

**REPORT BY THE CONTROLLER OF AUDIT TO THE ACCOUNTS COMMISSION UNDER
SECTION 102(1) OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973**

THE 2011/12 AUDIT OF THE CITY OF EDINBURGH COUNCIL

Introduction

1. The Code of Audit Practice requires auditors at the conclusion of each year's audit to produce a report summarising the significant matters arising from the audit. For local authorities, these reports are addressed to elected members and the Controller of Audit.
2. I have received the annual audit report for City of Edinburgh Council for 2011/12. It provides an update on significant matters in which the Accounts Commission has an interest. I have therefore decided to use the reporting powers available to me¹ to bring the annual audit report to the Commission's attention.
3. In addition to providing the Commission with up to date information on significant matters based on recent audit work, my report also informs the Commission about arrangements for the current Best Value audit at the Council and how Audit Scotland is working to ensure risk-based, proportionate scrutiny.

Annual audit report 2011/12

4. The auditor's annual audit report on the City of Edinburgh Council is attached as [Appendix 1](#). The report will be considered by the Council's Governance, Risk and Best Value Committee on 6 December 2012 and, in due course and in accordance with usual practice, it will be published on Audit Scotland's website along with the annual audit reports for all other local authorities.
5. I would draw the Commission's attention to the following points:
 - The auditor's opinion on the financial statements is unqualified.
 - Alternative Business Models. The Council decided not to pursue this approach to service provision in favour of in-house alternatives. The auditor's report contains more information about the Council's initiatives to address this. (Paragraph 146).
 - Trams. The auditor concludes that contractor relations are on a firmer footing and the project continues in line with the revised timetable and budget. However, as with other projects of this magnitude, risks remain. (Paragraph 86).
 - Statutory repairs service. An investigation has been on-going for about 18 months. The auditor highlights the challenge in restoring service reputation and the financial uncertainty in recovering amounts billed and unbilled. (Paragraph 26).
 - Operational governance arrangements. There are on-going, fundamental reviews of key aspects of governance. (Paragraph 84).
 - Overall financial position. The Council's useable reserves increased by £21.3 million (17%) during the year and totalled £144.3 million at 31 March 2012. Set against annual expenditure of £1.6 billion in 2011/12, revenue budgets for 2013/14 and 2014/15 show funding gaps of £4 million and £32 million respectively.
6. The auditor notes that the Council has already recognised the key issues set out in the annual audit report and that work is being undertaken to address them. Appendix B to the annual audit report sets out planned management action in response to the risks identified. The auditor will continue to monitor developments as part of the on-going audit work at the Council.

¹ Section 102(1) of the Local Government (Scotland) Act 1973

Best Value audit 2012/13

7. The Shared Risk Assessment (SRA) process results in Assurance and Improvement Plans (AIPs) which provide an assessment of scrutiny risk across outcomes, services and corporate areas and summarise the resulting scrutiny activities. The most recent AIP for City of Edinburgh Council was published in May 2012² and identifies that, in the context of a range of scrutiny risks and uncertainties, a Best Value audit should take place in 2012/13.
8. The Best Value audit is underway. It will consider the Council's progress since the previous Best Value audit in 2007³ and how the Council, along with its community planning partners, is responding to the challenges and delivering improving outcomes. The audit will also take account of developments since the publication of the AIP, including the impact of the change in political leadership following the council elections and current work to implement new governance and organisational structures.
9. The scope and depth of the audit has been influenced by a submission which the Council provided in advance of the Best Value audit. This demonstrates a good degree of self-awareness and provides a balanced picture, identifying the Council's assessment of good practice alongside actions and areas for improvement.
10. During the course of the Best Value audit, the Care Inspectorate is leading a multi-agency inspection of children's services. Audit Scotland will co-ordinate the Best Value work with the Inspectorate and draw on its findings in the Best Value audit report. The Best Value audit will also reflect other relevant inspection reports.
11. As indicated, the external auditor will continue to monitor the Council's response to the significant matters highlighted in the annual audit report and will report again to the Council and to me in due course. The Best Value audit will take account of the auditor's views on these matters to inform judgements about the council's performance in key aspects of best value, such as leadership and governance. However, the Best Value audit will not investigate these specific issues in detail.
12. I expect to make my report on the Best Value audit of City of Edinburgh Council to the Accounts Commission in April 2013.

Conclusion

13. The Commission is invited to consider this report.

Fraser McKinlay
Controller of Audit
5 December 2012

² http://www.audit-scotland.gov.uk/docs/best_value/2012/aip_120516_edinburgh.pdf

³ http://www.audit-scotland.gov.uk/docs/local/2006/by_070227_edinburgh.pdf