.
- 40. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the Code of Practice on Local Authority Accounting in the UK (the CIPFA Code).

Independent auditor's report

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

Materiality

- 42. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
- 43. Our initial assessment of materiality for the group and Council is set out in the table below. Our assessment of materiality is set with reference to a range of benchmarks (including gross service expenditure, surplus/deficit on provision of services and usable reserves). We consider these to be the principal considerations when assessing the performance of the Council. We will continue to review our assessment of materiality during the course of our audit. This will include the impact of consolidation of the Edinburgh Integrated Joint Board into the group in 2016/17.

Group materiality £million	Council materiality £million
14.1	12.6

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

	Area risk assessment £million		
	High (45%)	Medium (55%)	Low (70%)
Group	6.3	7.8	9.8
Council	5.7	6.9	8.8

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

Key audit risks in the annual accounts

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

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

Exhibit 2 – Key audit risks in the annual accounts

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 Council could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.



47. Our work on income will include an evaluation of each type of revenue transaction and a review of the controls in place over revenue accounting. We will consider the Council's key revenue transactions and streams and carry out testing to confirm that the Council's revenue recognition policy is appropriate and has been applied consistently throughout 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 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.



48. In response to this risk we will review the Council's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

Exhibit 2 – Key audit risks in the annual accounts

3. Associated spend with new financial systems

In August 2015 the Council awarded CGI the contract for provision ICT services. Following a transition of services in late 2015 and early 2016, the CGI contract went live on 1 April 2016. The Council has reported a number of benefits from the first phase of implementation of the contract, including significantly increased network bandwidth in council schools and council offices.

A further 12 projects will be delivered through 2016 and 2017 as part of the CGI contract, with joint governance arrangements in place involving the Council, CGI and supply chain partners. Most of these projects have commenced, although officers have acknowledged that timescales for implementation of some projects, such as Enterprise Integration and Enterprise Resource Planning have slipped due to technical and resource challenges.

The Council is however currently reviewing the expenditure incurred to date and the associated accounting treatment. There is a risk that this is not correctly accounted for in the 2016/17 annual accounts.



- 49.** We will review the Council's proposed accounting treatment to ensure compliance with the CIPFA Code.

Other risk factors

- 50.** Further to the identification of significant audit risks, we have also identified risk factors which could potentially result in a material misstatement to the annual accounts. We do not propose, at this stage to undertake specific audit procedures in response to these perceived risks. We will continue to monitor these areas during the year and adapt our audit approach as necessary.

School closures

- 51.** Following the collapse of a wall at Oxfangs Primary in January 2016, property surveys were undertaken at other schools built as part of the same schools PPP1 contract. In April 2016, 17 schools were closed temporarily as a consequence of the survey findings, and alternative accommodation arrangements put in place for school pupils. A range of remedial work was undertaken by the PPP operator, Edinburgh Schools Partnership (ESP), with a phased return of schools to the Council in operable condition between May and August 2016, prior to commencement of the new school term.
- 52.** £0.5million has been set aside for precautionary survey work on other council properties with similar design features to the PPP1 schools.
- 53.** There is a risk that the outcome of this survey identifies other flaws in the construction of

Council buildings which require remedial action and an accounting impairment.

Significant trading operations

- 54.** The Council's Edinburgh Catering Services – Other trading operation has previously failed to breakeven over a three year period. The Council has put in place a number of measures addressing the profitability of the service going forward, including a new pricing policy and reductions in vending equipment. The catering service is also included within the scope of the property and asset management strategy which is being pursued by the Council.

Revised financial statement formats

- 55.** From 2016/17 the Code requires authorities to present service segments on the face of the Comprehensive Income and Expenditure Statement (CIES) based on the way in which they operate and manage services. There is a risk that the Council does not fully comply with the requirements of the Code.

Loans Fund Accounting

- 56.** The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The Regulations set out the powers of local authorities to borrow and maintain a loans fund and result in a change in accounting treatment from 2016/17. There is a risk that the Council does not have

arrangements in place to comply with the new accounting practices.

Group accounting

- 57.** The Council has a complex group which requires consolidation of a range of subsidiaries, associates and joint ventures. For 2016/17 this also includes consolidating the Edinburgh Integrated Joint Board. The complexity of the group arrangements leads to a risk over the accuracy and completeness of the group accounts.

5

**Annual accounts -
Charitable trusts
administered by
City of Edinburgh
Council**

Annual accounts – charitable trusts administered by City of Edinburgh Council

58. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The Council's charitable funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit. Each registered charitable trust has required a full audit since 2013/14.

59. Over the last few years, the Council has rationalised the number of charitable trusts down from over a hundred to seven. In 2011/12, 28 charities were consolidated into one new charity, the Edinburgh Education Trust.

Charitable Trust Funds (as at 31 March 2016)

- Lauriston Castle
- Jean F. Watson
- Edinburgh Education Trust
- Nelson Halls
- Boyd Anderson
- Usher Hall Conservation Trust
- Royal Scots (The Royal Regiment) Monument Trust Fund

Key audit risks in the financial statements

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

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 Council could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.



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

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.



62. In response to this risk we will review the Trusts' accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

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.



63. In response to this risk we will review the outcome of the valuation exercise and ensure the results have been correctly accounted for in the 2016/17 financial statements.

Materiality

64. Our assessment of materiality is set with reference to a range of benchmarks (including receipts, net receipts/payments, gross assets and the statement of balances at the year-end). We consider these to be the principal considerations for the users of the accounts when assessing the financial performance of the charitable trust fund. Where transactions, or groups of transactions, and balances impact on the Statement of Financial Activities, materiality will be set at a lower level.

65. The table below sets out materiality for the seven charitable trust funds. We will however revisit our assessment during our audit of the financial statements.

	Materiality £
Lauriston Castle	108,670
Jean F. Watson	123,210
Edinburgh Education Trust	15,140
Nelson Halls	3,805
Boyd Anderson	2,125
Usher Hall Appeal	1,255
Royal Scots Memorial Trust	555

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

Area risk assessment	Weighting
High	40%
Medium	55%
Low	75%

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

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

6

Wider scope audit

Wider scope audit

Introduction

68. The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions; financial sustainability, financial management, governance and transparency and value for money. At the outset we will consider the Council self-evaluation

arrangements as they relate to these four dimensions.

69. Exhibit 3 below sets out our initial risk assessment against these four audit dimensions. We will continue to review and update our assessment during the 2016/17 audit cycle.

Exhibit 3 - Wider scope audit

Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.

Council responsibilities	Our audit approach
<p>It is the Council’s responsibility to put in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> Such financial monitoring and reporting arrangements as may be specified; Compliance with any statutory financial requirements and achievement of financial targets; Balances and reserves, including strategies about levels and their future use; How the Council plans to deal with uncertainty in the medium and long term; and The impact of planned future policies and foreseeable developments on the financial position. 	<p>The Council has an approved financial strategy and medium-term revenue budget framework covering the period until 2019/20. The assumptions within the framework are reviewed on an at-least quarterly basis, with the most recent such update reported to the Finance and Resources Committee in January 2017.</p> <p>While the assumptions are, by extension, indicative, a high-level, ten-year revenue plan is also maintained.</p> <p>The revenue budget framework places particular emphasis on the sustainability of financial plans, with one-off mitigating actions highlighted in budget development and monitoring reports as a prompt to identifying sustainable measures.</p> <p>The potential for further pressures to emerge relative to the budget framework assumptions for 2018/19 and subsequent years has been acknowledged and the Council Leadership Team (CLT) has already initiated a process whereby a programme of potential options will be made available to the incoming Administration in May 2017.</p> <p>The Council is implementing a transformation programme aimed at building a lean and agile organisation with a focus on individuals and communities. Four core projects around localities, business and support services, customer and asset management have been developed and are supported by a number of cross-cutting workstreams. Total recurring annual savings of £70 million are anticipated</p>

Exhibit 3 - Wider scope audit

	<p>through the delivery of the programme.</p> <p>The Council continues to make good progress in implementing the programme. Improved senior officer and elected member scrutiny of savings proposal development, implementation and monitoring has contributed to a marked increase in delivery, with over 92% of approved savings on track to be delivered in 2016/17.</p>
	<p>Audit approach</p> <p>During our 2016/17 audit we will consider the Council's financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the Council's operations and use of resources.</p>

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

Council responsibilities	Our audit approach
<p>It is the Council's responsibility to ensure that its financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Council are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public Council at its disposal.</p> <p>It is the Council's responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>	<p>Audit Scotland has previously reported that the Council has effective financial management arrangements in place. The Council has a good track record in delivering services within approved budgets, and robust scrutiny and challenge processes have ensured early identification of issues around the delivery of planned savings.</p> <p>In August 2015 the Council awarded CGI the contract for the provision ICT services. Following a transition of services in late 2015 and early 2016, the CGI contract went live on 1 April 2016. The Council has reported a number of benefits from the first phase of implementation of the contract, including significantly increased network bandwidth in council schools and council offices.</p> <p>A further 12 projects will be delivered through 2016 and 2017 as part of the CGI contract, with joint governance arrangements in place involving the council, CGI and supply chain partners. Most of these projects have commenced, although officers have acknowledged that timescales for implementation of some projects, such as Enterprise Integration and Enterprise Resource Planning have slipped due to technical and resource challenges.</p>

Exhibit 3 - Wider scope audit

	<p>Progress updates on the workstreams are reported regularly to management team and committee.</p>
	<p>Audit approach</p> <p>During our 2016/17 audit we will review, conclude and report on the following:</p> <ul style="list-style-type: none"> • Whether the Council has arrangements in place to ensure systems of internal control are operating effectively; • Whether the Council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance; • How the Council has assured itself that its financial capacity and skills are appropriate; • Whether the Council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and • The Council's participation and progress in the National Fraud Initiative.

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

Council responsibilities	Our audit approach
<p>It is the responsibility of the Council to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The Council should involve those charged with governance in monitoring these arrangements.</p> <p>In May 2017 local government elections will take place. It is the Council's responsibility to manage any impact this may have on the governance of the organisation and reflect this appropriately in the Annual Governance Statement.</p> <p>The Council are also responsible for establishing effective and appropriate internal audit and risk management functions.</p>	<p>Audit Scotland concluded that the Council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making, although there is scope for improvement in the governance of council companies and organisations.</p> <p>A new structure for executive directors was approved in December 2015. This rearranges some responsibilities, with areas such as ICT, Strategy & Insight, and Communications now reporting directly to the Chief Executive and the Deputy Chief Executive post now replaced by an Executive Director of Resources.</p> <p>The scrutiny and governance arrangements in place for Council companies were reviewed in June 2016.</p> <p>The Council has established a Governance Hub that will scrutinise Council companies and is attended by the chief executives of the companies, before the</p>

Exhibit 3 - Wider scope audit

	<p>information is then submitted for elected member scrutiny at committee.</p> <p>The Edinburgh Integration Joint Board has been established, meets every two months and has five elected members on its board. It also has an audit and risk committee.</p>
	<p>Audit approach</p> <p>We will review the effectiveness of the Council governance framework and the extent to which board and committee roles, membership and terms of reference comply with current guidance.</p> <p>We will consider the appropriateness of the disclosures in the Annual Governance Statement.</p> <p>We will consider whether the information provided to the board and committees is sufficient for members to assess the impact of decisions on resources and performance.</p> <p>Our work will include consideration of how risk management has been addressed within the Council. We will also consider the Council’s internal audit arrangements to determine their role in examining the control systems established by management.</p> <p>Audit Scotland will be carrying out a performance audit on issues relating to Arms-Length External Organisations (ALEOs) in 2017. We will contribute information on the ALEOs funded by the Council as part of this review.</p>

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

Council responsibilities	Our audit approach
<p>Local authorities have a statutory responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>	<p>The performance management framework is currently under development to align with the new Business Plan and will include reporting of financial information alongside progress towards outcomes delivered.</p> <p>The Council’s online Strategy and Performance hub provides an overview of all Council strategies and reports against progress and performance.</p> <p>The establishment of a Strategy division in May 2016 has supported the alignment of the corporate strategies and plans. The new Division leads the development,</p>

Exhibit 3 - Wider scope audit

revisions and implementation of the Council's planning and performance management framework.

The Council assesses achievement of its high level commitments through a set of 53 Capital Coalition pledges. Achievement of these pledges is linked to a range of detailed dashboard and operational performance indicators.

Audit approach

We will work with the Council to identify and review evidence which demonstrates the achievement of value for money in the use of its resources.

We will seek evidence from the Council that outcomes are improving and there is sufficient focus on improvement and the pace of it.

Audit Scotland plans to undertake performance audit work in a range of areas covering local government during 2017/18. These include Arms-Length External Organisations (ALEOs), City Deals, Children's Mental Health and Health and Social Care Integration. Any engagement with individual councils is still to be determined. We will work with Audit Scotland during the year to provide them with the required information as it relates to City of Edinburgh Council.



Audit outputs, timetable and fees

Audit outputs, timetable and fees

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

Audit output ¹	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2016/17.	March 2017
NFI audit questionnaire	Return	This return to Audit Scotland will reflect NFI activity undertaken by the Council.	June 2017
Financial statements strategy	Report to management	The purpose of this document is to provide management with a clear understanding of our requirements of the Council, and our approach and expectations, for the preparation of the financial statements for the year ending 31 March 2017.	June 2017
Interim Management Report	Report	This report will summarise our interim work on accounting systems and corporate governance arrangements.	June 2017
IT Audit Report	Report	Scope of IT audit yet to be agreed. Our findings from this review will be presented in a separate report.	August 2017
Independent Auditor's Report	Report	This report will contain our opinion on the truth and fairness of the annual accounts.	September 2017
Annual Report to the Council and the Controller of Audit	Report	We will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work under the Code of Audit Practice.	September 2017
Report to those charged with governance relating to the charitable trusts	Report	We will issue an ISA 260 report addressed to the trustees summarising our opinions, conclusions and the significant issues arising from our work.	September 2017
Whole of government accounts	Assurance Statement	This statement will contain our opinion on whether the consolidation pack is consistent with the Council's audited financial statements.	October 2017

¹ Refer to Appendix 3 for a list of all grant claims and returns to be audited in 2016/17.

Audit outputs

71. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
72. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee - Council

73. Audit Scotland has completed a review of funding and fee setting arrangements and as a result revised its fee strategy. It now sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
74. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.
75. For 2016/17 the expected fee for the Council is £561,250. We propose setting the fee at this level. The total proposed fee for the Council for 2016/17 is as follows:

	2016/17
Auditor remuneration	£296,550
Pooled costs	£25,820
Performance audit and Best Value	221,170
Audit support costs	£17,710
Total expected fee	£561,250²

² The audit fee in 2015/16 was £638,590 (excludes Lothian Pension Funds (£47,660) and the audit of the charitable trust funds (£4,250)).

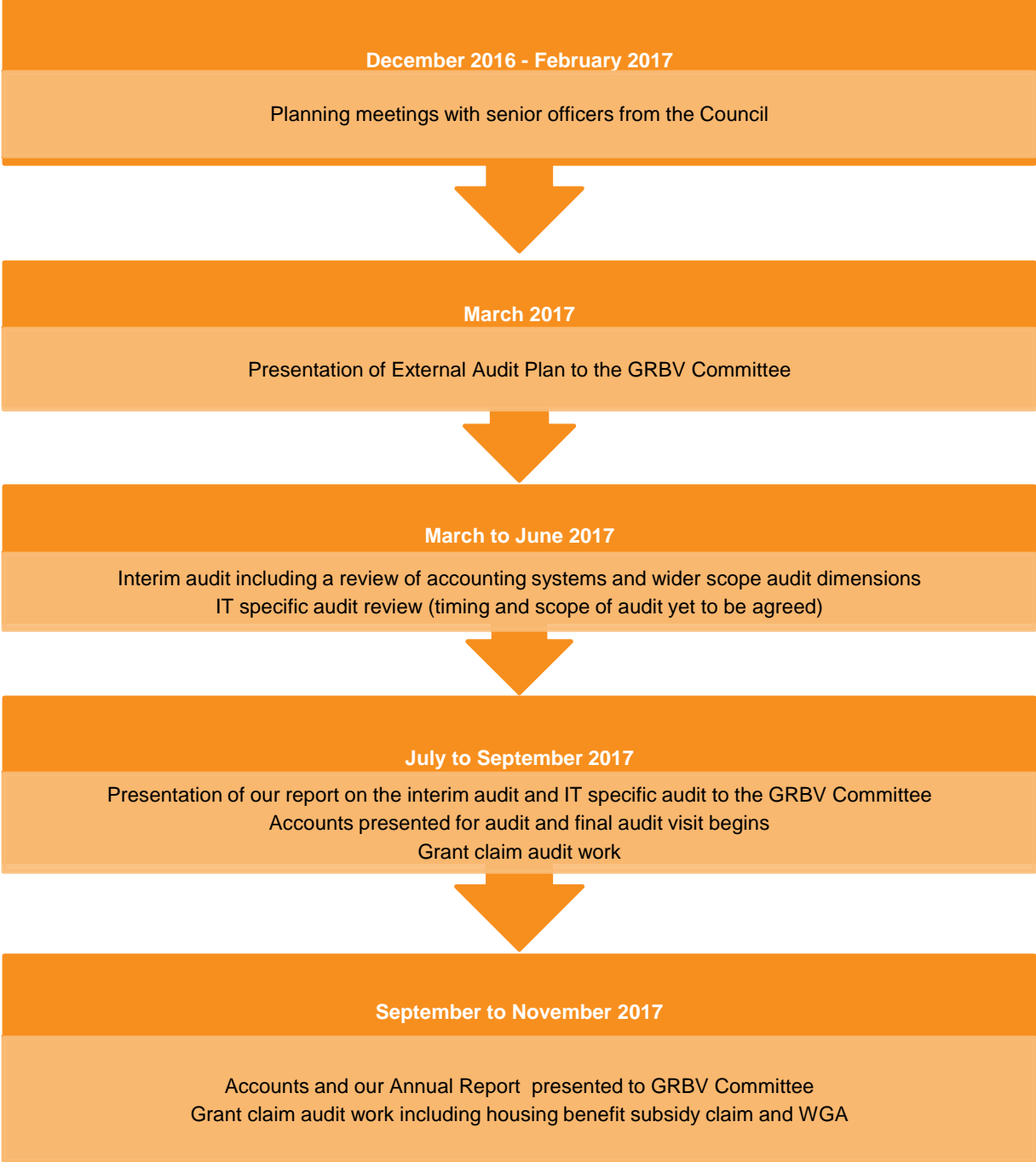
76. We will take account of the risk exposure of the Council and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the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

Audit fee – Charitable Trust Funds

77. The expected fee does not include the cost of auditing charitable trust funds. We propose setting the audit fee for the audit of the charitable trusts at £7,500.

Audit timetable

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



8

Appendices

Appendix 1: Your audit management team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 18 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

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

Your audit management team



Nick Bennett ACA CA CPFA

Audit Partner

nick.bennett@scott-moncrieff.com

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



Karen Jones CPFA

Director

karen.jones@scott-moncrieff.com

Karen has over 15 years' experience of public sector auditing. She has considerable experience in planning and delivering audits, producing management reports and liaising with senior officers.



Michael Lavender CPFA

Manager

michael.lavender@scott-moncrieff.com

Michael has been part of the external audit team of our local government bodies since he started with the firm, working closely with Karen on the financial statements and governance audit process over this time.



Rachael Blenkinsop CPFA

Assistant Manager

rachael.blenkinsop@scott-moncrieff.com

Rachael has been part of our public sector external audit team since she started with the Firm and works closely with Karen on the audit of financial statements and governance arrangements for our public sector external audit appointments.



Georgina Philp
Assistant Manager
georgina.philp@scott-moncrieff.com

Georgina has over five years' public sector experience. She has delivered external audit services to a range of public sector bodies, including local government.



Stacey Larkin
Assistant Manager
Stacey.larkin@scott-moncrieff.com

Stacey has recently joined our public sector team, having trained at Grant Thornton. Stacey will work alongside Karen, Rachael and Georgina in the delivery of the audit of the annual accounts.



Paul Kelly
IT Director
paul.kelly@scott-moncrieff.com

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

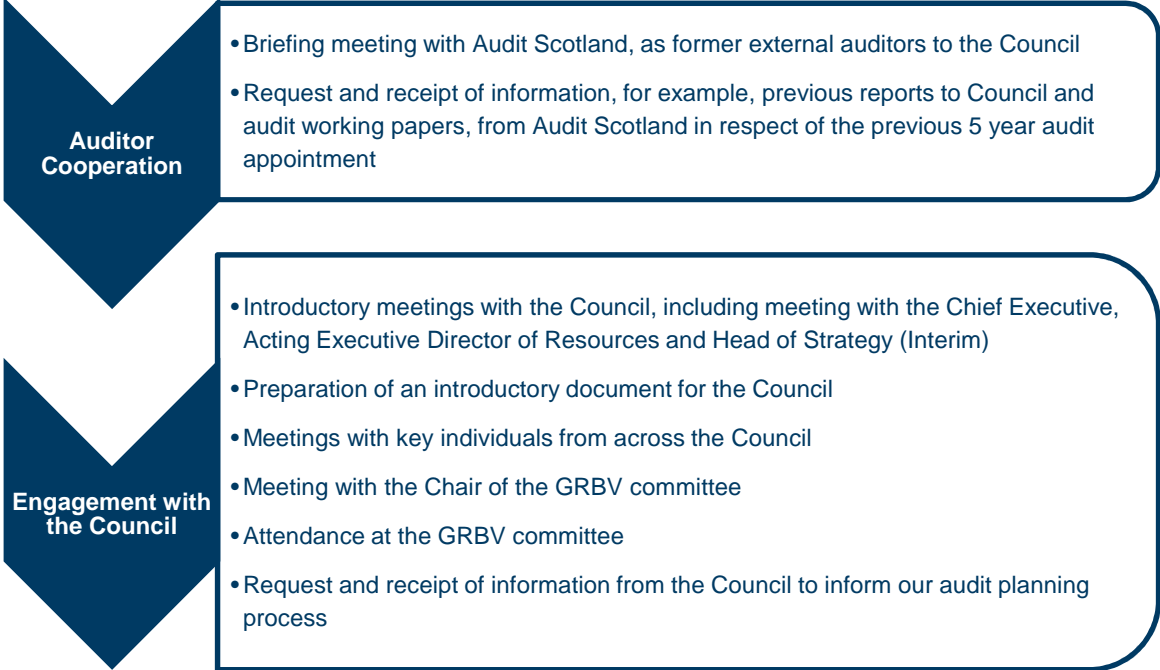
Confirmation of independence

ISA 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we will comply with APB Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the Council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: The audit handover process

Rotating the appointment of the external auditor may present risks for the audited body and both the outgoing and incoming auditors if not properly managed. Auditors can minimise the disruption to all parties, and maximise the transfer of knowledge of the audited body by working in partnership with Audit Scotland and each other. We have set out below the steps we have taken to ensure an efficient handover of the audit (from Audit Scotland as former external auditors to the Council). We continue to work with the Council and correspond with Audit Scotland to ensure minimal disruption to all parties involved.



Appendix 3 – Grant claims and returns to be audited in 2016/17

Grant claim/return	Certification date
Education maintenance allowance	31 July 2017
Criminal justice social work services grant claim	29 September 2017
Whole of government accounts	2 October 2017
Non domestic rate income return	9 October 2017
Housing benefit subsidy claim	30 November 2017

Appendix 4: Statement of understanding

Introduction

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

Annual accounts

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

Scope of audit

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

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

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

Internal audit

It is the responsibility of the Council to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Ethics

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

Fees

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

Service

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

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

Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target

dates for implementation and details of the responsible officer.

Agreement of terms

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



Scott-Moncrieff
business advisers and accountants

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