

# Governance, Risk and Best Value Committee

10.00am, Tuesday, 23 March 2021

## External Audit Plan - 2020/21

<b>Item number</b>	
<b>Executive/routine</b>	<b>Routine</b>
<b>Wards</b>	<b>n/a</b>
<b>Council Commitments</b>	<b>n/a</b>

### 1. Recommendations

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- 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 2020/21, including follow-up work to be undertaken in respect of the Council's Best Value Assurance Report (BVAR); and
  - 1.1.2 that periodic updates on the work set out therein will be provided to the Committee.

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## External Audit Plan, 2020/21

### 2. Executive Summary

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- 2.1 Azets has been appointed as the Council's external auditor for the six-year term<sup>1</sup> covering financial years 2016/17 to 2021/22 inclusive. The external audit plan for review year 2020/21 is presented for the Committee's information and outlines the main proposed areas of scrutiny and associated reporting timescales over the coming year.

### 3. Background

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- 3.1 In October 2016, Scott-Moncrieff (now Azets) was appointed as 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. In view of the impact of the pandemic on the work of both councils and audit bodies, however, in October 2020 this term, in common with other similar appointments across Scotland, was extended by a further year by the Accounts Commission. Following consideration of the 2019/20 Annual Audit Report by the Governance, Risk and Best Value Committee on 3 November 2020, 2020/21 therefore represents the penultimate review year of the revised six-year appointment, with the proposed audit plan included as Appendix 1.
- 3.2 A timetable of key audit scrutiny and associated outputs (included on pages 47 to 49) has been developed. The proposed plan also includes specific work around payroll data analytics and a follow-up on progress in implementing the recommendations made as part of the review of the Council's risk management arrangements during the 2019/20 audit year. The plan furthermore includes an assessment of progress in implementing the principal recommendations made as part of the Council's Best Value Assurance Review (BVAR).
- 3.3 Consideration of the annual audit plan by members of the Governance, Risk and Best Value Committee is a key step in discharging their wider scrutiny-related responsibilities. Staff from Azets will therefore attend the Committee meeting to

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<sup>1</sup> In view of the impact of the pandemic, the five-year term of all current audit engagements has been increased by a further year by the Accounts Commission.

provide an overview of the plan's contents and respond to any queries members may have.

## **4. Main report**

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- 4.1 The plan comprises sections setting out the respective responsibilities of Azets as independent auditor and the Council as audited body, the proposed audit strategy and more technical commentary on the detailed financial statement audit work to be undertaken, before presenting key areas for consideration as part of the wider scope audit. The plan also includes an overview of the proposed audit process for the Council's charitable trusts where members of the Finance and Resources Committee serve as the Council trustee. At this stage, it is being assumed that, as for the 2019/20 review year, both the accounts closure and audit processes will be undertaken remotely.
- 4.2 Members will be aware that 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 the annual audit and, following the reporting of the principal conclusions of the BVAR in November 2020, progress in implementing the resulting recommendations.
- 4.3 Further details of the approach to be adopted in assessing the Council's financial statements are included on pages 19 to 28, with a commentary on the specific areas of focus for the wider scope audit contained on pages 30 to 39.
- 4.4 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 31 October 2021 (aligned to the revised accounts regulations for 2020/21), along with the proposed fee for the Council's external audit.

## **5. Next Steps**

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- 5.1 The external audit activity will proceed in line with the schedule shown on pages 47 to 49 of the external audit plan.

## **6. Financial impact**

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- 6.1 The proposed core audit fee is consistent with the level of provision contained within the Council's approved budget for 2021/22.
- 6.2 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, as well as progress in implementing recommendations contained within the BVAR.

## **7. Stakeholder/Community Impact**

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- 7.1 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.
- 7.2 The wider scope aspects of the external audit will assess the appropriateness and adequacy of the Council's arrangements across these areas.

## **8. Background reading/external references**

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- 8.1 [City of Edinburgh Council – 2019/20 Annual Audit and Report to the Council and Controller of Audit](#), Governance, Risk and Best Value Committee, 3 November 2020

## **9. Appendices**

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- 9.1 One – City of Edinburgh Council External Audit Plan, 2020/21



# City of Edinburgh Council

External Audit Annual Plan

2020/21

March 2021



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# Introduction



## Introduction

1. This document summarises the work plan for our 2020/21 external audit of the City of Edinburgh Council and the charitable trusts administered by the Council.
2. The core elements of our work include audits of:
  - the 2020/21 annual accounts for both the Council and its group and the charitable trusts;
  - the Council's arrangements for financial sustainability, financial management, governance and transparency and value for money;
  - the Council's arrangements to secure best value;
  - the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
  - a number of grant claims and returns, including Whole of Government Accounts;
  - the Council's participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.
3. This document summarises the work plan for our 2020/21 external audit of the City of Edinburgh Council and the charitable trusts administered by the Council.
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 Azets as external auditor of the Council for the six year period 2016/17 to 2021/22<sup>1</sup>. This document summarises the audit plan for 2020/21 and includes;
  - the responsibilities of Azets as the external auditor;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Azets and your audit management team.

## 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.
6. International Standards on Auditing in the UK require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We comply with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, the audit process is

continuity and stability in the current challenging environment.

<sup>1</sup> In October 2020, the Accounts Commission extended our audit appointment for one year through to the audit of the 2021/22 financial year to provide

independent and our objectivity is not been compromised in any way.

8. We set out in Appendix 2 our assessment and confirmation of independence.

## Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

## Openness and transparency

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

# Respective responsibilities of the auditor and the Council



## Respective responsibilities of the auditor and the Council

### Auditor responsibilities

#### Code of Audit Practice

12. The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

This means providing assurance, not only on the financial statements, but on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

15. The Code of Audit Practice sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

#### Our responsibilities

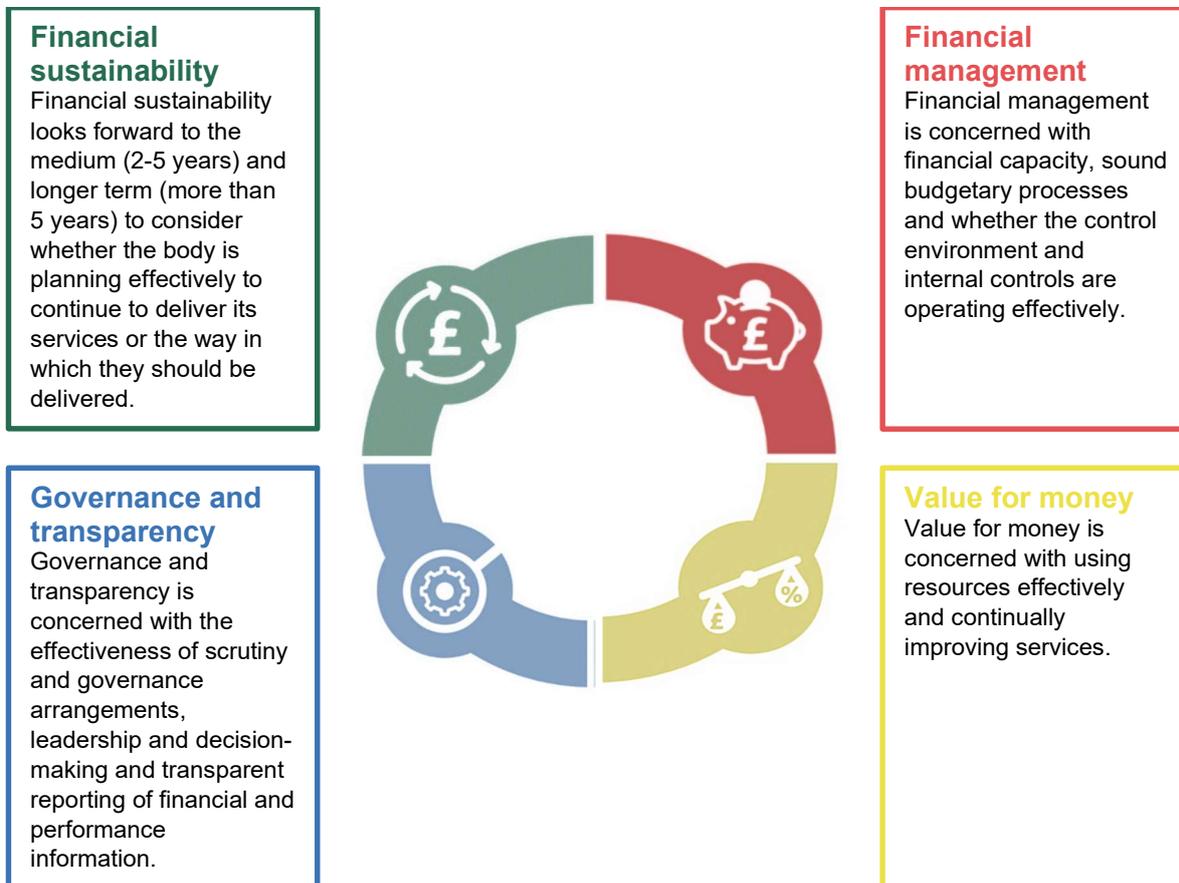
13. Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Controller of Audit when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

#### Wider scope audit work

14. 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.

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



- 16. We have concluded that application of the full wider scope is appropriate at the Council.
- 17. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code of Audit Practice and may not be all that exist. Communication by auditors 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.

### Best Value

- 18. Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.
- 19. A Best Value review was undertaken on the City of Edinburgh Council in 2020. The Best Value Assurance Report (BVAR) includes recommendations to help the Council address the improvement areas identified during the audit. In 2020/21 we will follow up on the progress made by the Council in implementing the recommendations made in the BVAR.

### Statutory performance information

20. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. This responsibility links with the Commission's Best Value audit responsibilities. In turn, councils have their own responsibilities, under their Best Value duty, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report its:

- Performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- Own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments

- How it (with its partners where appropriate) has engaged with and responded to its diverse communities.

21. As external auditors we are required to satisfy ourselves that the Council has made effective and appropriate arrangements for ensuring compliance with the Commission's direction on statutory performance indicators.

### Council responsibilities

22. The Council has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The Council's responsibilities are summarised in Exhibit 2.

## Exhibit 2: Council responsibilities

Area	Council responsibilities
<p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>The Council has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures;</li> <li>• maintaining proper accounting records; and</li> </ul>

Area	Council responsibilities
	<ul style="list-style-type: none"> <li>preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements.</li> </ul>
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p>	<p>The Council is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>Such financial monitoring and reporting arrangements as may be specified;</li> <li>Compliance with statutory financial requirements and achievement of financial targets;</li> <li>Balances and reserves, including strategies about levels and their future use;</li> <li>Plans to deal with uncertainty in the medium and long term; and</li> <li>The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>The Council is responsible for ensuring that financial affairs are conducted in a proper manner. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance.</p> <p>The Council is 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 its objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>The Council is responsible for establishing 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.</p>

Area	Council responsibilities
<p><b>Governance and transparency:</b> 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.</p>	<p>The Council is responsible for establishing arrangements 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. Those charged with governance should be involved in monitoring these arrangements.</p>
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>The Council has a specific responsibility to ensure that arrangements have been made to secure best value. They are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>
<p><b>Best Value:</b> Best value is continuous improvement in the performance of the authority's functions.</p>	<p>The Council has a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of its functions. In securing best value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development.</p> <p>The Council also has to prepare and publish performance information in accordance with directions issued by the Accounts Commission.</p>

# Audit strategy



## Audit strategy

### Risk-based audit approach

23. 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:

Discussions with senior officers	Our understanding of the sector, its key priorities and risks	Attendance & observing the Governance, Risk and Best Value Committee
Guidance from Audit Scotland	Discussions with Audit Scotland and public sector auditors	Discussions with internal audit and reviews of their plans and reports
Review of the Council's corporate strategies and plans	Review of the Council's corporate risk register	Consideration of the work of other inspection bodies
Consideration of any relevant self-evaluation activity by the Council	Participation in the Local Area Network (LAN) / Shared Risk Assessment process	Outcomes of prior year audits

24. 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.

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 Committee).

### Communication with those charged with governance

25. Auditing standards require us to make certain communications throughout

## Professional standards and guidance

26. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK (ISAs (UK))), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

## Partnership working

27. We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working with the public sector.

## Shared risk assessment and joint scrutiny planning

28. A local area network (LAN) has been established for each council in Scotland. The LAN brings together local scrutiny representatives, including external audit, to share information and intelligence on an ongoing basis and agree scrutiny risks (referred to as the shared risk assessment (SRA)).
29. The LAN meets on an annual basis to discuss the planned scrutiny with the Council for the coming year. Meetings are also held with the Council to discuss the planned scrutiny for the year.

## Audit Scotland

30. Although we are independent of Audit Scotland and are responsible for forming our own views and opinion,

we do work closely with Audit Scotland 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 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.

31. Audit Scotland undertakes national performance audits on issues affecting the public sector. We review the Council's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We also consider the extent to which the Council uses the national performance reports as a means to help improve performance at the local level.

## Correspondence

32. People or organisations write to Audit Scotland because they have concerns about an issue within a public body that falls under the remit of the Auditor General for Scotland or the Accounts Commission. An issue of concern may be something such as a breakdown in financial management or governance arrangements.
33. The key factor in determining whether Audit Scotland examines an issue is the relevance of the issue to Audit Scotland's role and functions. Audit Scotland and appointed auditors will make this judgement using their professional and technical knowledge. They will also take into consideration the costs of carrying out such work to

ensure that they use resources efficiently.

## Internal Audit

34. 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.

### Co-ordinated and integrated approach to audit

35. The Code of Audit Practice notes the following:

*“Coordinated and integrated - It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies. It should be noted that audits undertaken in compliance with ISAs (UK) do not allow direct assistance from internal audit”*

36. Over the course of our audit appointment we will work with internal audit to provide a co-ordinated and integrated audit resource.
37. In 2020/21 we intend to supplement the work of internal audit by reviewing the following areas:

- Payroll: Specialists from within our Business Technology Consulting team will support internal audit in carrying out detailed data analytics of Payroll system data. The aim of this exercise is to identify unusual payments made to employees and unusual records within the payroll Masterfile.
- Risk management – a follow up of the recommendations raised in 2019/20 on the Council’s risk management arrangements. Given internal audit’s involvement in the risk management process, we deliver the work to ensure independent assurance is obtained over the arrangements in place.

38. Whilst we are working with internal audit, we do not obtain direct assistance from them.

## COVID-19 – impact on our 2020/21 audit strategy

39. The COVID-19 pandemic has had, and continues to have, a significant and profound effect on every aspect of Scottish society.
40. We appreciate that different organisations have been impacted differently by COVID-19, as have finance teams, and some organisations are better set up for remote working. We also know that plans can change quickly and it only takes the absence of one key member of staff from a finance team to have a big impact. Equally our own teams may also be impacted by the pandemic. The wellbeing of our clients and our staff is paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance.

### Remote working

41. As we do not know when the current restrictions will end, we are planning to carry out our 2020/21 audit remotely. As in 2019/20 we have the following arrangements in place:

- All of our people have the equipment, technology and systems to allow them to work remotely, including secure access to all necessary data and information.
- All of our staff are fully contactable by email, phone call and video-conferencing.
- All meetings are now held over Skype, Microsoft Teams or by telephone.
- We are keeping all of our staff fully up to date with the latest government guidance in order to keep everyone as safe as possible.

42. If resourcing levels in any part of our business are compromised due to illness or inability to work, we will refocus our teams as necessary to deliver to deadlines. Our teams are holding regular catch ups to allow us to re-prioritise workloads as necessary.

### Secure sharing of information

43. We use a cloud-based file sharing service that enables users to easily and securely exchange documents.

### Audit evidence

44. Working remotely does unfortunately result in the audit team requesting audit evidence which we would have previously obtained through other means, for example, face to face meetings or access to systems and client premises.

45. Where required we will consider other ways in which we can obtain audit evidence or carry out alternative audit procedures.

46. We will employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

### Regular contact

47. During the 'fieldwork' phase of our audit, we will look to agree regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

### Audit reporting

48. It may be that the current circumstances lead to more modified opinions in auditor's reports than would typically have been the case in previous years.

49. Where necessary, we will engage with the GRBV Committee to explain the implications of our proposed report and consider whether there are other procedures that could be undertaken, at a future point yet to be determined, which could mitigate any modification either fully or in part.

50. Sufficient time should be set aside by the GRBV Committee to allow for comprehensive, complete and informed communication with the auditor. This will need to take account of the potential for extended communication to explain any modified audit reports, or to report any higher than expected deficiencies or misstatements, that may result from the current circumstances.

51. Audit Scotland uses a system for electronic signatures (DocuSign) that it recommends all bodies use for signing annual accounts.
52. Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high quality PDF version of the accounts.
53. We propose using DocuSign in 2020/21 (as was used in 2019/20).

# Annual accounts – City of Edinburgh Council



## Annual accounts

54. 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 and its group annual accounts.

### Approach to audit of the annual accounts

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

#### Risk-based audit planning

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

#### Accounting systems and internal controls

57. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.

58. 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.

59. We will take cognisance of any relevant internal audit reviews of systems and controls.

60. Since the start of the pandemic, the risk of fraud and error has increased

as the control environment and internal controls change. Potential areas of risk include:

- Public sector staff working under extreme pressure leading to some internal controls being suspended or relaxed;
- Procurement fraud or, normal controls being relaxed to allow bodies to buy goods or services which are required urgently, possibly from new suppliers;
- Weakened governance arrangements;
- Stimulus packages to support individuals and businesses being provided quickly, possibly with a lower level of scrutiny and due diligence than has previously been in place;
- Admin and finance staff being redeployed to operational areas; and
- Staff working remotely may pose potential security risks e.g. when using personal devices and/or using removable devices to download data.

61. We will update the risk assessment following our evaluation of systems and controls, considering the impact the pandemic has had on the Council's accounting systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.

62. This work is not for the purpose of expressing an opinion on the effectiveness of internal controls. We will report to the Council significant

deficiencies in internal controls that we identify during the audit. These matters will be limited to those which we conclude are of sufficient importance to merit being reported. The scope of our work is not designed to be an extensive review of all internal controls.

### Prevention and detection of fraud or error

63. We plan our audit in such a way as to obtain reasonable assurance of detecting material misstatements in the annual accounts resulting from fraud or error.
64. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.
65. We will assess the susceptibility of the Council's annual accounts to material misstatement, including obtaining an understanding of how fraud might occur, by:
- making enquiries of management as to where they consider there is susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
  - considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.
66. Our work as auditor is not intended to identify any instances of fraud of a

non-material nature and should not be relied upon for this purpose. Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

### Laws and regulations

67. We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact the annual accounts. Our audit procedures include the following:
- Identification of the laws and regulations applicable to the Council through enquiries with management, and from our knowledge and experience of the organisation and sector;
  - A focus on specific laws and regulations which we consider may have a direct material effect on the annual accounts or the operations of the Council;
  - Reviewing minutes of relevant meetings;
  - Enquiring of management and Council legal representatives the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
68. There are however inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance.

### A final audit of the annual accounts

69. 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.

70. 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 United Kingdom 2020/21 (the CIPFA Code).

#### Independent auditor's report

71. Our opinion on whether the financial statements give a true and fair view of the financial position and income and expenditure will be set out in our independent auditor's report which will be included in the annual accounts.
72. We also provide an opinion on the audited part of the remuneration

report, annual governance statement and management commentary.

#### Group audit

73. The Council has a complex group which requires consolidation of a range of subsidiaries, associates and joint ventures.
74. As group auditors under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The following table sets out the components within the group:

Component	Significant	Level of response required	Planned audit approach
City of Edinburgh Council	Yes	Comprehensive	Full scope statutory audit
Transport for Edinburgh	Yes	Comprehensive	Full scope statutory audit by component auditors
Edinburgh Living MMR LLP	Yes	Comprehensive	Full scope statutory audit by component auditors
CEC Holdings Limited	No	Analytical	Desktop review
Edinburgh Leisure	No	Analytical	Desktop review
Capital Theatres	No	Analytical	Desktop review
Lothian Valuation Joint Board	No	Analytical	Desktop review
Common Good	No	Analytical	Desktop review
Edinburgh Integration Joint Board	No	Analytical	Desktop review

**Comprehensive** - the component is of such significance to the group as a whole that an audit of the component's financial statements is required for group reporting purposes

**Analytical** - the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

75. To support our audit work on the Council's group accounts, we seek to place reliance on the work of the component auditors for those bodies we have deemed significant to the group. As Azets is the appointed auditor to these bodies, we will liaise with the audit engagement teams in order to confirm that their programme of work is adequate for our purposes.
76. We will report the following matters in our annual report on the audit:
- Deficiencies in the system of internal control or instances of fraud which the component auditors identify; and
  - Limitations on the group audit, for example, where our access to information may have been restricted.
77. testing on the areas deemed to be at significant risk of material misstatement.
79. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
80. Our initial assessment of materiality and performance materiality is set out in the following table:

### Materiality

77. 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. We review our assessment of materiality throughout our audit.
78. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or group of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of

	Group £million	Council £million	Explanation
Overall materiality for the financial statements	22.3	20.3	Our initial assessment is based on approximately 1% of the group and the Council's 2019/20 gross expenditure as disclosed in the 2019/20 audited annual accounts. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance of the Council and its group.
Performance materiality	16.725	15.225	Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.
Trivial threshold	0.250	0.250	We will report any misstatements identified through our audit that fall into one of the following categories: <ul style="list-style-type: none"> <li>• All material corrected misstatements;</li> <li>• Uncorrected misstatement with a value in excess of £250,000; and</li> <li>• Other misstatements below £250,000 that we believe warrant reporting on qualitative grounds.</li> </ul>

### Key audit risks in the annual accounts

81. Auditing standards require that we inform the GRBV Committee of our assessment of the risk of material misstatement in the financial statements. 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 3 – Key audit risks in the annual accounts

### 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 financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

82. 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 are valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will assess whether judgements and assumptions made in determining accounting estimates as set out in the financial statements are indicative of potential bias.

### Revenue recognition

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

83. In respect of council tax income, non-domestic rates, housing rents and non-ring fenced government grants, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate these revenue streams. However, the risk of fraud in relation to revenue recognition is present in all other revenue streams. We will evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

### Risk of fraud in the recognition of expenditure

As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

84. In response to this risk we will evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing). We will consider the Council's key areas of expenditure and obtain evidence that the expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. We will review accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

### Asset valuations (significant accounting estimate)

The Council carries out a rolling programme of revaluations that ensures all property, plant and equipment required to be measured at fair value is revalued at least every five years.

The valuation provided by the valuer as at 31 March 2020 recognised a material uncertainty, indicating that lower confidence could be attached to the valuation than otherwise would be the case given the unprecedented impact of COVID-19 on global markets. We included an emphasis of matter paragraph in our independent auditor's report on the 2019/20 annual accounts to draw attention to this.

There is a risk of material misstatement to the financial statements relating to asset valuations.

85. We will consider the competence, capability and objectiveness of the valuer in line with ISA (UK) 500 Audit Evidence. We will review the valuation report and consider the assumptions used by the valuer against external sources of evidence. In addition we will consider the scope of the valuer's work and the information provided to the valuer for completeness. We will ensure that all key assumptions and estimates over the valuation of property, plant and equipment are

formally reviewed on an annual basis to ensure these remain appropriate.

86. We will challenge management's formal assessment of impairment to ensure assets are not materially misstated in the annual accounts.

#### Pension assumptions (significant accounting estimate)

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

- 
87. We will review the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will agree the disclosures in the financial statements to information provided by the actuary.

#### Provisions for doubtful debts (significant accounting estimate)

The Council in its annual accounts provides for doubtful debts over sundry debtors and housing rent arrears.

There is a significant degree of subjectivity in the measurement and valuation of provisions for doubtful debts. This subjectivity represents an increased risk of misstatement in the financial statements.

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88. We will focus our audit testing on provisions for doubtful debts where values and balances are derived by valuation and estimation.

### Financial instruments (significant accounting estimate)

The Council maintains significant debt and investment portfolios. Financial assets classified as loans and receivables and all financial liabilities are carried in the balance sheet at amortised cost. The fair value of these is estimated by calculating the net present value of the remaining contractual cash flows using a number of methods and assumptions.

89. We will focus our audit testing on material financial instruments which are calculated using estimation techniques and assumptions. Where management use experts to support the calculations, we will evaluate the competence of the expert; including the objectivity and experience of the expert.

## Other risk factors

### Impact of COVID-19 on the annual accounts

90. Further to the identification of significant audit risks, we also continue to monitor the impact COVID-19 could have on the annual accounts. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. It is uncertain how long these challenges will persist.
91. We continue to monitor government and relevant announcements as they pertain to the audit and will adapt our audit approach as required.

### Accounting estimates

92. Changes to ISA (UK) 540 - Auditing Accounting Estimates and Related Disclosures which is applicable for accounting periods beginning on or after 15 December 2019 places increased regulatory requirements on

the auditor in respect of the auditing of significant estimates at the planning and completion stages of the audit.

93. As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to asset valuations, pension liabilities, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, financial instruments and accruals. Other than asset valuations, pension liabilities, provisions for doubtful debts and financial instruments, we have not determined the accounting estimates to be significant. We will however revisit our assessment during the fieldwork and completion stages of our audit.

### Significant trading operations (STO)

94. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to operate their

significant trading operations so that income is not less than expenditure over each three year period.

95. The Council's Edinburgh Catering Services – Other Catering trading operation has previously failed to breakeven over a three year period.
96. The Council has recently reviewed the trading operation to determine whether this should continue to be classified as a significant trading operation. As a result of the pandemic and the move to home working, the trading operation has been unable to trade during 2020/21. The intention is to remove its classification as a STO with effect from 1 April 2020.
97. As part of our audit we will review the basis of the decision to declassify the Edinburgh Catering Services – Other Catering as an STO and ensure the appropriate disclosures are made within the annual accounts.

#### **Change in accounting policy – capitalisation of interest costs**

98. During the year, the Finance and Resources Committee approved a change to accounting policy to allow interest to be capitalised under specific circumstances for expenditure on qualifying assets.
99. Interest costs are due to be retrospectively capitalised in 2019/20 for the Trams to Newhaven project, with the changes reflected in the 2020/21 Annual Accounts.
100. We will review the accounting treatment and disclosures in the annual accounts to ensure they comply with the relevant accounting standards.

# Wider scope audit



## Wider scope audit

### Introduction

101. As described in section 2, the Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions:
- financial sustainability
  - financial management
  - governance and transparency
  - value for money.
102. Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon the understanding of the Council's key priorities and risks which we developed from previous years, along with discussions with management and review of committee minutes and key strategy documents.
103. The risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. The pandemic has highlighted the importance of many long-standing issues facing public sector bodies such as the need for good governance, openness and transparency, and effective longer-term planning to deliver better outcomes. The risks and challenges associated with these issues have become greater due to the pandemic.
104. In 2020/21, Audit Scotland has requested that external auditors focus on risks relating to governance and transparency, financial sustainability and counter-fraud arrangements in light of the impact of COVID-19. We will consider these risk areas in the context of our wider scope audit work and include commentary in our annual audit report as appropriate.
105. A Best Value review was undertaken on the City of Edinburgh Council in 2020. The Best Value Assurance Report (BVAR) includes recommendations to help the Council address the improvement areas identified during the audit. In 2020/21 we will follow up on the progress made by the Council in implementing the recommendations made in the BVAR.
106. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit (Exhibit 4). We have not, at this stage, identified any significant risks in relation to the other dimensions. Audit planning however is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report. Exhibit 5 summarises our audit work in respect of each dimension.

## Exhibit 4 – Wider scope significant risk

### Financial sustainability

The Council's Business Plan and budget for 2021/22 were approved by Council in February 2021, subject to approval of the Scottish Government's budget and UK budget announcements in March 2021. The Council approved a balanced budget for 2021/22, a five-year revenue forecast projection and a 10 year capital budget strategy. Council tax was frozen for 2021/22.

In October 2020 a review was undertaken of the Council's underlying planning assumptions and previously approved savings for both 2021/22 and 2022/23 to determine where corresponding adjustments may be required. The results of this review were considered by the Finance and Resources Committee on 29 October and pointed to a need to identify further savings of at least £16.1million in 2021/22, with an additional £5.6million of savings also required in 2022/23. The paper presented to Council in February 2021 noted that savings of £18.661million would be required in 2021/22 and c. £95million over the four years commencing 2022/23 prior to consideration of new savings and financial flexibilities.

The approved budget assumes that the Council will utilise financial flexibility whereby the payment of the principal element of the planned loans fund repayment in 2021/22 will be deferred until 2022/23. This enabled the Council to approve a balanced budget for 2021/22; reducing the savings gap by £18million. The application of the financial flexibilities does however impact on subsequent years. The revised forecast position over the four years commencing 2022/23 is c.£112.7million. Update reports on the financial position are regularly reported to Committee.

Provision for the anticipated recurring financial impacts of the pandemic total £23million in 2021/22, reducing to £21million in 2022/23 and continuing at that level thereafter. The Council has noted however there is a risk that the net pressure on the budget, after taking account of any additional COVID-related funding included within the Local Government Finance Settlement, is higher than that assumed. On that basis, the Council, in addition to optimising the level of financial flexibilities available to spread the pandemic expenditure and income impacts over a longer period, reprioritised its earmarked reserves to create a specific COVID mitigation reserve.

In response to the BVAR, the Council has reviewed its reserves policy. The Council's reserves as of 31 March 2021 are expected to comprise four main elements:

- an increased unallocated General Fund balance of £25million, equating to around 2.3% of the Council's net expenditure and being more in line with other authorities in Scotland;
- a series of ringfenced reserves maintained for statutory or specific policy reasons or to reflect timing differences between the receipt of income and its subsequent application;

### Financial sustainability

- a workforce transformation reserve; and
- a COVID contingency reserve, acknowledging the continuing uncertainty of the recurring impacts of the pandemic on, in particular, income levels in key areas such as parking, commercial rentals and other fees and charges.

A green arrow originates from the left side of the 'Financial sustainability' box and points towards the start of paragraph 107.

107. During our audit we will continue to review whether the Council has appropriate arrangements in place to manage its financial position. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium and longer term impact of COVID-19 and that continue to support the delivery of the Council's statutory functions and strategic objectives.

## Exhibit 5 - Our audit approach to the wider scope audit dimensions



### Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the organisation’s planning processes support the future delivery of services.

Consideration	Our audit approach
<p>As noted in Exhibit 4.</p> <p>Financial sustainability remains a challenge and it is recognised that work is required to continue to develop the medium term financial plans to more accurately reflect the emerging position taking cognisance of the impact of COVID-19.</p> <p>To address the concerns noted in the Council’s Best Value Assurance Report on the setting, implementation and delivery of the revenue budget, further enhancements were introduced to the budget setting process for 2021/22. These include:</p> <ul style="list-style-type: none"> <li>• Updated guidance on savings implementation plans</li> <li>• Earlier discussion and agreement at Corporate Leadership Team level of the impact of underlying service pressures and savings shortfalls</li> <li>• Development of a indicative five year planning timeframe</li> <li>• Detailed review of non-service budgets reserves, financial flexibilities and project management to aid savings delivery</li> </ul> <p>Due to the ongoing impact of the pandemic on the Council and its ALEOs and the associated uncertainty and risk that longer term budgets are based on incomplete information or flawed assumptions, the Council took the decision to focus</p>	<p>During our 2020/2021 audit we will update our assessment of the Council’s financial standing. This will involve a review of the arrangements in place for developing short, medium and long term financially sustainable plans that continue to support the delivery of the Council’s statutory functions and strategic objectives.</p> <p>Our work will consider the impact COVID-19 is having on the Council’s financial plans, the impact of EU withdrawal on the Council and the impact on the 2021/22 financial plans following the Scottish Government and UK budget announcements.</p>

### Consideration

### Our audit approach

efforts on setting a balanced budget for the year ahead. The budget for 2021/22 is underpinned by shorter-term tactical measures whilst preparing for broader reforms and major changes to services from 2022 onwards. This review will also include the Council's ALEOs.



## Financial management

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

### Consideration

Following confirmation of the Council's provisional funding allocation through the income compensation scheme, a balanced overall position is now forecast in 2020/21 without any need to draw down from earmarked reserves.

As at month 8; the Council estimated additional net expenditure pressures of £84.5million.

For the period from June until January inclusive, furlough claims to HMRC totalling £0.764million have been submitted in respect of staff working in the Council's outdoor centres and Culture employees. The full-year income projection from this source is £1million.

During 2020/21, internal audit revised its annual plan to incorporate reviews to provide the Council with assurance on the design of new and amended processes implemented in response to the COVID-19 pandemic. 11 audits will be completed in 2020/21. Internal audit has also provided consultancy advice on the design of the Support for Business Grants processes implemented in response to COVID-19.

The National Fraud Initiative (NFI) is a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error. The most recent NFI exercise commenced in 2020 and as part of our 2020/21 audit we will monitor the Council's participation and progress in the NFI.

### Our audit approach

During our 2020/21 audit we will review, conclude and report on the following:

- The achievement of financial targets;
- Whether the Council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance information;
- Whether the Council has arrangements in place to ensure systems of internal control are operating effectively;
- Whether the Council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption, with particular focus on changes in the control environment during the pandemic; and
- 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.

### Consideration

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

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

The Council is continuing to progress an independent inquiry into (a) matters connected to the death of a Council employee and (b) its whistleblowing and organisational culture.

### Our audit approach

We will review and report on the Council's governance arrangements; considering any changes to those arrangements in response to the pandemic. In particular we will consider whether:

- the revised governance arrangements are appropriate and operating effectively
- there is effective scrutiny, challenge and informed decision making.

We will consider the Council's risk management arrangements in the context of the pandemic. We will review:

- Arrangements and reporting of the identification, likelihood and impact of new risks as a result of the pandemic;
- Consideration of risk appetite during this period to enable services to operate effectively and respond to issues in a timely manner.
- The longer term impact of the pandemic on the Council's risk register.



## Value for money

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

### Consideration

The Council's three year Business Plan: Our Future Council, Our Future City brings together its strategic priorities into a single plan responding to the need for change.

The Council in 2019/20 demonstrated improvements in performance in several areas including waste and cleaning, school education and processing times for benefits and grant claims. The 2018/19 Local Government Benchmarking Framework information showed that the Council performed better than other councils in around half of national benchmarking indicators.

The year-on-year council tax collection rate as of the end of December 2020 was some 1.24% lower than in 2019/20, although collection rates in the city are seeing much smaller reductions than in many other Scottish authorities. Through a combination of planned recovery action and anticipated income in respect of 2020/21 to be received in subsequent years, the level of potential bad debt provision has been revised, although the adequacy of this revised sum will be kept under review.

Collection of non-domestic rate income is down c.14%. While this is a Scottish Government issue (as the Council is acting as an Agent) there is concern this will impact on the "NDR funding" the Council receives.

Reporting against the new Statutory Performance Indicators Direction requires improvement. In particular the Council needs to address the new

### Our audit approach

The COVID-19 pandemic is expected to have had a substantial impact on performance measures, particularly for services which have been temporarily suspended, are operating at a reduced level or have had to adapt to new ways of working.

We will review performance reporting in 2020/21 to ensure it is timely, reliable, balanced, transparent and appropriate to user needs.

We will analyse the Council's performance with respect of the Local Government Benchmarking Framework and assess the Council's compliance with the Accounts Commission's direction on public performance reporting.

Our review of performance will include consideration of how effectively the Council has identified improvement priorities, and how self-aware the Council is in understanding its relative performance and improvement needs.

Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland and

### Consideration

requirements of reporting progress against its duty of Best Value.

### Our audit approach

the Accounts Commission. We will work with Audit Scotland during the year to understand the outputs from this work and identify any particular reports that the Council may have a direct interest in.

# Annual accounts – Charitable trusts administered by the City of Edinburgh Council

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# Annual accounts

## Introduction

- 108. 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.
- 109. 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.
- 110. Over the last few years, the Council has rationalised the number of charitable trusts down from over a hundred to six as at 31 March 2020. In 2011/12, 28 charities were consolidated into one new charity, the Edinburgh Education Trust.

**Charitable Trust Funds (as at 31 March 2020)**

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

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**Key audit risks in the financial statements**

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

## Exhibit 6 – Key audit risks in the financial statements

**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 financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

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- 112. 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 are valid and accounted for correctly. We will assess whether judgements and assumptions made in determining accounting estimates as set out in the financial statements are indicative of potential bias.

### Revenue recognition

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



- 113. We will evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

### Lauriston Castle Trust collection external valuation

An external revaluation of the collection commenced in 2016 but, for the financial statements for the year ended 31 March 2020, had yet to be completed. The 2019/20 financial statements reflected the valuation of the collection as at the previous reporting date. The charitable trusts' accounting policy on heritable property states that such properties are included in the financial statements at a revalued amount where this is available. The notes to the financial statements detail that the previous valuation of the Lauriston Castle collection was carried out in 1997.

The valuation exercise has now been concluded. There is a risk that the results of this valuation are incorrectly accounted for in the 2020/21 financial statements.



- 114. 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 2020/21 financial statements.
- 115. We will consider the competence, capability and objectiveness of the valuer in line with ISA (UK) 500 Audit Evidence. We will review the valuation report and consider the assumptions used by the external valuer against external sources of evidence. In addition we will

consider the scope of the external valuer's work and the information provided to the external valuer for completeness.

### Winding up of trusts

In January 2018, a paper was presented to the Council's Finance and Resources Committee seeking approval for the formal winding up of the City of Edinburgh Council Charitable Funds (Boyd Anderson) and the transfer of the remaining assets to the Lagganlia Outdoor Learning Centre. Consent to wind up this charitable trust was received from the OSCR in December 2017.

Due to the temporary closure of the centre as a result of the COVID-19 pandemic, construction works have not yet been completed and therefore these monies have not yet been transferred. OSCR has granted consent to wind up this Trust and this will be progressed once construction works have been completed.

In the 2019/20 financial statements, the Trustees prepared the financial statements for the City of Edinburgh Council Charitable Funds (Boyd Anderson) adopting a break-up basis of accounting as they considered that it was not a going concern. Our opinion was not modified in respect of this matter.

There is a risk that this Fund is not accounted for and disclosed correctly in the financial statements.



116. We will review the disclosures and accounting transactions in the financial statements to ensure compliance with the Charities SORP (FRS 102) and applicable accounting standards.

### Other risk factors

#### Impact of COVID-19 on the financial statements

117. Further to the identification of significant audit risks, we also continue to monitor the impact COVID-19 could have on the financial statements. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations. It is

uncertain how long these challenges will persist.

118. We continue to monitor relevant announcements as they pertain to the audit and will adapt our audit approach as required.

#### Accounting estimates

119. Changes to ISA (UK) 540 - Auditing Accounting Estimates and Related Disclosures which is applicable for accounting periods beginning on or

after 15 December 2019 places increased regulatory requirements on the auditor in respect of the auditing of significant estimates at the planning and completion stages of the audit.

120. As part of the planning stages of the audit we identify all accounting estimates made by management and determine which of those are key to the overall financial statements. Consideration is given to, for example, asset valuations and accruals. Other than valuation of Lauriston Castle Trust collection, we have not determined the accounting estimates used to be significant. We will however revisit our assessment during the fieldwork and completion stages of our audit.

#### Going concern

121. Under the going concern principle it is assumed that an entity will continue in operation and there is neither the intention nor the need to liquidate it or cease trading.
122. Management are required to make and document a comprehensive assessment of whether the entity is a going concern when preparing the financial statements. The process should be proportionate in nature and depth depending upon the size and level of financial risk and the complexity of the entity and its operations. The review period should cover at least 12 months from the date of approval of the financial statements. Trustees are also required to make balanced, proportionate and clear disclosures about going concern in the financial statements where material uncertainties exist in order to give a true and fair view.
123. Under ISA (UK) 570, auditors are required to consider the

appropriateness of management's use of the going concern assumption in the preparation of the financial statements, and consider whether there are material uncertainties about the entity's ability to continue as a going concern that need to be disclosed in the financial statements.

124. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

#### Materiality

125. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.
126. Under ISA (UK) 260 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.
127. An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the business and the needs of the users.

128. When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a

different amount had we known about it during our planning.

129. The table below sets out our initial assessment of materiality, performance materiality and trivial thresholds for the six charitable trusts:

	Overall materiality for the financial statements (£)	Performance materiality (£)	Trivial threshold (£)	Explanation
Lauriston Castle	140,900	105,675	7,045	<p><b>Overall materiality:</b> our assessment is based on approximately 2% of gross assets. We consider this benchmark to be the principal consideration for the users of the financial statements when assessing the performance of each charitable trust.</p> <p><b>Performance materiality:</b> Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.</p> <p><b>Trivial threshold:</b> 5% of overall materiality for the financial statements.</p>
Jean F. Watson	129,180	96,885	6,459	
Edinburgh Education Trust	20,380	15,285	1,019	
Nelson Halls	4,980	3,735	249	
City of Edinburgh Council Charitable Funds (Boyd Anderson)	2,120	1,590	106	
Royal Scots Monument Trust	720	540	36	

# Audit outputs, timetables and fees



## Audit outputs, timetable and fee

### Audit outputs

The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021 (currently in draft) amend dates set in the Local Authority Accounts (Scotland) Regulations 2014. The amended dates apply to the accounts for the financial year 2020/21 and state that the annual accounts should aim to be approved by 31 October 2021. Audit Scotland has also proposed 31 October for 2020/21 as the provisional submission deadline.

We have set out below target months which align to the Council's annual accounts timetable and 2021 schedule of GRBV and Finance & Resources Committee meetings. We will aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues as a result of the pandemic.

Audit output	Description	Target month	Deadline for submission to Audit Scotland
External audit plan	This report sets out the scope of our audit for 2020/21.	March 2021	30 April 2021
Independent Auditor's Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.	October 2021	31 October 2021
Annual Report to the Council and the Controller of Audit	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	October 2021	31 October 2021

Audit output	Description	Target month	Deadline for submission to Audit Scotland
Report to those charged with governance relating to the charitable trusts	We will issue an ISA 260 report addressed to the trustees summarising our opinions, conclusions and the significant issues arising from our work.	October 2021	31 October 2021
Grant claims and returns: <ul style="list-style-type: none"> <li>• Education Maintenance Allowances (EMA)</li> <li>• Non domestic rate income return (NDRI)</li> <li>• Whole of Government Accounts (WGA)</li> <li>• Housing benefit subsidy claim (HB)</li> </ul>	We provide assurance, by way of an audit certificate on the grant claims / returns listed.	<ul style="list-style-type: none"> <li>• EMA: July 2021</li> <li>• NDRI: October 2021</li> <li>• WGA: TBC</li> <li>• HB: TBC</li> </ul>	N/A
130. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.  131. 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.			comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
<b>Audit fee</b>  132. Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares		133. As auditors we negotiate a fee with the Council during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.  134. For 2020/21 the expected fee for the Council is £595,270. We propose setting the 2020/21 audit fee above the expected fee to reflect the co-	

ordinated and integrated approach to working with internal audit. For 2020/21 this includes the following areas of work:

Area	Fee
Payroll: detailed data analytics of Payroll system data.	£8,100
Risk management – a follow up of the recommendations raised in 2019/20 on the Council’s risk management arrangements	£2,400

135. The total proposed fee for the Council for 2020/21 is as follows:

	2020/21	2019/20
Auditor remuneration	£333,550	£347,828
Pooled costs	£30,720	£30,690
Contribution to PABV costs	£223,730	£218,730
Audit support costs	£17,770	£18,960
<b>Total fee</b>	<b>£605,770</b>	<b>£616,208</b>

136. 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

137. The audit fee in the table above does not include the cost of auditing charitable trust funds. We propose setting the audit fee for the audit of the charitable trusts at £8,240.

### Audit timetable

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

<b>JAN 21 – FEB 21</b>	●	Planning meetings to inform the 2020/21 audit
<b>MAR 21</b>	●	Presentation of External Audit Plan to the GRBV committee
<b>MAR 21 – JUN 21</b>	●	Interim audit including review of accounting systems
<b>JUL 21</b>	●	Accounts presented for audit and final audit visit begins. Grant claim audit work commences.
<b>OCT 21</b>	●	Presentation of our Annual Report on the Audit to the GRBV committee.

# Appendices



## Appendix 1: Azets

On 7 September 2020, the Cogital Group of companies (Scott-Moncrieff, Campbell Dallas, Baldwins and Wilkins Kennedy) came together as Azets. Whilst it is a new name, we still deliver the same personal approach to accounting, tax, audit, advisory and business services, digitally and locally.

With over 6,500 advisers and specialists across our office network, we help people and organisations of all shapes and sizes save time, work smarter and achieve their goals. Our job is to give you the support you need so you can focus on what you do best.

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 local authorities, NHS bodies, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

### Your Engagement Team

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**Nick Bennett**

**Audit Partner**

[nick.bennett@azets.co.uk](mailto:nick.bennett@azets.co.uk)

Nick has over 30 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.

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**Karen Jones**

**Audit Director**

[karen.jones@azets.co.uk](mailto:karen.jones@azets.co.uk)

Karen is one of our directors responsible for the audit of our Audit Scotland external audit appointments. She has considerable experience in planning and delivering audits, producing management reports and liaising with senior officers.

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## Nicola MacKenzie

Audit Manager

[nicola.mackenzie@azets.co.uk](mailto:nicola.mackenzie@azets.co.uk)

Nicola has over 6 years' public sector external audit experience, working with a range of bodies across local government, central government, health and further education sector.

Nicola will work alongside Karen to deliver the audit engagement.

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## Paul Kelly

Business Technology Consulting Director

[paul.kelly@azets.co.uk](mailto:paul.kelly@azets.co.uk)

Paul leads the delivery of our computer audit services to the Council and has over 20 years' experience of delivering services such as network infrastructure and security reviews and determining compliance with the requirements of the information security standard, BS779.

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## Mitchell Collins

Business Technology Consulting Senior Manager

[mitchell.collins@azets.co.uk](mailto:mitchell.collins@azets.co.uk)

Mitch supports Paul in the delivery of computer audit services to the Council, including the provision of data analytic services.

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## Matthew Swann

Business Risk & Assurance Services Associate Director

[matthew.swann@azets.co.uk](mailto:matthew.swann@azets.co.uk)

Matthew has over 10 years of experience delivering audit services to public sector bodies. He leads on the delivery of our work with internal audit to provide a co-ordinated and integrated approach to audit services.

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## Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services are provided to the City of Edinburgh Council. We have detailed in the table below the non-audit services provided to the wider group, the threats to our independence and the safeguards we have put in place to mitigate these threats.

Non-audit service	Type of threat	Safeguard
Corporation tax compliance services	Self-review	Corporation tax compliance services are provided by a separate tax team.
Tax advisory services	Self-review Management decisions	Tax advisory services are provided by a separate tax team.
Preparation of financial statements	Self-review Management decisions	All adjustments to the financial statements are agreed with those charged with governance. In addition to this, a 2 <sup>nd</sup> manager review of the financial statements is performed by an audit manager not involved in the audit of the financial statements.

The approximate total fees charged to the Group for the provision of services in 2020/21 is as follows:

	Current year £
Audit of City of Edinburgh Council (Auditor remuneration)	333,550
Audit of components (as audited by Azets)	153,889
<b>Total audit</b>	<b>487,439</b>
Non-audit services	34,000
<b>Total fees</b>	<b>521,439</b>



We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets, the Council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.

## Appendix 3: 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 Azets.

### Annual accounts

We 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 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 in advance of our final audit visit which sets out our expectations in terms of audit deliverables. This document helps to ensure we can work together to deliver an efficient and effective audit.

### 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.

### Representations

As auditors we do not act as a substitute for the Council's 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 Head of Finance (s95 officer).

### 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. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

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.

## Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if he knows or suspects that any person has engaged in money laundering or terrorist financing. Audit Scotland has extended this responsibility to the Accounts Commission in respect of local government.

We require the Council to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales.

## 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 in England and Wales.

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.



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**Accounting | Tax | Audit | Advisory | Technology**

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