



Scott-Moncrieff
business advisers and accountants

City of Edinburgh Council

External Audit Plan
2017/18

February 2018

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1

Introduction

Introduction

1. This document summarises the work plan for our 2017/18 external audit of the City of Edinburgh Council and the charitable trusts administered by the Council.
2. The core elements of our work include:
 - an audit of the 2017/18 annual accounts, for both the Council and its group and the charitable trusts, and related matters;
 - a review of the Council's arrangements for governance and transparency, financial management, financial sustainability and value for money;
 - an assessment of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
 - provision of opinions on a number of grant claims and returns;
 - providing existing evidence and intelligence for, and participating in, shared risk assessment (SRA) processes leading to the preparation of a local scrutiny plan for the Council;
 - audit and report on the Strategic Audit Priorities and Best Value;
 - Monitoring the Council's participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland.

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.
4. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Scott-Moncrieff as external auditor of the Council for the five year period 2016/17 to

2020/21. This document comprises the audit plan for 2017/18 and summarises:

- the responsibilities of Scott-Moncrieff 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 Scott-Moncrieff and the audit team.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we will comply with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence. Our assessment includes consideration of:
 - Provision of non-audit services to the Council's group components; and
 - Relationships between Scott-Moncrieff and the Council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.

Adding value through the audit

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

10. As part of our 2016-17 audit we added value to the Council and Audit Scotland in a range of ways:

Training and development

- We supported the Council, following the local government elections in May 2017, by delivering separate sessions for elected members on understanding the audit regime and Best Value and wider scope audit;
- We supported the Council Finance Team to deliver training on understanding the financial statements by providing training materials and examples of scrutiny questions for elected members.

Regular contact with the Council

- We invest senior time to ensure that we keep up to date with significant issues and share that knowledge across our team. Examples include:
 - Our Engagement Partner and Director hold quarterly meetings with the Chief Executive. In 2017/18 these meetings include the Executive Director of Resources;
 - We hold regular catch ups with the Head of Finance (Section 95 Officer);
 - We have met with the Chair of the Edinburgh IJB Audit Committee;
 - We hold regular catch ups with the Council's Strategy and Insight Team; and
 - We meet with the Chief Internal Auditor on a regular basis.
- As part of our introductory process we also held a meeting with the Chair of the Governance, Risk and Best Value Committee to ensure that we understood the key assurance needs of the Committee in planning our work.

Providing assurance to the Council and Audit Scotland

- We met the deadlines set out in Audit Scotland's annual planning guidance in respect of the delivery of audit plans, independent auditor reports and annual reports.

- The Council has experienced a number of difficulties in the delivery of ICT services by its partner CGI. During our 2016/17 audit we used specialist ICT auditors to conduct reviews of security management. Our findings have provided the Council with leverage to hold senior partners from CGI to account for the service provision. The Governance, Risk and Best Value Committee has also asked our team to follow up on our findings and provide updates in 2017-18.
- In 2016/17, the Commission received two letters citing objections to the annual accounts. We supported the consideration of the objections, including a hearing into the points raised in one case.

Feedback

11. 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 the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX
12. While this plan is addressed to the Council, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

2

Respective responsibilities of the auditor and the Council

Respective responsibilities of the auditor and the Council

Auditor responsibilities

Code of Audit Practice

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

Our responsibilities

14. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 16). These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on audited bodies' 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
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
 - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
 - suitability and effectiveness of corporate governance arrangements
 - financial position and arrangements for securing financial sustainability
- and additionally for local authority auditors:

- effectiveness of arrangements to achieve best value
- suitability of arrangements for preparing and publishing statutory performance information.

15. 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, 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.

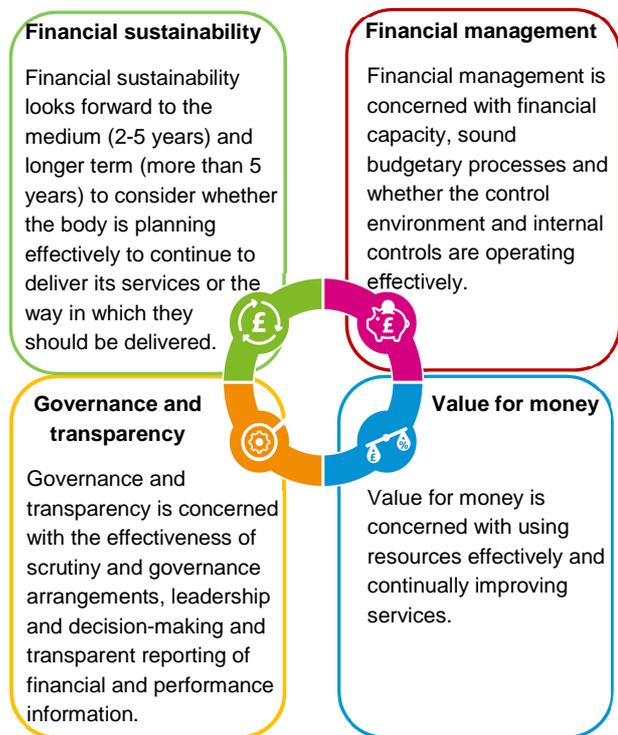
Wider scope audit work

16. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
17. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
18. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:
- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
 - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
19. Our assessment takes into account the size, nature and risks of the organisation.
20. Taking these factors into consideration, we have concluded that application of the full wider scope is appropriate at the Council.

Best Value

21. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. This framework introduced a five year approach to auditing Best Value, which was used by auditors as part of the 2016/17 audits. 2017/18 represents year two of the Best Value audit plan in each council.
22. A key feature of this framework is that it integrates Best Value into the wider scope audit work, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific areas. Conclusions

Exhibit 1: Audit dimensions of wider scope public audit



and judgements will be reported through:

- The Annual Report on the Audit
 - An annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight findings from across all 32 councils
 - A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.
23. In 2017/18 we will focus on the Council's arrangements for demonstrating Best Value in the following areas:
- Improvement;
 - Partnership working and empowering communities; and
 - Financial governance and resource management.
24. Our work will be integrated into our audit approach, including our work on the wider scope audit dimensions and will be reported in our Annual Report on the Audit.

Strategic audit priorities for local government audits

- 25.** The Accounts Commission has set the following five strategic Audit Priorities that it expects auditors to consider in all work across local government:
- The clarity of a council's priorities and quality of long term planning to achieve these priorities;
 - How effectively a council is evaluating and implementing options for significant changes in delivering services;
 - How councils are ensuring members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future;
 - How well councils are involving citizens in decisions about services and empowering local communities to identify and help deliver services in the future; and
 - The quality of a council's reporting of their performance to enhance accountability to citizens and communities.
- 26.** Our consideration of these priorities will be integrated into our 2017/18 audit work. The extent to which we will report on these will be dependent on the findings of our work as it relates to the four dimensions referred to above and is considered in section 6 of this plan.

Statutory performance information

- 27.** The Accounts Commission has a statutory responsibility to define the performance information that councils must publish to allow citizens to gauge their performance comparatively. 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 Commission's strategy has been to join up these different elements and emphasising its support of a local government-led approach to fulfilling this responsibility, rather than prescribing performance information to be reported by councils, as it did in the past. It has done this primarily by supporting the development by councils of the Local Government Benchmarking Framework (LGBF) and encouraging councils to develop their approaches to public performance reporting.

The 2015 Statutory Performance Information Direction published by the Commission requires councils to report a range of information in accordance with, but not confined to, the requirements of the LGBF. The Commission has committed to reviewing its 2015 Direction after three years, therefore will be updating this at the end of 2018.

- 28.** As external auditors we are required to satisfy ourselves that the Council has made suitable arrangements for preparing and publishing statutory performance information.

Council responsibilities

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

Exhibit 2 – Council responsibilities

Area	Council responsibilities
<p>Financial statements: 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"> • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures • maintaining proper accounting records • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.
<p>Financial sustainability: 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"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the organisation plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.

Exhibit 2 – Council responsibilities

Area	Council responsibilities
<p>Financial management: Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is the Council's responsibility to ensure that financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Council 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 their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is the Council's responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p>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.</p>	<p>The Council is responsible for establishing arrangements to ensure the proper conduct of their 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>The Council is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p>Value for money: 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>

Exhibit 2 – Council responsibilities

Area	Council responsibilities
<p>Best Value: 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 their 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>

3

Audit strategy

Audit strategy

Risk-based audit approach

30. 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:



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

Communications with those charged with governance

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

Professional standards and guidance

33. We perform our audit of the annual accounts 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

34. We will 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 within the public sector.

Shared risk assessment and joint scrutiny planning

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

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

37. We are currently participating in a refresh of the Council's shared risk assessment. The Council 2018/19 local scrutiny plan will be published on the Audit Scotland website in May 2018. We will update our 2017/18 external audit plan if required following completion of this exercise.

Audit Scotland

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

Internal audit

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

Co-ordinated and integrated approach to audit

42. 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.”

43. Over the course of our audit appointment to City of Edinburgh Council we intend to work with internal audit to provide a co-ordinated and integrated audit resource.
44. While we intend to place reliance on the work of internal audit (in both the financial statements audit and our wider scope audit), we also intend to work with internal audit, specifically over 2018 and 2019 on the following:
- Systems access controls - Use of data analytics to assess whether user access levels comply with segregation of duties requirements.
 - Migration of data from Oracle to Business World - by gaining access to data in both systems we can confirm whether the data has been completely and accurately transferred to Business World.
45. The work may fall within the reporting timescales for our 2017/18 annual audit (reporting in September 2018); if this is the case we would consider the findings for their potential impact on the audit of the financial statements.

4

Annual accounts – City of Edinburgh Council

Annual accounts – City of Edinburgh Council

Introduction

46. 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 annual accounts

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

Risk-based audit planning

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

An audit of key systems and internal controls

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

50. 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.

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

52. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

A final audit of the annual accounts

53. 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.

54. 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 2017/18 (the CIPFA Code).

Group audit

55. The Council has a complex group which requires consolidation of a range of subsidiaries, associates and joint ventures. Appendix 3 sets out the Council's group structure.

56. In addition to the Council, we deem the following subsidiaries to be significant in the context of the group audit:

- CEC Holdings; and
- Transport for Edinburgh.

57. To support our audit work on the Council's group accounts, we seek to place reliance on the work of the auditors to these bodies. As Scott-Moncrieff 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.

58. 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.

59. As part of our audit we will perform analytical procedures at the group level. We will review the consolidation entries made within the group accounts and confirm those entries back to audited financial statements.

Independent auditor's report

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

Materiality

- 61.** 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 will review our assessment of materiality throughout our audit.
- 62.** Our initial assessment of materiality for the group and Council is set out in the table below. Our assessment of materiality is set with reference to gross expenditure¹. We consider this to be the principal consideration for the users of the annual accounts when assessing the performance of the Council and its group. We will continue to review our assessment of materiality during the course of our audit.

Group materiality ² £million	Council materiality £million
19.2	17.6

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

	Area risk assessment £million		
	High (45%)	Medium (55%)	Low (70%)
Group	8.6	10.6	13.4
Council	7.9	9.7	12.3

- 64.** We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
 - Uncorrected misstatements with a value in excess of £250,000; and
 - Other misstatements below the £250,000 threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the annual accounts

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

¹ Based on gross expenditure as disclosed in the 2016/17 annual accounts.

² For the significant components within the Council group, as listed at paragraph 56, we have allocated a materiality that is less than the overall group materiality. For CEC Holdings this is £500,000 and Transport for Edinburgh £3.5million

Exhibit 3 – Key audit risks in the annual accounts

1. Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.



66. In response to this risk we will review the Council's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will review the key accounting estimates, judgements and decisions made by management. This will include, for example, depreciation and amortisation rates, pension assumptions, asset valuations, provisions and arrears.

2. 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 revenue transactions in such a way as to lead to a material misstatement in the reported financial position.



67. Our work on income will include an evaluation of each type of revenue transaction and a review of the controls in place over revenue accounting. We will consider the Council's key revenue transactions and streams and carry out testing to confirm that the Council's revenue recognition policy is appropriate and has been applied consistently throughout the year.

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "The Audit of Public Sector Financial Statements" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.



68. In response to this risk we will evaluate the significant expenditure streams (excluding payroll which is not deemed to be a significant risk area) and review the controls in place over accounting for expenditure. 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.

Exhibit 3 – Key audit risks in the annual accounts

4. Property, plant and equipment

The Council's approved general fund capital budget for 2017/18 is £172million. As at period 9, the Council was reporting a projected outturn of £140million. The housing revenue account capital budget for 2017/18 is £78million. As at period 9, the Council was reporting a projected outturn of £69million.

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.

In January 2018, a paper was presented to the Council's Finance and Resources Committee on the condition of its building estate. The report noted that, based on a snapshot of the condition of the operational estate (September 2017), there is a requirement to spend £153million over the next five years to address the backlog maintenance. The results of this survey could be used as part of management's assessment of impairment of the operational estate.



69. Our audit work will review delivery of the 2017/18 capital budget against outturn. We will also review management's assessment of impairment and agree the valuation of property, plant and equipment to the valuer's report. We will also undertake testing on additions, disposals and depreciation and review the Council's accounting policies to ensure compliance with these.

Other risk factors

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

Significant trading operations

71. 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.
72. The Council's Edinburgh Catering Services – Other Catering trading operation has previously failed to breakeven over a three year period. The Council has put in place a number of measures addressing the profitability of the service going forward, including a new pricing policy and reductions in vending equipment. The catering service is also included within the scope of the property and asset management strategy which is being pursued by the Council.
73. As part of our audit we will review and report on whether the trading operation has met the statutory target to breakeven over a three year

period. Should the trading operation fail to meet this target we will report this matter in our independent auditor's report.

Group audit

74. During the planning stages of our group audit we consider whether there are, for the components, risks which could lead to a material misstatement in the Council's group. We have noted the following in respect of bodies which fall within the CEC Holdings Group:
75. In early 2017, the Council confirmed that operational activities undertaken by EDI, Parc Craigmillar and Waterfront Edinburgh would in future be delivered through an in-house Council Model. A transition period would ensure business as usual for existing projects operated by the companies and a commitment was made to honour all contractual arrangements in place for key projects.
76. No time frame for enacting this decision was given and in the absence of a known date by which activities, assets and liabilities, including properties were to be transferred all companies accounts were prepared on a going concern basis.

77. We will obtain confirmation from the audit team of whether this accounting basis is still appropriate.

Related party transactions

78. The Council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.
79. The councillors' register of interests is one way that the council can identify some of its related parties. On review of the councillors' register of interests in 2016/17, we identified four additional interests which had not been declared.
80. There is a risk, should the registers not be updated, that the Council does not identify and report all related party transactions in its annual accounts.
81. During our audit we will review the registers of interests to ensure these are up to date and where appropriate related party transactions have been disclosed in the 2017/18 annual accounts.

Common good

82. Local Authorities are required to administer common good funds under section 15 of the Local Government (Scotland) Act 1994. The purpose of common good funds is to provide benefit to the population of the area either through the disbursement of funds, securing assets for on-going use for the population or contributing to specific local projects/initiatives.
83. The Community Empowerment (Scotland) Act 2015 obliges local authorities to establish and maintain a register of property which is held by the authority as part of the common good.
84. The Scottish Government issued draft guidance for consultation in 2017, the findings of which were also published in 2017 (November 2017). The consultation concerned the statutory guidance related to Part 8 of the Community Empowerment (Scotland) Act 2015 – common good registers - and asked for views on issues such as timescales, information about assets, local consultation, publicising proposals and disposal and use of common good property.
85. In September 2017, the Council's Finance and Resources Committee received an update on

this subject. A further update will be presented to the Finance and Resources Committee in March 2018.

86. During our audit we will monitor the Council's response to the consultation and further guidance issued by the Scottish Government.

5

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

Annual accounts – charitable trusts administered by City of Edinburgh Council

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

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

Charitable Trust Funds (as at 31 March 2017)

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

Key audit risks in the financial statements

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

Exhibit 4 – Key audit risks in the financial statements

1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.



90. In response to this risk we will review the Trusts' accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will review the key accounting estimates, judgements and decisions made by management.

2. 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.



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

Exhibit 4 – Key audit risks in the financial statements

3. Lauriston Castle Trust external valuation

An external revaluation of the collection commenced in 2016 but has yet to be completed. The financial statements in 2016/17 reflected the valuation as at the previous reporting date (31 March 2016).

There is a risk that the result of this valuation is incorrectly accounted for in the 2017/18 financial statements.



- 92.** 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 2017/18 financial statements.

4. Winding up of Trusts

In February 2017, the Council's Finance and Resources Committee approved the transfer of all funds held by the Usher Hall Conservation Trust to the Usher Hall to contribute to the purchase cost of its new grand piano. Consent to wind up this charitable trust was received from the Office of the Scottish Charity Regulator (OSCR) in December 2016.

In January 2018, a paper was presented to the Council's Finance and Resources Committee seeking approval for the formal winding up of the Boyd Anderson Charitable Trust 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.

There is a risk that these decisions are not accounted for and disclosed correctly In the financial statements.



- 93.** 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.

Materiality

- 94.** Our assessment of materiality for each charitable trust is set with reference to a range of benchmarks, including income and gross assets. We consider these to be the principal considerations for the users of the financial statements when assessing the financial performance of each charitable trust fund.
- 95.** The table opposite sets out materiality for the seven charitable trust funds. We will revisit our assessment during our audit of the financial statements.

	Materiality £
Lauriston Castle	140,840
Jean F. Watson	125,560
Edinburgh Education Trust	18,420
Nelson Halls	4,680
Boyd Anderson	2,360
Usher Hall Conservation Trust	1,360
Royal Scots Memorial Trust	660

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

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

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

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

6

Wider scope audit

Wider scope audit

Introduction

98. As described in section 2, the Code frames a significant part of our audit responsibilities in terms of four wider scope audit dimensions. As part of our annual audit we consider and report against these four dimensions:

- financial sustainability
- financial management
- governance and transparency; and
- value for money.

Audit of Best Value

99. The Accounts Commission agreed a new approach to auditing Best Value in June 2016. A key feature of the new approach is that it integrates best value planning and reporting into the wider scope annual audit. The Council's approach to best value will be assessed both as part of our annual wider scope work, but also through a phased focus on aspects of best value across our five year audit appointment. In 2017-18, we have agreed that we will consider the Council's approach to:

- Improvement, as part of our work on Value for Money
- Partnership working, as part of our work on Governance and Transparency.
- Resource management, as part of our work on Financial Management.

100. We describe our approach to these within the relevant sections below.

101. Our conclusions and judgements on Best Value will be reported through the Annual Audit Report. In addition, the Accounts Commission will consider an Annual Assurance and Risks report, prepared by the Controller of Audit on an annual basis, which will highlight findings from across all 32 councils.

102. At least once in a five year period, the Accounts Commission will consider a Best Value Assurance Report (BVAR) on how effectively the Council is responding to the statutory duty of best value. The BVAR will be jointly prepared with an Audit Scotland team and will draw on

the conclusions we have reached across our appointment.

Consideration of National Risks

103. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in 2016-17 to develop an understanding of the Council's key priorities and risks. In 2017-18, Audit Scotland has also identified the following national risks, which we have considered as they relate to the Council:

- Preparations for EU withdrawal
- The Scottish Parliament's new financial powers
- Ending of public sector pay cap
- Cyber security risks
- Openness and transparency.

104. Exhibit 5 summarises the three significant risks in relation to our wider scope audit responsibilities that we have identified at this stage of our audit planning:

- Financial sustainability
- CGI contract management; and
- the Health and Social Care Integration Joint Board

Exhibit 5 – Wider Scope Significant Risks

1. Financial sustainability

During our 2016-17 audit, we highlighted that the Council has a well-developed Financial Strategy and has a clear understanding of future pressures and the impact on the medium term financial position. However, at the most recent Revenue Budget Framework update, presented to the Finance & Resources Committee in February 2018, the projected cumulative savings gap to 2022-23 was estimated at £151.2 million.

The Council continues to implement a third phase of the transformation programme, along with the programme management necessary to deliver on this challenging target. There is a risk that the change and transformation programme may not deliver the level of savings intended, or at the pace of change required.

- 
- 105.** During our 2017-18 audit we will continue to review whether the Council has adequate arrangements in place to manage its financial position and deliver the scale of savings required. Our work will include analysis of the achievement of savings targets for 2017-18, the development of savings plans for future years, and consideration of the underlying financial position.

2. Governance: CGI Contract Management

At its meeting on 16 January 2018, the Governance, Risk and Best Value Committee considered an update report on the CGI-led transformation programme. The report highlighted a number of failings in relation to original and revised timescales not having been met. The GRBV Committee requested a progress update to be taken to the May 2018 meeting. Audit Scotland has also expressed interest in CGI's delivery given that they have a number of high profile contracts in Scotland (e.g. Glasgow City Council and Rural Payments IT system which was heavily criticised in an Audit Scotland report in June 2017).

- 
- 106.** At the GRBV meeting on 16 January 2018, the committee requested that we prepare a follow up report for the May 2018 meeting which provides an update on the audit recommendations and general security management arrangements. Our specialist ICT auditors will work with the council's internal auditors to consider the effectiveness of CGI's programme and project governance arrangements and how these integrate with the council's governance arrangements.

3. Value for Money: Health and Social Care

In 2016-17, the Integration Joint Board (IJB) noted that the level of delayed discharges in the city presented a risk to the partnership in providing the right care at the right time. To reflect the importance and urgency of the number and length of delayed discharges the IJB received regular updates on performance and whole system delays throughout the year. During 2017-18, the performance has continued to worsen despite the focus given to the issue. Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland.

We also note that the IJB currently forecasts a projected overspend of £7.1m in 2017-18, including around £6m slippage in planned transformation savings.

- 
- 107.** We will continue to monitor the performance of the IJB, including progress against the improvement plan agreed with the Care Inspectorate, progress in reducing outstanding assessments, and in reducing the level of delayed discharges. We will also consider the Council's approach to gaining assurance on the financial sustainability of the partnership.

108. 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. The table below summarises our audit work in respect of each dimension.



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 5:</p> <p>During 2016-17, we were satisfied that the Council had a well-developed Financial Strategy and a clear understanding of future pressures and the impact on the medium term financial position.</p> <p>The Council has, however, identified a significant savings gap for the period to 2022-23 with no clear plan at this stage to deliver the required savings. In addition, financial risks such as demand pressures on health and social care, and the impact of EU withdrawal place additional uncertainty on the council's future budgets.</p>	<p>During our 2017-18 audit we will update our assessment of the Council's financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting. Our work will also consider the adequacy of the Board's preparations and scenario planning for the impact of EU withdrawal and key financial assumptions such as the impact of the ending of the public sector pay cap.</p> <p>We will also review the governance and programme management arrangements that have recently been developed to deliver further transformation and savings.</p>



Financial management

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

Consideration	Our audit approach
<p>The Council's Finance and Resources Committee receives quarterly financial performance reporting, including risk assessed updates on the achievement of planned savings. The reports are referred to the GRBV Committee for full scrutiny.</p> <p>In the most recent projections, the Council anticipates that a breakeven position will be delivered in 2017-18. Projected overspends within Health and Social Care and Safer and Stronger Communities are currently offset by reductions in expenditure and increased revenue elsewhere.</p> <p>In September 2017, the Council approved the commencement of Stage 2 for the tram extension project (York Place to Newhaven). Stage 2 is the procurement and public consultation phase, and is scheduled to take approximately 12 months. Expected milestones include the completion of tender evaluations by September 2018. Subject to Council approval, the main construction contract is expected to be awarded, and stage 3 of the project approved by November 2018.</p> <p>Following the original trams project, which was completed after significant delays and over-spends, an independent inquiry chaired by Lord Hardie was convened and is currently underway. Lord Hardie is expected to publish his findings by Summer 2018, to allow recommendations and lessons learned to be built into the final contract for award for the York Place to Newhaven project should this proceed.</p>	<p>During our 2017/18 audit we will review, conclude and report on the following:</p> <ul style="list-style-type: none">• Whether the Council has arrangements in place to ensure systems of internal control are operating effectively;• Whether the Council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;• Whether the Council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and• The Council's participation and progress in the National Fraud Initiative. <p>We will work with the Council's internal auditors to provide assurance on the trams project. Our work will focus on the robustness and appropriateness of the financial model, while internal audit will consider project governance including the preparation of the business case and options appraisal procedures. We will draw on this work during our assessment of the Council's resource management arrangements within the annual audit report.</p>



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	Our audit approach
<p>During 2016-17, we noted that the Council's new administration quickly set out an updated Business Plan for the medium term which was based on a clear understanding of future pressures.</p> <p>Following the Public Pound arrangements continue to improve and have been enhanced by the establishment of a Governance Hub for council companies. Audit Scotland has selected Edinburgh as one of its case study sites for its national performance audit of Arm's-Length External Organisations. We anticipate that the national report will be published in summer 2018.</p> <p>During 2017-18, the council has taken steps to review and improve key partnership arrangements, including the establishment of Locality Committees. In addition, the council will work with a range of partners to deliver a city region deal, which aims to drive investment and address inclusion across the regional area.</p> <p>As noted in Exhibit 5: During 2016-17, we presented our findings on an audit of CGI Security Management to the GRBV Committee. The audit identified a number of weaknesses relating to the delivery of timescale, and the impact on the council's transformation programme.</p>	<p>We will review the Council's updated local code of governance and the extent to which it complies with current guidance: <i>Delivering good governance in local government: framework (2016)</i>.</p> <p>We will continue to consider whether the information provided to committees is sufficient for members to assess the impact of decisions on resources and performance.</p> <p>During 2017-18, we have identified Partnership Working as an area of focus in our best value work. We will consider the council's approach to partnership working to deliver improved outcomes in the local area. Our review will include consideration of how well the council has worked with the NHS Board and the integration authority to develop a shared analysis of local needs, and use this as a basis to inform their plans to redesign local services.</p> <p>We will continue to monitor the progress of the city deal, including the implications for the council's medium term financial plan, and arrangements to monitor the impact on outcomes throughout the term of our engagement.</p> <p>We will carry out a follow up review on the audit recommendations made in relation to the CGI Security Management report.</p>



Value for money

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

Consideration	Our audit approach
<p>The Council's strategic framework includes 2050 Edinburgh City Vision, Community Plan, Locality Improvement Plans, Council Business Plan, Service Implementation Plans and Council Strategies. The Council has recently approved a revised Performance Framework to support the implementation of the Business Plan. The Community Plan is also due to be refreshed and agreed with public sector partners in March 2018.</p> <p>As noted in Exhibit 5: During 2016-17, we reported on significant performance and financial concerns relating to the Edinburgh Integration Joint Board. The IJB continues to face demand pressures, and performance issues relating to delayed discharges and waiting times for care packages.</p> <p>We also noted areas of persistently poor performance within 2016-17, in roads and waste services. Improvement plans were in place for both and reported to the Transport and Environment Committee.</p>	<p>During 2017-18, we have identified the Council's approach to improvement as a focus of our best value work. We will seek evidence that outcomes are improving and that the pace of improvement is managed in line with resources. Our review will include consideration of the impact of transformation work, how effectively the council has identified improvement priorities, and how self-aware the council is in understanding its relative performance and improvement needs.</p>



Audit outputs, timetable and fees

Audit outputs, timetable and fees

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

Audit output ³	Format	Description	Target month
Follow up on CGI security management arrangements	Report	This report is a follow up on the audit recommendations included in our CGI security management arrangements report (presented to GRBV committee in October 2017).	January 2018
NFI audit questionnaire	Return	This return to Audit Scotland will reflect NFI activity undertaken by the Council.	February 2018
External audit plan	Report	This report sets out the scope of our audit for 2017/18.	March 2018
Financial statements strategy	Report	The purpose of this document is to provide management with a clear understanding of our requirements of the Council, and our approach and expectations, for the preparation of the financial statements for the year ending 31 March 2018.	March 2018
Follow up on CGI security management arrangements	Report	This report is a further follow up on the audit recommendations included in our CGI security management arrangements report (presented to GRBV committee in October 2017).	May 2018
Interim Management Report	Report	This report will summarise our interim work on accounting systems.	August 2018
Independent Auditor's Report	Report	This report will contain our opinion on the truth and fairness of the annual accounts.	September 2018
Annual Report to the Council and the Controller of Audit	Report	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.	September 2018
Report to those charged with governance relating to the charitable trusts	Report	We will issue an ISA 260 report addressed to the trustees summarising our opinions, conclusions and the significant issues arising from our work.	September 2018

³ Refer to Appendix 4 for a list of all grant claims and returns to be audited in 2017/18.

Audit output ³	Format	Description	Target month
Whole of government accounts	Assurance Statement	This statement will contain our opinion on whether the consolidation pack is consistent with the Council's audited financial statements.	October 2018

Audit outputs

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

Audit fee - Council

- 111.** Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts

and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

- 112.** As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.
- 113.** For 2017/18 the expected fee for the Council is £563,210. We propose setting the 2017/18 audit fee above the expected fee level for the following two areas. We consider these areas to be of high risk profile for the Council and any audit work in these areas is over and above what is factored into the expected audit fee (as described above):

	Proposed fee
<p>1. Follow-up of CGI Security Management audit</p> <p>We presented our findings to the Governance, Risk and Best Value Committee (GRBV) in October 2017. Following consideration of our findings, GRBV requested that we carry out a follow up review on the audit recommendations and report back to it at the January 2018 meeting. The work has been split into two phases:</p>	
<ul style="list-style-type: none"> Phase 1 - The first phase was reported to GRBV committee in January 2018. Preparatory work had to be undertaken, including a pre-meeting with the Council's ICT team and CGI. Subsequent to this we held meetings with the CGI Security Manager as well as the CGI Vice President for Cyber Security. We also held discussions with the Council's ICT team to validate CGI's assertions. Our proposed audit fee includes attendance at GRBV committee. 	£5,500
<ul style="list-style-type: none"> Phase 2 - At the GRBV committee meeting on 16 January 2018, the committee requested for a report for the May 2018 meeting which provides an update on the audit recommendations and covers general security. <p>This will need a similar level of audit input as phase 1, including on-going dialogue with CGI and the Council's ICT team. In addition, we expect a new team to be involved so there will be some additional costs associated with, for example relationship building.</p>	£6,000

2. Edinburgh Trams – York Place to Newhaven

In September 2017, the Council approved the commencement of Stage 2 activities in respect of the tram extension (York Place to Newhaven). Stage 2 of the project is the procurement phase, and is scheduled to take approximately 12 months. Public consultation will also commence during Stage 2. Stage 2 milestones include the completion of tender evaluations by September 2018. Subject to approval by Council, the main construction contract is expected to be awarded, and stage 3 of the project approved by November 2018.

Following the original trams project, which was completed after significant delays and over-spends, an independent inquiry chaired by Lord Hardie was convened and is currently underway. Lord Hardie is expected to publish his findings by Summer 2018, to allow recommendations and lessons learned to be built into the final contract for award for the York Place to Newhaven project.

We will place reliance on the work of Internal Audit for an element of this review, as detailed further below. We are due to report our findings within our 2017/18 annual audit report in September 2018. Given the timing of our reporting, the expected revision of the project financial model to reflect the contract tender process will fall after this reporting deadline. We will therefore conduct an element of the review as part of the 2018/19 audit. The proposed fee noted reflects the 2017/18 audit work only.

The project will be assessed against good practice guidance. The robustness and appropriateness of the project will be reviewed in several areas. Internal Audit are conducting a review of the following areas:

- project business case;
- options appraisal procedures; and
- contract procurement procedures.

We will place reliance on the work of Internal Audit and will therefore conduct a review of the work in order to gain appropriate assurances over our reliance. We will report on these areas within our 2017/18 annual audit report.

In addition to the work of Internal Audit, we will review the robustness and appropriateness of the project financial model used for the original project business case. We will report our findings of this review within the 2017/18 annual audit report.

It is expected that by approximately December 2018 the financial model will be revised to reflect the conclusion of the contract tender process. We will therefore review and report on the robustness and appropriateness of the revised financial model as part of the 2018/19 audit.

We will not express an opinion on the Council's decision to approve stages one and two of the tram extension project.

£22,000

115. The total proposed fee for the Council for 2017/18 is as follows:

	2017/18
Auditor remuneration	£333,020
Pooled costs	£26,610
Performance audit and Best Value	£218,060
Audit support costs	£19,020
Total expected fee	£596,710⁴

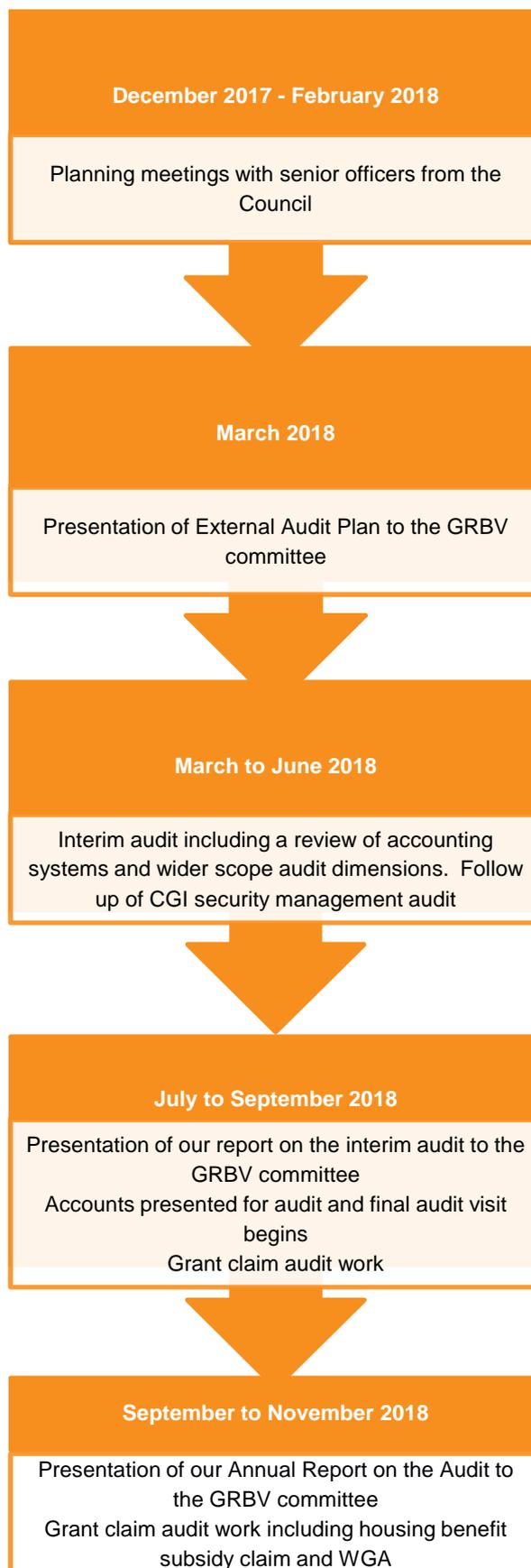
116. We will take account of the risk exposure of the Council and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the 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

117. The expected fee does not include the cost of auditing charitable trust funds. We propose setting the audit fee for the audit of the charitable trusts at £9,000.

Audit timetable

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



⁴ The audit fee in 2016/17 was £561,250.

8

Appendices

Appendix 1: Your audit management team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 17 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

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

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

Your audit management team



Nick Bennett ACA CA CPFA

Audit Partner

nick.bennett@scott-moncrieff.com

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



Karen Jones CPFA

Director

karen.jones@scott-moncrieff.com

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



Grace Scanlin CPFA

Senior manager

grace.scanlin@scott-moncrieff.com

Grace is the firm's performance audit lead and has significant experience in the audit of Best Value, and of performance and strategic issues facing public sector bodies.

Your audit management team



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

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



Rachael Blenkinsop CPFA
Assistant Manager
rachael.blenkinsop@scott-moncrieff.com

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



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

Stacey has 5 years external audit experience and will work alongside Karen, Rachael and Georgina in the delivery of the audit of the annual accounts.



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

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

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.

Group non-audit services

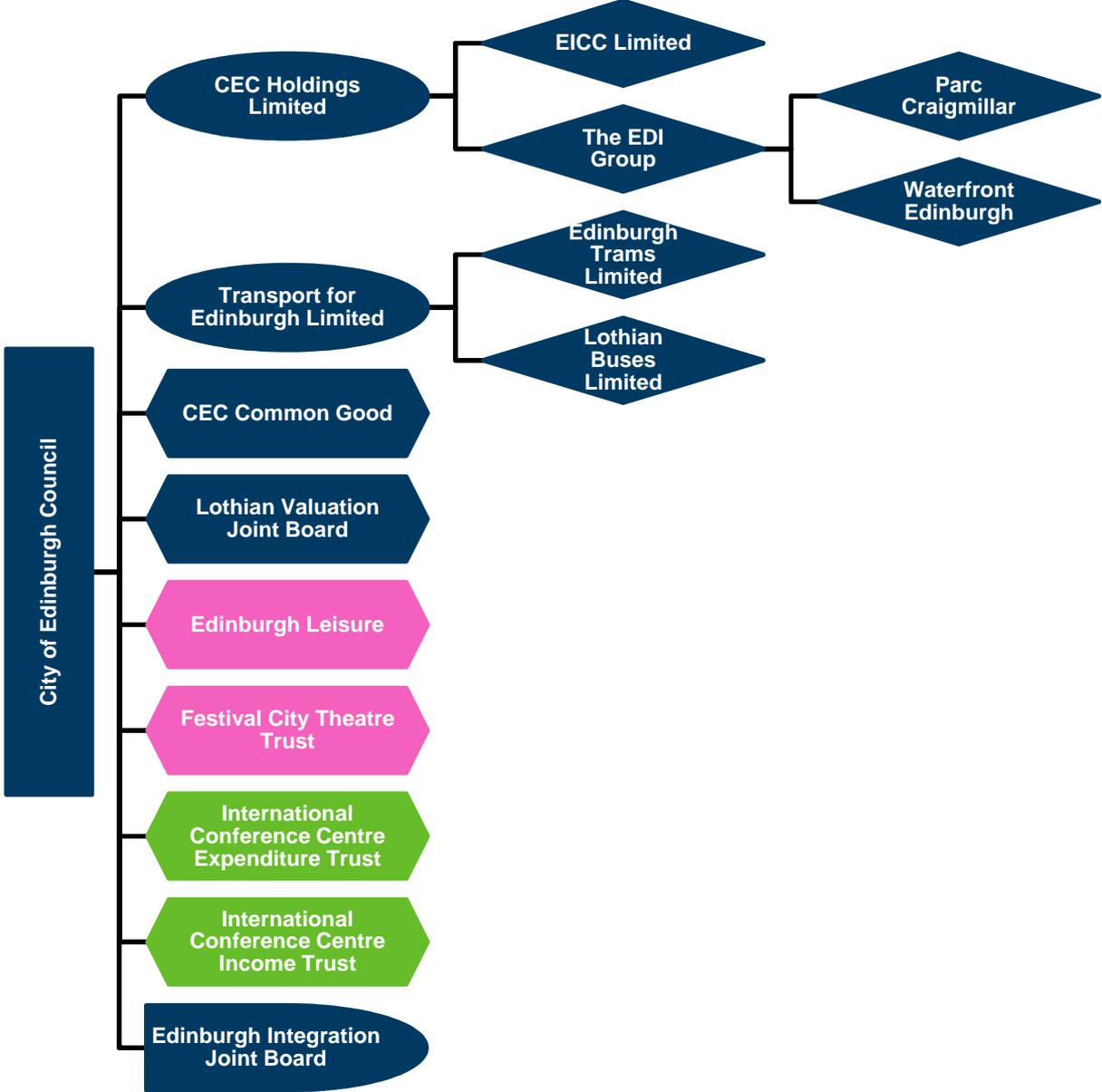
Scott-Moncrieff provides taxation services to CEC
Holdings group and Transport for Edinburgh group. All
tax services are provided by independent partners and
staff who have no involvement in the audit of those
financial statements. The total value of taxation
services provided is approximately £28,000.

Confirmation of independence

We confirm that we will comply with FRC's Revised
Ethical Standard (June 2016). In our professional
judgement, the audit process is independent and our
objectivity has not been compromised in any way. In
particular there are and have been no relationships
between Scott-Moncrieff and the Council, its elected
members and senior management that may
reasonably be thought to bear on our objectivity and
independence.

Appendix 3: Group financial statements

The exhibit below sets out the structure of the Council's group:



Key:

	Council		
	Subsidiary		Component body of subsidiary
	Associate		Joint Venture

	Audited by Scott-Moncrieff (core team or separate team)
	Audited by component auditor (not assessed as significant component)
	Not audited (not assessed as significant component)

Note: Only significant components for each subsidiary have been disclosed in the diagram above.

Appendix 4: Grant claims and returns to be audited in 2017/18

Grant claim/return	Indicative certification date
Education maintenance allowance	31 July 2018
Whole of Government Accounts	28 September 2018
Criminal justice social work services grant claim	30 September 2018
Non domestic rate income return	6 October 2018
Housing benefit subsidy claim	30 November 2018

Appendix 5: Statement of understanding

Introduction

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

Annual accounts

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

Scope of audit

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

As auditors we do not act as a substitute for the Council'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. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Ethics

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

Fees

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

Service

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

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

Reports

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

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

dates for implementation and details of the responsible officer.

Agreement of terms

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



Scott-Moncrieff
business advisers and accountants

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