



City of Edinburgh Council

2020/21 Annual Audit Report to the Council and the
Controller of Audit

November 2021



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Key messages



This report concludes our audit of the City of Edinburgh Council for 2020/21.

This section summarises the key findings and conclusions from our audit.



Annual accounts audit

Audit opinion	<p>The annual accounts were considered by the Governance, Risk and Best Value Committee on 9 November and approved by the Finance and Resources Committee on 18 November.</p> <p>We report unqualified opinions within our independent auditor's report.</p>
Key findings on audit risks and other matters	<p>COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic, we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. We are pleased to report those risks identified did not materialise.</p> <p>The Council had appropriate administrative processes in place to prepare the annual accounts and the required supporting working papers.</p>
Audit adjustments	<p>Audit adjustments are detailed at Appendix 2. The overall impact on the annual accounts was an increase in group reserves of £53.359million.</p> <p>We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.</p>
Accounting systems and internal controls	<p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Council's processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. We consider the control environment within the Council to be satisfactory although there is scope for improvement.</p>

Best value Assurance Report – follow up

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

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.

We have considered progress made by the Council in implementing the recommendations made in the BVAR.

Auditor judgement



Overall, progress has been made against all of the recommendations. Agreed approaches to address the recommendations and many of the overarching strategies have been confirmed. It is now important that further detailed work is completed to support these agreed approaches.

Wider scope audit



Financial Sustainability

Auditor judgement



A medium-term financial framework covering the period to 2026/27 has been developed. Whilst the 2021/22 revenue budget is forecast to show a balanced position, the medium-term framework identifies significant funding gaps facing the Council in future years. The Council should take steps now to ensure that work has commenced on the areas and initiatives services are required to deliver to address the shortfalls identified.



Financial Management

Auditor judgement



The Council has appropriate arrangements in place for financial management and the use of resources.

The Council reported a surplus outturn position in 2020/21. The surplus was achieved after additional transfers to reserves from the receipt of COVID-19 funding late in 2020/21. The Council has earmarked £101million in reserves to off-set future specific or unknown COVID-19 costs. 82% of approved savings were delivered.

The Council has reviewed its reserves policy, increasing the size of the unallocated general fund reserve from £13million to £25million.

Around 94% of the revised general fund capital programme and 62% of the revised HRA capital programme was delivered in 2020/21.

Auditor judgement



Governance & Transparency

Governance arrangements at the Council were found to be satisfactory and appropriate, including throughout the COVID-19 pandemic and we concluded that the Council responded promptly and effectively in its political management arrangements.

From our review of committee papers and observations at committee meetings we are satisfied that there has been appropriate scrutiny, challenge and informed decision making; in particular over the Council's financial arrangements and its monitoring and support to ALEO's during the pandemic.

Areas with scope for improvement exist in the Council's governance arrangements. These have been highlighted through the Best Value Assurance Report, the work of internal audit and independent reviews.

Auditor judgement



Value for Money

In response to the pandemic, the Council developed an Adaptation and Renewal work programme, with 5 main workstreams. Regular updates are presented to committee which include the impact the pandemic has on the Council.

The Council has published an annual performance report and report on performance against the Local Government Benchmarking Framework (2019/20). Performance in 2020/21 has been impacted by the pandemic; in particular in areas such as education, social care, housing and waste services.

Further work is required to fully demonstrate compliance with the Accounts Commission Statutory Performance Information Direction; in particular demonstrating best value. During 2021, the Council published its Business Plan which is supported by a newly developed Planning and Performance Framework (PPF). The new PPF is designed to meet the Council's public performance reporting responsibilities including meeting the requirements of Statutory Performance Information Direction.

Definition

Our wider scope audit involves consideration of the Council's arrangements as they relate to financial sustainability; financial management, governance and transparency and value for money. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.



Introduction



We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence

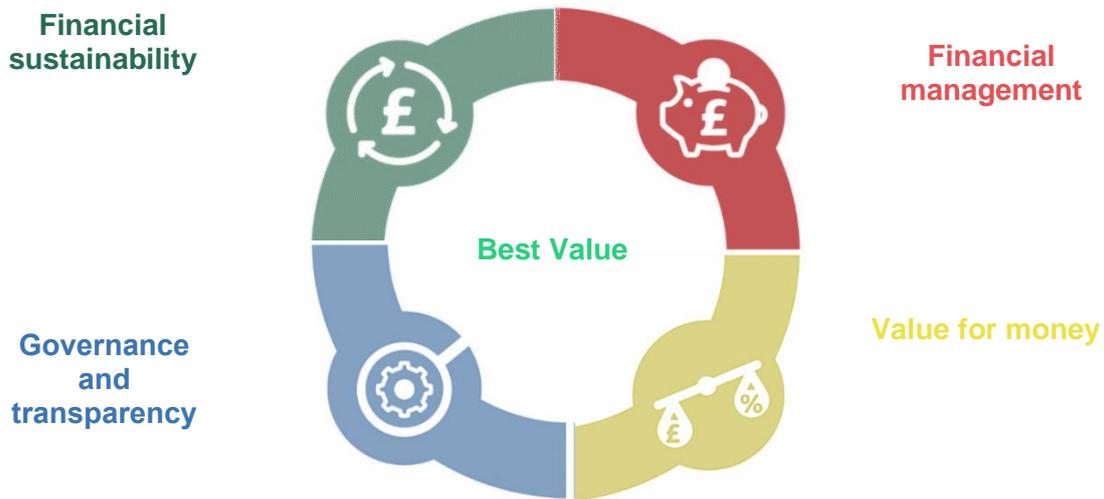


Scope

- We outlined the scope of our audit in our External Audit Plan, which we presented to the Governance, Risk and Best Value Committee at the outset of our audit. The core elements of our work include:

 - an audit of the 2020/21 annual accounts for both the Council and its group and related matters;
 - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
 - consideration of the Council's arrangements to secure best value;
 - consideration of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
 - monitoring the Council's participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



Responsibilities

- The Council is responsible for preparing annual accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.
- We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the

basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

4. We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

5. 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.
6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 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 Azets 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

8. 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

9. 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 the audit team.

Openness and transparency

10. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Annual accounts audit

The Council's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Overall conclusion

11. The annual accounts were considered by the Governance, Risk and Best Value Committee on 9 November and approved by the Finance and Resources Committee on 18 November. Our independent auditor's report is unqualified.

Administrative processes

12. We received unaudited annual accounts and supporting papers of a high standard, in line with our agreed audit timetable. Our thanks go to staff at the Council for their assistance with our work, particularly given the current environment we are working in.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	We have issued unqualified audit opinions.
Going concern basis of accounting	<p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Council's functions.</p> <p>Our wider scope audit work considers the financial sustainability of the Council.</p>	<p>We reviewed the financial forecasts for 2021/22. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Council will continue to operate for at least 12 months from the signing date.</p> <p>Our audit opinion is unqualified in this respect.</p>
Opinions prescribed by the Accounts Commission on:	<p>We read all the statutory other information in the annual accounts to identify material inconsistencies with the financial statements and to identify any information that is apparently materially incorrect</p>	<p>The statutory other information contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p>

Opinion	Basis for opinion	Conclusions
<ul style="list-style-type: none"> • Management Commentary • Annual Governance Statement • Remuneration Report 	<p>based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with:</p> <ul style="list-style-type: none"> • statutory guidance issued under the Local Government in Scotland Act 2003 (Management Commentary); • the Delivering Good Governance in Local Government: Framework (Annual Governance Statements); and • The Local Authority Accounts (Scotland) Regulations 2014 (Remuneration Report) 	<ul style="list-style-type: none"> • the management commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003. • the information given in the annual governance statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework. • the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.
<p>Matters reported by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept; or • the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit; or • there has been a failure to achieve a prescribed financial objective. 	<p>We have no matters to report.</p>

An overview of the scope of our audit

13. The scope of our audit was detailed in our External Audit Plan, which was presented to the Governance, Risk and Best Value Committee in March 2021. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Council. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
14. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
15. In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the

significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas

16. Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.
17. The significant risk areas described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described below.

Significant risk areas

1. Management override

Significant risk description

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*.

Risk assessment: High

Significant risk areas

How the scope of our audit responded to the significant risk

Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.

Audit procedures

- Review of the Council's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This includes a retrospective review of the prior year estimates against the current year estimates.

Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Significant risk description

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

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.

Audit procedures

- Evaluate each material revenue stream and review controls over revenue accounting.
- Substantive testing on all material revenue streams.
- Audit testing over the revenue recognition policy to ensure it is appropriate and applied consistently throughout the year.

Significant risk areas

Key observations At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for council tax income, non-domestic rates, housing rents and non-ring fenced government grants. Our conclusion remained the same throughout the audit.

Based on audit work performed, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements.

3. Expenditure recognition

Significant risk description 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.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end.

Audit procedures

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

Key observations We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

Significant risk areas

4. Asset valuations (significant accounting estimate)

Significant risk description

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.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

Councils are required to revalue assets held at fair value with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March. This includes other land and buildings, council dwellings, investment properties, assets held for sale and surplus assets.

In accordance with its accounting policies, all valuations are carried out internally by a professional valuer.

Audit procedures

- Consider the competence, capability and objectiveness of the internal valuer in line with ISA (UK) 500 - *Audit Evidence*.
- Consider the scope of the valuer's work and the information provided to the valuer for completeness.
- Review the valuation report and consider the assumptions used by the valuer against external sources of evidence.
- Challenge management's formal assessment of impairment to ensure assets are not materially misstated as at 31 March.

Key observations

Valuations are carried out by internal valuers and formally communicated to the Council through a valuation report. We have gained assurance that the carrying value of assets in the audited annual accounts is in line with the internal valuer's report.

In accordance with ISA (UK) 500 - *Audit Evidence* we have considered the competence, capability and objectivity of the

Significant risk areas

professional valuer and did not identify any items which gave us cause for concern over the suitability of the valuer.

In the current year, the valuation report provides assurance that, whilst the pandemic continues to affect economies and global markets, property markets have started to function again and, as a result, the valuation as at 31 March 2021 is not subject to a material valuation uncertainty. This is consistent with the latest guidance issued by the Royal Institute of Chartered Surveyors (RICS). The valuer is satisfied that there is no evidence to suggest the valuation of assets as at 31 March 2020 was materially misstated.

Review of assumptions

We confirmed that the basis of valuation for assets is appropriate based on their usage and that the assumptions applied appear reasonable. Overall, the valuation movements were in line with our expectation.

Council dwellings are valued using the beacon method which aggregates the vacant possession value of each unit of housing stock based on the value of a beacon or sample property. A discount factor is applied to reflect the lower rent yield from social housing compared to market rates. A full revaluation exercise is completed every five years, with the last exercise undertaken in 2018/19.

In interim years the Council applies an uplift factor to the valuation of beacon properties based on growth in the housing sector and other key factors. The appropriateness of the discount factor is also considered. An uplift of 4.5% was applied in 2020/21 whilst the discount factor remained at 38%; both of which we deem to be reasonable based on the evidence available.

Other land and buildings are held at fair value and revalued as part of the five-year rolling programme. In addition, the valuer considers all material changes to assets, such as significant maintenance spend or a change in the condition of the property and makes an assessment as to whether a revaluation is necessary.

In 2020/21 a total of 559 valuations were completed, equating to 19% of asset records and over 30% of the portfolio by value. We reviewed the reasonableness of valuation assumptions applied and are satisfied that these are appropriate.

The Council has considered the potential for applying indexation to other land and buildings, using indices to reflect market changes in interim years between valuations. However, based on the professional judgement of the valuer it was deemed that this would

Significant risk areas

make valuations less accurate and oversimplify all the relevant factors that should be considered when determining a valuation. Hence, indexation has not been applied.

We deem this assessment to be reasonable. Indexation should only be applied where there is sufficient certainty that the indices used are comparable to the valuations being adjusted. The Council's portfolio of other land and buildings is so diverse that this cannot be guaranteed and as such there is a risk that indexation could result in inappropriate or inaccurate movements in valuation. We deem the Council's current approach of revaluing a proportion of the portfolio each year and considering all material changes to relevant assets to provide sufficient assurance that the valuation of other land and buildings is free from material misstatement as at 31 March.

Scope of the valuer's work

We considered the instructions and information provided to the valuer and performed procedures to confirm the accuracy and completeness of information. All property, plant and equipment required to be carried at fair value has been appropriately revalued as part of the five-year rolling programme.

However, some improvements are required in communication between the Finance team and the internal valuer to support timely and robust valuations.

We identified two assets where the valuation was not based on accurate or up-to-date information as a result of miscommunication between the Finance team and the valuer. The valuation of these two assets was revisited, resulting in a net decrease of £3.640million which has been adjusted for in the annual accounts.

The Council applies component accounting to land and buildings, with management estimating how the overall valuation should be allocated between each component. Whilst we are satisfied that the estimated allocation is free from material misstatement, going forward we encourage management to take a more collaborative approach, liaising with the valuer when making this estimate.

In addition, we noted a number of assets under construction that were prematurely valued by the valuer when Finance intended to continue holding the asset at cost within the annual accounts. Increased collaboration between both parties is required to support a more efficient and robust valuation exercise.

Action Plan Point 1

Significant risk areas

Impairment

The Council has further developed its procedures for assessing whether there has been an impairment to ensure this takes cognisance of a range of sources of information. This includes:

- Any changes in condition per the conditions surveys performed as part of the five year rolling programme;
- A review of the level of repairs and maintenance undertaken on each property;
- Confirmation from asset managers as to whether any assets have been damaged or demolished in year.

No indication of material impairment was identified, which is consistent with our testing. However we would encourage the Council to further develop its procedures by ensuring assets under construction are also subject to an impairment review.

Action Plan Point 2

Disclosure of estimation uncertainty

IAS 1 'Presentation of Financial Statements' requires entities to disclose assumptions made about the future and other major sources of estimation uncertainty, specifically those that present a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year. Disclosures should include the nature of the assumption or estimation uncertainty and the sensitivity of the carrying amounts to the methods, assumptions and estimates underlying their calculation.

The Council has identified the valuation of property, plant and equipment as a major source of estimation uncertainty. At our request, management have included further disclosures within the audited annual accounts on key assumptions made when determining the valuation of all assets held at fair value and their sensitivities.

Significant risk areas

5. Pension assumptions (significant accounting estimate)

Significant risk description 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 data 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.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability.

Audit procedures

- Review the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate.
- Review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.
- Agree the disclosures in the financial statements to information provided by the actuary.
- Consider the competence, capability and objectiveness of the management expert in line with ISA (UK) 500 *Audit Evidence*.

Key observations

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities (obligations) are calculated on a detailed funding basis, using individual member data, for cash contribution setting purposes. The 31 March 2020 formal valuations for Scottish LGPS Funds were concluded by 31 March 2021.

The accounting balance sheet position as at 31 March 2021 is based on a roll forward from the 2020 formal valuation. This differs to the balance sheet position as at 31 March 2020 which was based on a roll forward from the 2017 formal valuation. This 'step change' can lead to sizeable asset and obligation 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2020

Significant risk areas

to 31 March 2021. Movements in price/salary increase assumptions and reductions in the discount rate as a result of reducing corporate bond rates also impact on the year end position.

We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified.

We reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data. Our review identified the omission of early retirement data from the valuation report. An updated report was prepared and the annual accounts reflect the revised report. The net effect was an increase to the net pension liability of £2.084million.

We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 - *Audit Evidence*. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

6. Provisions for doubtful debts (significant accounting estimate)

Significant risk description

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.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of provisions around the year end.

Audit procedures

- Review of management's estimation for the provisions and related disclosures.

Key observations

We are satisfied that the amounts recognised as a provisions for doubtful debts over sundry debtors and housing rent arrears appropriately reflect the expected recovery rate of debt over the next 12 months. This is based on a historical analysis of aged debt recovery within the Council.

Significant risk areas

Whilst we deem the provision for doubtful debts to be free from material misstatement, we encourage the Council to continue to reflect on any significant changes in debt recovery rates when calculating this provision.

Action Plan Point 3

7. Financial instruments (significant accounting estimate)

Significant risk description

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.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

Fair values are categorised by their level in the fair value hierarchy:

Level 1 – fair value is derived from quoted prices in active markets for identical assets or liabilities

Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability

Level 3 – fair value is determined using unobservable inputs

For level 1 and level 2; the Council's valuations are supported by independent expert advice from its treasury management advisors; Arlingclose. For level 3, there is the potential for management to use their judgement to influence the financial statements.

Audit procedures

- Evaluate and review the controls in place over accounting for financial instruments.
- Consider the Council's material financial instruments and obtain evidence that these have been appropriately valued at 31 March 2021 including challenging fair value classification.
- Review management experts and external investment managers.
- Review the disclosures within the annual accounts to ensure they are consistent with supporting information.

Significant risk areas

Key observations

Level 1 / 2

Levels 1 and 2 comprise loans, including PWLB loans, and investments held within money market funds and local authority loans.

For those loans and investments assessed as level 1/2 the Council's valuations are supported by expert advice from its treasury management advisors. We obtained evidence during our audit over the values assigned to those loans and investments and where appropriate third party confirmation over the values.

Level 3 – PPP liabilities

The Council has entered into significant financial contracts to build new schools and a residual waste treatment plant under 'Public Private Partnership' agreements. At 31 March 2021, the value of financial liabilities in relation to these projects was £294.236million. Valuations are based on a financial model prepared by management.

We considered the appropriateness of the models, ensuring that the assumptions, inputs and disclosures are reasonable. We agreed the models to the underlying contract and third party operator models. We considered whether the models and resulting transactions were in line with accounting standards. We challenged changes to an operational model which resulted in the valuation of the liability being revisited and adjusted in the accounts.

We gained reasonable assurance over the valuation of the PPP liabilities at year end and are satisfied that the liabilities are fairly stated in the financial statements.

Other risk factors

Other impacts of COVID-19 on the annual accounts

18. COVID-19 continues to present unprecedented challenges to the operation, financial management and

governance of organisations, including public sector bodies. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
<p>Access to audit evidence</p>	<p>Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.</p>	<p>We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.</p> <p>We stayed in close contact with Council officers to ensure all relevant issues were satisfactorily addressed.</p>
<p>Timescales / administrative processes</p>	<p>The pre COVID-19 deadline was 30 September and the provisional deadline for 2020/21 was 31 October. The Scottish Government amended the accounts regulations to require the 2020/21 annual accounts to be signed off by 31 October (amended from 30 September) and published by 15 November (amended from 31 October).</p> <p>However, the provision of the Coronavirus (Scotland) Act 2020 (which permitted bodies to delay publication of the 2019/20 accounts until reasonably practicable) have been extended. 'Reasonably practicable' was considered to be 30 November and this date is considered appropriate for 2020/21. The extension of the Act also allows flexibility over the date (usually 30 June) for the unaudited accounts.</p>	<p>The annual accounts were considered by the Finance and Resources Committee on 18 November 2021 and therefore are in line with the revised timescales.</p>

Significant trading operations (STO)

19. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to maintain and disclose trading accounts for Significant Trading Operations.
20. The Council has in previous years classified and reported its Edinburgh Catering Services – Other Catering as a significant trading operation.
21. During the year, the Council reviewed whether this trading operation 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. As a result of its review, the Council concluded that the Edinburgh Catering Services – Other Catering was no longer a significant trading operation. This 'declassification' took effect from 1 April 2020.
22. We have reviewed the basis / justification for the reclassification of its trading operation and concluded that the assessment is reasonable and appropriate.

Change in accounting policy – capitalisation of interest costs

23. During the year, the Finance and Resources Committee approved a change to the Council's accounting policy to allow interest to be capitalised under specific circumstances for expenditure on qualifying assets.
24. Interest costs were retrospectively capitalised in 2019/20 for the Trams to Newhaven project, with the changes reflected in the annual accounts.
25. We reviewed the accounting treatment and disclosures in the annual

accounts and concluded that they complied with the relevant accounting standards. The overall impact on the prior year accounts was the capitalisation of £1.234million of interest costs.

Coronavirus Job Retention Scheme

26. The Coronavirus Job Retention Scheme is a UK wide scheme, managed by the UK Government. Only organisations that are not fully funded by public grants can consider accessing the scheme. However public bodies which rely extensively on commercial income can apply to access it.
27. The Council undertook an assessment in year and concluded that staff working in its outdoor centres, non-school catering services and the culture sector would be able to access the scheme.
28. In 2020/21, furlough claims to HMRC totalling £0.986million were submitted in respect of staff working in the Council's outdoor centres, non-school catering services and Culture employees. As the value of claims was below our performance materiality threshold we did not undertake sample testing on the validity of those claims.

COVID-19 funding streams

29. In response to the pandemic, the Scottish Government provided a range of COVID-19 support funding streams. A key consideration for the Council in 2020/21 was determining whether the Council acted as principal (acting on its own behalf) or as an agent (acting as an intermediary) when administering the receipt and payment of these funding streams. This assessment impacted on the accounting treatment in the annual

accounts whereby principal transactions are recognised in the Comprehensive Income and Expenditure Statement and agent transactions are disclosed in the annual accounts but not accounted for in the core financial statements.

30. During 2020/21, the Council received and accounted for the following COVID-19 funding streams:

	£m
Principal	145.384
Agent	213.473

31. As part of our audit; we reviewed the Council’s classification of these funding streams against guidance issued to local authorities. We considered the completeness, existence and associated accounting treatment / disclosures. Through our audit testing we identified one funding stream which had been accounted for as a principal funding stream where the Council was acting as an agent (£162,000). The annual accounts were updated to reflect the correct accounting treatment.

Common Good

32. 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.
33. The Common Good Fund stands separately from the Council’s annual accounts and has been described as

“the ancient patrimony of the community”.

34. During 2020/21, a surplus of £3,000 was reported on the common good fund. Overall useable common good funds stood at £2.669million as at 31 March 2021.
35. In 2016, the Council’s Finance and Resources Committee approved the use of the common good fund for planned maintenance of part of the common good assets. £2million was earmarked in 2015/16 (following a receipt from the sale of East Market Street Garage), to fund a maintenance programme for common good assets.
36. Since this earmarked fund was created in 2016, £123,000 has been used on the Scott Monument, £33,000 on surveys at the City Observatory, £8,600 on Queensferry Harbour, £12,600 on Portobello Municipal Clock and £16,400 on Queensferry Harbour.
37. During our 2020/21 audit of the Common Good fund annual accounts, we noted the following:

Common Good income & expenditure

38. The common good fund comprehensive income and expenditure statement reports a full disclosure of the income and expenditure which relates to the common good fund. Property costs expenditure for the period totalled £2.983million which has been offset by rental income for the period of £0.271million. In order to achieve a “breakeven position” on property costs, the Council has offset the expenditure with an income recharge from the Council of £2.566million and capital funding of £142,000.
39. As part of the planning and fieldwork stages of the audit we identified all

- accounting estimates made by management and determined which were key to the common good fund. We identified expenditure recognition as a key area where management use estimates.
40. Our audit work consisted of reviewing the keys areas for any indication of bias and assessing whether the judgements used by management are reasonable.
41. While we gained reasonable assurance that expenditure was materially appropriate, we identified areas for improvements. Estimates for expenditure on parks and other green spaces did not take into account all relevant assets. We recommend that going forward, the process is reviewed to ensure that estimates are based on appropriate and complete data.

Action plan point 4

Common Good Asset Registers

42. Local Authorities have a statutory responsibility, per Part 8 of the Community Empowerment (Scotland) Act 2015, to establish, maintain and publish a register of all property held by them for the common good. The Council has met all statutory deadlines set by this act in the establishment, consultation and publication of a common good register.
43. As part of audit work in 2019/20, we confirmed the completeness of the Common Good annual accounts by comparing the published common good register to the asset register (“accounting asset register”) used to prepare the accounts. We identified five assets which were on the published register but not included in the accounting asset register and a further four which were included in the

accounting asset register but not on the published register.

44. In 2020/21, we followed up on these identified items and found a further item which had been included on the published register but not on the accounting register. The items identified previously remain unactioned.
45. We reviewed the requirements of the Community Empowerment (Scotland) Act 2015 along with related Scottish Ministerial guidance. We noted that the requirement to provide, consider and respond to representations within twelve weeks has not been met on a number of occasions. There is also no timetable of when cases will be looked at by the local authority.

Estimates and judgements

46. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
47. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to asset valuations, pension assumptions, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, financial instruments and accruals. Other than asset valuations, pension assumptions, provisions for doubtful debts and financial instruments, we have not determined the accounting estimates to be significant. We revisited our assessment during the fieldwork and completion stages of our

audit and concluded that our assessment remained appropriate.

48. Our audit work consisted of reviewing these keys areas for any indication of bias and assessing whether the judgements used by management are

reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements

Asset valuation

Balanced

Valuations are undertaken internally on a five year rolling programme. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate.

We considered key assumptions against other sources of evidence. While we have not identified any indication that the asset valuation as at 31 March 2021 is not materially appropriate, challenges to valuations resulted in a net decrease of £3.640 million to the carrying amount of fixed assets which has been reflected in the annual accounts.

Pension Assumptions

Balanced

Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hymans Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 March 2021.

The assumptions of the actuary, Hymans Robertson, were within our expected range. The assumptions were predominantly in the middle of our expected range with the exception of the discount rate which, while within our expected range, is considered to be on the prudent end of the scale.

Provisions for doubtful debts

Balanced

There is a significant degree of subjectivity in the measurement and valuation of provisions for doubtful debts. We considered key assumptions and are satisfied that these are reflective of debt recovery rates across the Council.

Financial instruments

Balanced

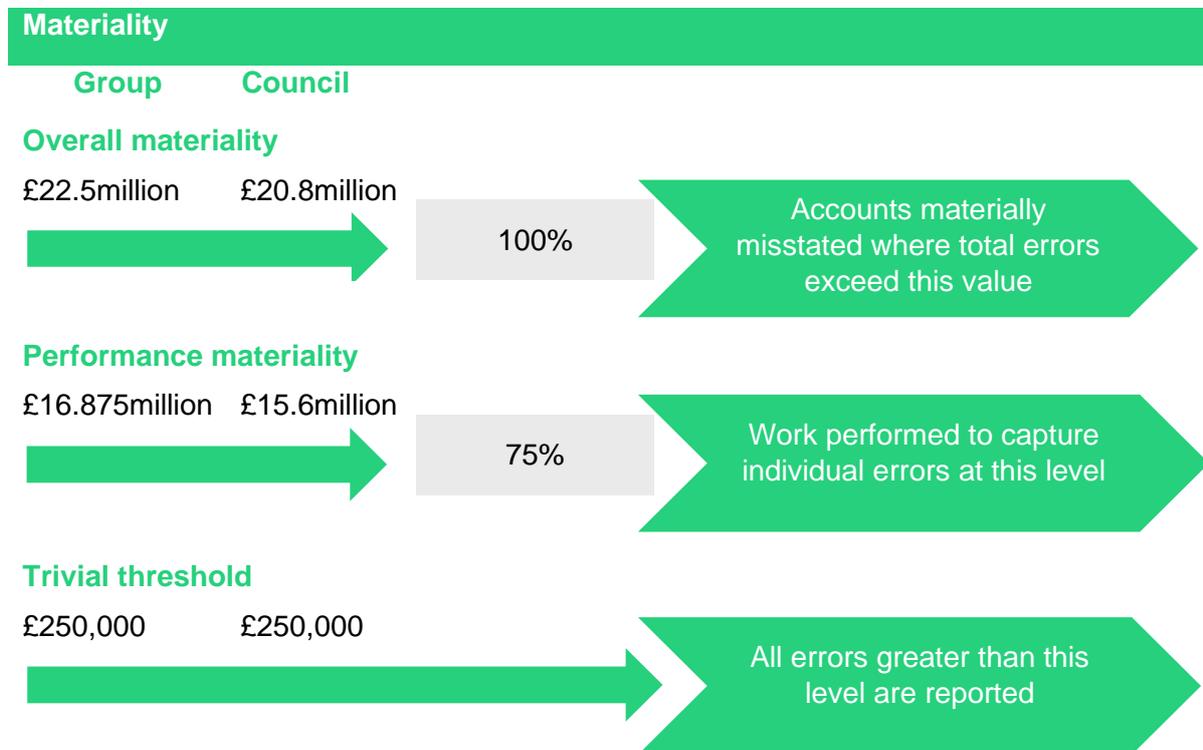
For financial instruments assessed under the fair value hierarchy as level 1 or level 2; the Council's valuations are supported by independent expert advice from its treasury management advisors; Arlingclose. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate.

Materiality

49. Materiality is an expression of the relative significance of a matter in the context of the financial statements 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 and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our

assessment of materiality throughout the audit.

50. Our initial assessment of materiality for the group annual accounts was £22.3million and for the Council single entity annual accounts £20.3million. On receipt of the unaudited annual accounts, we reassessed materiality and revised it as detailed in the table below. We consider that our updated assessment has remained appropriate throughout our audit.



Materiality

Our assessment is made with reference to the group and Council’s gross expenditure. We consider this to be the principal consideration for users of the annual accounts when assessing financial performance of the Council and its group.

Our assessment of materiality equates to approximately 1% of gross expenditure as disclosed in the 2020/21 unaudited annual accounts.

We apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.

Performance materiality

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 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.

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.

Trivial misstatements

Clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Group audit

51. The Council has a complex group which requires consolidation of a range of subsidiaries, associates and joint ventures. The group structure is detailed within the Council's annual accounts.
52. As group auditors under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and regarding 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
City of Edinburgh Council	Yes	Comprehensive
Transport for Edinburgh	Yes	Comprehensive
Edinburgh Living MMR LLP	Yes	Comprehensive
CEC Holdings Limited	No	Analytical
Edinburgh Leisure	No	Analytical
Capital Theatres	No	Analytical
Lothian Valuation Joint Board	No	Analytical
Common Good	No	Analytical
Edinburgh Integration Joint Board	No	Analytical

Comprehensive The component is of such significance to the group as a whole that an audit of the components financial statements is required for group reporting purposes. Azets is the appointed auditor to all significant components.

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

53. As part of our audit we reviewed the consolidation entries made within the group accounts and confirmed those entries back to the financial statements of the group bodies. 31 December). The overall impact was a decrease in net pension liabilities of £43.009million; resulting in an overall net pension asset position for Transport for Edinburgh.
54. The Code sets out that the financial statements of all entities within the group accounts are required to be prepared to the same date. Where entities within the group do not have the same year-end as the Council, either additional financial statements should be prepared or where this is impracticable, the financial statements should be adjusted for the effects of significant transactions and events that occur between the two dates.
55. In 2020/21, an adjustment was made to the Council's group accounts for net pension liabilities as reported by Transport for Edinburgh (whose financial statements are prepared to
56. The audited annual accounts also include the following prior year adjustments as they relate to the group bodies:
- Transport for Edinburgh – An adjustment to reflect the acquisition of B shares after the year end date of 31 December;
 - Edinburgh Living MMR LLP – adjustment in respect of grant funding towards the costs of acquiring properties being recognised as deferred income;

- CEC Holdings – adjustment to align accounting policies in respect of leases;
 - Lothian Valuation Joint Board – deferred Individual Electoral Registration grant funding has been restated and recognised as income in the annual accounts.
57. Overall, we concluded that the results of the group bodies had been appropriately consolidated into the Council's audited group accounts.
58. As part of our audit planning process we assess the group, for the purposes of approach to the audit of the group. As set out in our External Audit Plan we deemed the following subsidiaries to be significant in the context of the group audit:
- Transport for Edinburgh; and
 - Edinburgh Living MMR LLP.
59. We revisited our assessment, following receipt of the unaudited accounts and our assessment remained the same.
60. In preparing the annual accounts, the Council makes an assessment as to whether those bodies to be consolidated are classified as a subsidiary, associate or joint venture. Entities which the council controls should be treated as subsidiaries. The Code of Practice on Local Authority Accounting sets out three aspects of control including:
- Power over an entity
 - Exposure, or rights, to variable returns from involvement with the entity
 - Ability to use power over the entity to affect the amount of returns
61. Further to this; information on assessing control is provided in IFRS10,11 and 12.
62. Edinburgh Leisure is accounted for as an associate within the group accounts. Due to the current environment, and the support provided by the Council to its arm's length external organisations in year, particularly Edinburgh Leisure we would encourage the Council to review and update its assessment of its group bodies.
63. We note for 2020/21 that the financial results for Edinburgh Leisure, should it have been accounted for as a subsidiary, would not have had a material impact on the Council's group accounts.
64. Azets is the appointed auditor to Transport for Edinburgh and Edinburgh Living MMR LLP. During our audit we liaised with the audit engagement teams to confirm that their programmes of work were adequate for our purposes.
65. We have nothing to report in respect of the following matters:
- No significant deficiencies in the system of internal control or instances of fraud were identified by the component auditor; and
 - There were no limitations on the group audit.
- ### Audit differences
66. Audit differences, both adjusted and unadjusted, we identified during the audit have been detailed in Appendix 2.
67. We also identified disclosure and presentational adjustments during our

audit, which have been reflected in the final set of annual accounts and are also disclosed in Appendix 2.

appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Internal controls

68. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design

Area	Assessment	Comment
Control and process environment	Satisfactory – although scope for improvement	<p>We consider the control environment within the Council to be satisfactory although there is scope for improvement.</p> <p>Our assessment has taken into account Internal Audit’s annual audit opinion. Internal audit’s overall opinion was that “<i>significant improvement was required as significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks</i>”. Consequently, only limited assurance could be provided that risks were being managed and that the Council’s objectives should be achieved.</p> <p>We have noted suggestions on possible process improvements as documented at Appendix 4.</p>
Quality of supporting schedules	Satisfactory	We received unaudited annual accounts and supporting papers of a high standard, in line with our agreed audit timetable.
Responses to audit queries	Satisfactory	Management’s responses to our audit queries were appropriate and received on a timely basis.

Follow up of prior year recommendations

our findings are included in Appendix 5.

69. We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of

Other communications

Accounting policies, presentation and disclosures

70. Our work included a review of the adequacy of disclosures in the annual accounts and consideration of the appropriateness of the accounting policies adopted by the Council.
71. The accounting policies, which are disclosed in the annual accounts, are considered appropriate.
72. There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
73. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

74. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing
75. 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.

Non-compliance with laws and regulations

76. As part of our standard audit testing, we have reviewed the laws and

regulations impacting the Council. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

The Local Authority Accounts (Scotland) Regulations 2014

77. As part of our audit we reviewed the Council's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10¹ as they relate to the annual accounts.
78. The Scottish Government included in its Finance Circular 10/2020 guidance on the publication and inspection of the unaudited annual accounts as a result of the COVID-19 pandemic.
79. Overall we concluded that appropriate arrangements were in place to comply with the Regulations and the guidance as set out in Finance Circular 10/2020.
80. We received two submissions in relation to the annual accounts in 2020/21. One submission did not constitute a valid objection to the accounts, as the issues raised did not relate to material misstatements in the accounts due to incorrect recognition, measurement, presentation, disclosure or illegality. The other submission related to Lauriston Charitable Trust and did contain elements that constituted a valid objection. The issue raised related to the City of Edinburgh Council's contribution towards meeting the costs of Lauriston Castle not being included within the Lauriston Charitable Trust

¹ Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public

right to inspect and object to the accounts and consideration and signing of the audited accounts.

unaudited accounts. We upheld this objection and the Lauriston Castle Charitable Trust accounts now reflect in 2020/21 a net contribution of £202,000 representing expenditure met by the Council. The 2019/20 comparative has also been restated to reflect a £229,000 net contribution from the Council.

Written representations

81. We presented a letter of representation to the Service Director: Finance and Procurement (section 95 officer) to sign at the same time as the annual accounts were approved.

Related parties

82. We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

83. All requested third party confirmations were received.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

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.

We have considered progress made by the Council in implementing the recommendations made in the BVAR.

Auditor judgement



Overall, progress has been made against all of the recommendations. Agreed approaches to address the recommendations and many of the overarching strategies have been confirmed. It is now important that further detailed work is completed to support these agreed approaches.

Best Value Assurance report follow-up

84. The Best Value Assurance Report on the City of Edinburgh Council was published in November 2020 following consideration by the Accounts Commission. The Commission's findings were that the City of Edinburgh Council is an ambitious Council that needs to do more to maximise its potential. The Commission considered that more momentum was needed to demonstrate and embed a culture of continuous improvement. Although services continued to perform relatively well the Council needed to better articulate and deliver its ambition by providing clearer priorities and direction and to ensure better reporting of performance against objectives.
85. The Commission considered that while the Council has had a good record in managing its finances, it needed a longer-term financial plan to show how it would address future pressures. This also needed to be supported with more effective workforce planning, an area where the Council's progress had not been satisfactory.
86. The Commission also expressed concern about the effect of COVID-19 on the inequalities experienced by some communities. It encouraged the Council to continue its work to progress the commitments arising from the work of Edinburgh's Poverty Commission and to better reflect how it would empower communities in improving community outcomes and public services.

The Council's response

87. The Best Value Assurance Report was submitted to the Council's Policy and Sustainability Committee, Governance Risk and Best Value Committee and full Council in December 2020. Members noted the findings and provided feedback on priority areas for improvement. They also noted that the improvement actions arising from the report would be addressed in the Council's refreshed Business Plan and specifically requested further consideration of genuine local community empowerment. The Council Business Plan: Our Future Council, Our Future City was published on 27 January 2021.
88. An action plan was drawn up to address the main recommendations included in the report and subsequent reports on progress against the action plan were submitted to the Policy and Sustainability Committee in February, April and October 2021. These update reports include progress reports from the Edinburgh Partnership.
89. Appendix 3 to this report shows a summary of the Council's progress against the main recommendations made along with the audit assessment of this progress. Overall, progress has been made against all of the recommendations. Agreed approaches to addressing the recommendations and many of the overarching strategies have been confirmed. It is now important that further detailed work is completed to support these agreed approaches. In particular we would highlight the following areas which the Council should prioritise:
 - Develop detailed savings plans to address the significant funding

gaps identified in the medium-term financial plan.

- Develop detailed workforce plans for service teams to support the strategic workforce plan.
- Develop annual service plans for directorates and teams that support the delivery of key performance targets. Targets should be set for all KPIs agreed within the new Planning and Performance Framework.
- Continue to progress approved Community Asset Transfer requests as a matter of priority.
- Progress the framework drawn up for collaboration with community councils and ensure this delivers the real involvement of community representatives in delivering community outcomes.

Action plan point 6

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services and the way in which they should be delivered.



Auditor judgement



A medium-term financial framework covering the period to 2026/27 has been developed. Whilst the 2021/22 revenue budget is forecast to show a balanced position, the medium-term framework identifies significant funding gaps facing the Council in future years. The Council should take steps now to ensure that work has commenced on the areas and initiatives services are required to deliver to address the shortfalls identified.

Significant audit risk

90. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

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;

Financial sustainability

- 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;
- 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.

Noted in the 2020/21 External Audit Plan (March 2021)

91. Our detailed findings on the Council's financial framework for achieving long term financial sustainability are set out below.

2021/22 financial plans

92. In February 2021 the Council set a balanced one-year revenue budget for 2021/22. The budget included provision for £23million of COVID-19 related impacts, the majority of which was funded on a short-term basis through application of loans charge repayment flexibility. This flexibility was granted by the Scottish Government so that councils could take a loans fund principal repayment "holiday" in 2021/22, with the amount of this repayment being added to the term of the remaining loans fund advance.
93. At the time the budget was set, further financial COVID related impacts were anticipated for future years and as a result a specific COVID contingency reserve was established.
94. The Executive Director of Corporate Services reported in October 2021 that a balanced overall revenue budget continued to be forecast although there were considerable uncertainties over the continuing impact of the pandemic on the Council and its ALEOs. COVID-related costs expected for 2021/22 have been updated and are now forecast for the year as follows:

Area of expenditure /income loss	£m
Reduction in parking income	8
Reduction in commercial rental income	5
Loss of Lothian Buses dividend	6
Support for Edinburgh Leisure	6
Support for other ALEOs	1
Personal Protective Equipment costs	1
Homelessness	5
Other income loss e.g. cultural venues and additional costs e.g. staffing costs for waste and cleansing and processing support payments	7
Total 2021/22 estimated costs related to COVID	39

95. In 2021/22 the on-going costs of COVID-19 are estimated to be £39million with a further £25million estimated for 2022/23 and £11million in 2023/24. This represents a total estimated cost to the Council related to COVID-19 in the period to 2023/24 of over £152million. Against this the Council has received support from the Scottish Government to date of £121.3million.

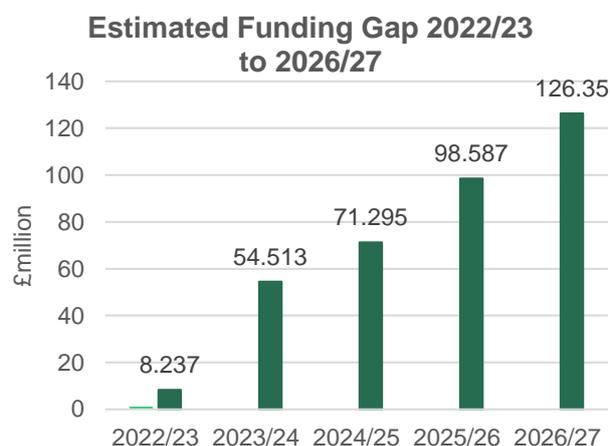
96. Whilst overall, the 2021/22 budget is on track to be delivered with unmet savings being off-set by favourable variances identified in loans charges, a significant risk is identified in relation to local government employees pay negotiations for 2021/22 which have not yet been concluded. Provision was

made in the budget for a 2% increase but an offer broadly aligned to this level of provision has been rejected by the Unions. Any increase to the provision would add significantly to the savings required. In addition, back-dating of an agreed pay award would also add to the cost pressures faced by the Council .

Medium term financial planning

97. As part of the Council's response to its Best Value Assurance Report (BVAR), a medium-term financial framework covering the period to 2026/27 has been developed. Whilst the 2021/22 revenue budget is forecast to show a

balanced position, the medium-term framework identifies significant funding gaps facing the Council in future years.



98. This amounts to an accumulated funding gap over the five years to 2026/27 of £359million. The assumptions behind this financial assessment include increases due to pay awards, inflation, demographic increases and assumptions around increases in council tax and government funding.

99. These assumptions will be refined over time as greater certainty is gained.

100. The medium term financial framework identifies significant funding gaps. Whilst the savings requirement for 2022/23 is fairly modest in relation to the Council's net budget, from 2023/24 the impact of increases to payroll and general inflation means the savings requirements grow substantially each year. The Council should take steps now to ensure that work has commenced on the areas and initiatives services are required to deliver to address the shortfalls identified.

Capital plans

101. A Sustainable Capital Budget Strategy 2021-2031 covering General Fund expenditure was approved by the Council in 2021. This reflected capital investment of £1,492.5million over the 10 years to 2031. Further work was undertaken to identify a funding shortfall but in October 2021 it was reported that this shortfall had been addressed and the capital budget was now fully funded.

102. The budget aligns with the Council Business Plan and includes significant investment in new primary and secondary schools (£361million), roads and transport, including completion of works on North Bridge (£204million), the Tramline to Newhaven (£127million), asset management works (£224million) and lending to Edinburgh Living LLP for new house building (£210million). This will be financed principally by capital grants (£483million) and loans fund borrowing (£604million) with other funding coming from asset sales, developer contributions, specific grants and revenue funding.

103. The capital plan is ambitious but is subject to significant risk given the increased financial pressures caused by COVID -19 and rising construction costs. In addition, as noted above whilst the revenue budget remains unbalanced over the first 5 years of the capital budget strategy there remain uncertainties over the affordability of the capital plan.

Housing Revenue Account

104. The financial framework underpinning revenue and capital decisions on the Housing Revenue Account is the HRA

Business Plan 2021/22- 2050/51. A 10 year capital plan totalling £2.8billion of investment was approved in 2021 and includes funding to achieve the Council's commitment to build at least 20,000 social and affordable homes over the first 5 year period. The capital plan also includes commitments to retrofit houses where the Council is a landlord to meet energy efficiency and sustainability objectives. The funding for this £2.8billion of investment is to come from capital receipts, prudential borrowing and Scottish Government subsidy for new social rented homes. Members agreed to a freeze on housing rents for 2021/22. Cost efficiencies of 12% are also to be delivered in line with the Business Plan.

EU withdrawal

Risk management

105. Detailed work had been undertaken to manage the risks associated with the UK's withdrawal from the EU. Mitigating actions were identified and implemented by the relevant services in regard to these risks. The Council's response to COVID-19, however, has taken priority over the last year. While there has not been a significant change in circumstances in regard to the exit from the EU for the Council to respond to, the Corporate Leadership Team has been updated on how the risks are being managed. The Brexit Resilience Working Group which is a sub-group of the Council Resilience Group met to review the risk register and identify whether any further changes are recommended.
106. The Brexit Risk Register was created in response to a no-deal EU Exit. It was therefore agreed by the Chief

Executive that Brexit risks would transfer to directorate risk registers, as appropriate, and that the Brexit Risk register (last agreed by CLT on 18 December 2020) as a 'standalone' would cease.

107. With supply chain issues being identified as the most likely ongoing risk, such issues come through Directorate SMTs/Incident MTs and Risk Committees, with Commercial and Procurement Services providing guidance and support.
108. Prior to this, detailed work had been collated by Resilience in order for services to manage the risks associated with the UK's withdrawal from the EU. Mitigating actions were identified and implemented by the relevant services. The Brexit Resilience Working Group has been disbanded and post-Brexit supply chain issues may be raised at the Council Resilience (main) Group with procurement specialists invited to attend on an ad-hoc basis, where appropriate.

Workforce

109. The Council continues to monitor the number of EU/EEA nationals employed across the organisation and can produce data at departmental, service and job title level. Until 30 June 2021 no additional Right to Work evidence was required from EU/EEA nationals joining the organisation and the Council did not have to record settled/pre-settled status before this date.
110. In terms of vacancies, the recruitment market is extremely difficult across a wide range of sectors and the Council's main recruitment partner has confirmed this is not limited to The City of Edinburgh Council/Public Sector but

includes private sector organisations as well. There is currently no Council data to assess if this is the impact of Brexit, the pandemic, or a combination of both.

Procurement

111. The Council is managing multiple requests for price increases from existing and newly-awarded contracts due to material cost increase and container/haulage increases. Some suppliers are suffering manufacturing delays in the UK due to delays in parts arriving into the country. ICT, vehicles and technical products are all affected by mineral shortages due to demand for microchips. There is currently a six-month lead time for laptops and many vehicles and electronic products.
112. Many suppliers to the Council are reviewing and changing import routes based on container processing delays at the ports. This often leads to increased lead times or changes to the product or brand and can lead to additional validity checks before products are distributed across services areas. These situations also apply to suppliers on national frameworks where partners are performing the same checks and implementing price variations which the Council has to accept.

Financial management

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



Auditor judgement



The Council has appropriate arrangements in place for financial management and the use of resources.

The Council reported a surplus outturn position in 2020/21. The surplus was achieved after additional transfers to reserves from the receipt of COVID-19 funding late in 2020/21. The Council has earmarked £101million in reserves to off-set future specific or unknown COVID-19 costs. 82% of approved savings were delivered.

The Council has reviewed its reserve policy, increasing the size of the unallocated general fund reserve from £13million to £25million.

Around 94% of the revised general fund capital programme and 62% of the revised HRA capital programme was delivered in 2020/21.

Financial performance

113. The 2020/21 Comprehensive Income and Expenditure Statement shows that the Council spent a total of over £2billion on the provision of public services and recorded an accounting surplus on the provision of services of £80.733million. The accounting surplus is partly technical as it includes elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting (the Code), and which are subsequently adjusted to show their impact on statutory Council reserves.
114. The key measure of performance in the year is the movement in the Council's general fund balance. Following the required adjustments, the net impact on the general fund is an increase of £99.687million to £221.033million. In total, cash backed (useable) reserves held by the Council increased by £131.395million in the year to £359.875million.

Movement in the Council's useable reserves per the Annual Accounts 2020/21

	2019/20 £million	2020/21 £million	Movement £million
General Fund	121.346	221.033	99.687
Housing Revenue Account	0	0	0
Renewal and Repairs Fund	29.748	41.162	11.414
Capital Fund	48.934	49.731	0.797
Capital Grants Unapplied Account	28.452	47.949	19.497
Total useable reserves	228.480	359.875	131.395

115. The significant increase in General Fund reserves is due primarily to the receipt of COVID funding in the last quarter of the financial year which included funding for 2021/22. reserves was undertaken, increasing the size of the unallocated general reserve from £13million to £25million in 2020/21 equivalent to 2.127% of annual net budgeted expenditure. Unallocated General Fund Reserves are held to cover unforeseen circumstances and the increase from
116. Following the Best Value Assurance Report, as part of its budget strategy, a detailed review of the Council's

the previous level of 1.37% of annual net budgeted expenditure brings the Council more in line with other Scottish local authorities.

117. Other elements of the General Fund include balances set aside to manage specific financial risks or for specific investment in the future together with income received in advance. Details of the make-up of these balances are shown in note 12 to the annual accounts.

Revenue performance against budget

118. The final outturn position on the General Fund for 2020/21 shows a surplus of £7.92million compared with a break-even budget. This surplus is carried forward to 2021/22 to meet a number of agreed initiatives. The surplus represents a combination of favourable movements in service outturns (£3.1million) and additional Council Tax income (£4.8million).
119. The surplus achieved is after additional transfers to reserves of £39.195million representing COVID related funding received late in 2020/21 to be applied against COVID costs in 2021/22 and subsequent years. This together with other earmarked and non-specific COVID relating funding carried forward to be applied to future years means that the Council has £101million in reserves at March 2021 to off-set future specific or unknown COVID costs.
120. The approved 2020/21 budget was predicated on the delivery of £29.5million of directorate-specific and corporate savings. 82% of approved

savings by value were actually delivered. This represents an improvement on previous years – 2019/20: 77%, 2018/19: 60%.

Housing revenue account (HRA)

121. The balance on the HRA is nil. In line with the HRA Business Plan, at the end of 2020/21 the HRA was balanced after making a contribution totalling £11.103million towards in-year capital investment and the Strategic Housing Investment Fund.

COVID-19 costs

122. In 2019/20 the impact of COVID-19 was felt late in the financial year but there was a cost (including loss of income) of £8.4million. In 2020/21 total COVID related costs including loss of income amounted to £69.0million. A breakdown of these costs is shown below.

COVID related expenditure/(loss of income)	£m
Loss of parking income	12.3
Temporary accommodation	8.8
Reduction in commercial rental income	7.1
Loss of Lothian Buses dividend	6.0
Additional waste and cleansing costs	4.0
ALEO support -Edinburgh Leisure	3.0
ALEO support – Edinburgh Trams	6.0
Loss of income cultural venues	3.5
Free school meals and wider food support	2.9
Additional costs relating to prioritisation of repairs (General Fund)	2.2
Other costs including reduction in parking fines, reduction in council tax and outdoor centres income, reduction in planning fees and additional agency costs to cover staff absences	13.2
Total COVID costs 20/21	69.0

Capital expenditure

123. During 2020/21, the Council reported total capital expenditure of £347million; of which £306million was general fund expenditure and £41million was housing revenue account (HRA) expenditure. In so doing the Council delivered on 94% of its revised general fund capital programme and 62% of its HRA

revised capital programme. The slippage was caused by the impact of the COVID-19 lockdown in the winter as well as land acquisitions not proceeding as planned.

124. Projects contributing to the slippage on the general fund capital programme include:

- New South Edinburgh Primary School, Darroch refurbishment and rising school rolls projects
 - Energy efficiency street lighting, fleet replacement and the town centre projects
 - National Housing Trust (NHT)
 - Edinburgh Living LLPs
 - Trams to Newhaven
125. Projects contributing to the slippage on the housing revenue account capital programme were:
- Land acquisition of Liberton Hospital
 - Improvements to council houses

Treasury management

126. The Council increased its borrowing in 2021 by £70million of which £10million was from PWLB and £60million from the market. The Council's debt outstanding increased during the year due to the new borrowing, but at 31 March 2021 remained £134million below its Capital Financing Requirement.
127. Borrowing was undertaken during 2020/21 for the following:
- £60million as part of the Growth Accelerator Model (GAM) to support the Edinburgh St James Centre redevelopment. The GAM is a funding mechanism that allows borrowing costs to be off-set by performance-related payments from the Scottish Government linked to the achievement of targets relating to the rateable value of the centre and surrounding areas by new income streams – primarily Non-Domestic

Rate Income. Under the GAM agreement payment of the amounts to the developer was due when practical completion certificates had been issued and where at least 50% of the retail and leisure element on which NDR is payable was open for trading. Whilst the 50% threshold test has been met statements of practical completion have not been issued in relation to the cinema and only interim certificates in relation to the other growth assets. The Council therefore withheld £5million from the amounts paid in September 2021 to ensure that all aspects of the GAM assets were completed.

- In 2019 the Scottish Government made lending available to local authorities at a reduced interest rate for infrastructure projects. The Council applied and was awarded £2million in 2019/20 and £10million in 2020/21.

Systems of internal control

128. We have evaluated the Council's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.
129. We did not identify any significant weaknesses in Council's accounting and internal control systems during our audit.

Prevention and detection of fraud and irregularity

130. We found the Council's arrangements for the prevention and detection of fraud and other irregularities to be sufficient and appropriate. The Council has continued to operate an

appropriate control environment throughout the pandemic to ensure that those controls and procedures which prevent fraud have been appropriately managed.

131. The Council has a Whistleblowing Policy which was updated in May 2019, a Policy on Fraud Prevention (updated July 2021) and an Anti-Bribery policy which dates back to 2012. Regarding cyber-security, Council back-ups are held within the cloud, segregated and air-gapped, should recovery from a ransomware incident ever be required. Incident testing and playbook exercises are a key ongoing priority for the Council and its IT suppliers.
132. Audit Scotland published a report "*COVID-19 Emerging Fraud Risks*" in July 2020. The report identified that the COVID-19 pandemic has brought significant challenges across the Scottish public sector as bodies seek to deliver services for individuals. The report identified six areas of expected increased risk due to the COVID-19 pandemic: governance risk, procurement risk, COVID-19 funding, payroll, IT and cyber-crime and health and wellbeing risk. In response, the Council provided a summary position with regard to these six risk areas which was reported in our 2019/20 Annual Report on the Audit.

financial systems that might suggest the existence of fraud or error. Participating bodies received matches for investigation in January 2021. All recommended matches plus any further matches based on findings and the risk of error or fraud should be investigated by early 2022 and the results recorded on the NFI system.

134. The Council has advised that this remains work in progress and will be completed in line with the deadline. At the end of August 2021 the total number of high risk matches investigated was 3,058 which represented 53% of the total number of high risk matches. Areas with the most high risk matches were Blue Badges and Council Tax reductions.

National Fraud Initiative (NFI)

133. The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different

Governance and transparency

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



Auditor judgement



Governance arrangements at the Council were found to be satisfactory and appropriate, including throughout the COVID-19 pandemic to date where we concluded that the Council responded promptly and effectively in its political management arrangements.

From our review of committee papers and observation at committee meetings we are satisfied that there has been appropriate scrutiny, challenge and informed decision making; in particular over the Council's financial arrangements and its monitoring and support to ALEO's during the pandemic.

Areas for scope for improvement exist in the Council's governance arrangements. These have been highlighted through the Best Value Assurance Report, the work of internal audit and independent reviews.

Governance and transparency

Responding to the COVID-19 pandemic

135. The Council has responded promptly and effectively in its political management arrangements to the COVID-19 crisis.
136. Following the COVID-19 emergency and in accordance with existing provisions within the Scheme of Delegation, a Leadership Advisory Panel was established by the Council. The Leadership Advisory Panel consisted of five Councillors, the Council Leader and Deputy Leader, and the Leaders of the Conservative, Green and Scottish Liberal Democrat Groups. The Leadership Advisory Panel was set up to deal with the initial emergency measures created by COVID-19 and the subsequent lock-down.
137. In May 2020 interim political management arrangements were put in place. A Policy and Sustainability Committee, comprising the conveners of all of the Council's executive committees and the majority of party group leaders was reconvened to sit every two weeks. Scrutiny of decision-making was provided by the Governance, Risk and Best Value Committee (GRBV) which met from June 2020 on a monthly basis. In addition groups were established to deal with planning and licensing issues. The Policy and Sustainability Committee continued to meet throughout the first months of the pandemic, holding virtual but web-cast meetings with papers available on the web-site.
138. In August 2020 it was agreed that all other committees could start to meet including the Finance and Resources Committee and the Policy and Sustainability Committee. It was agreed that all meetings would be held virtually and that the meetings would be webcast.
139. In August 2021 it was agreed that physical meetings of executive committees would re-commence with the Policy and Sustainability Committee on 5 October 2021. Meetings of the full Council would continue virtually until the Council removed the physical distancing requirement in its buildings. The Chief Executive was delegated, in consultation with relevant Conveners and Vice-Conveners, to agree appropriate time to reinstate physical other Committees and sub-committees.

Governance arrangements

140. In our 2019/20 audit we noted the importance of all councillors and senior staff having a clear understanding of their rights and responsibilities in relation to information held by the Council.
141. We recommended that Councillors and the senior leadership team should review the existing protocols to ensure these were still appropriate and that both members and officers could comply fully with their responsibilities.
142. The Council initially agreed by January 2020 to review its existing protocols with elected members and senior management to ascertain where improvements were required. This was

paused to take account of the Scottish Government's planned review of the Code of Conduct for Councillors. This review has not yet been completed and it is disappointing to note that the intention now is that this work is not scheduled to be completed until after the May 2022 elections.

Review of the effectiveness of the Governance Risk and Best Value Committee

143. As part of the 2021 internal audit programme the Council appointed the Chartered Institute of Internal Auditors UK and Ireland to undertake a review of the effectiveness of the scrutiny applied by the Council's GRBV Committee.

144. The review involved interviews with selected members and Council officers supported by a wider survey of members and heads of divisions, observation of GRBV meetings and review of GRBV papers, agendas and other records.

145. The review's summary conclusions were included in a report dated July 2021:

In regard to GRBV's responsibilities, as set out in its terms of reference, the Committee is fulfilling its core remit, particularly in relation to oversight of the internal and external audit processes, risk management and the operational performance of the Council. However, the current design of the arrangements for GRBV, does limit the effectiveness of the scrutiny it undertakes and the impact it can achieve.

GRBV is to some degree constrained by the overall design of

the Council's scrutiny model and we have made some suggestions for consideration when this model is reviewed post the 2022 elections.

Nevertheless, there are actions that could be taken, independently in relation to GRBV, which would enhance the Committee's effectiveness. We have made a number of recommendations in this regard. Some of these actions, such as considering adding independent experts to the GRBV, could be taken in the short term before the May 2022 elections.

146. The report makes a number of recommendations including:

- Reinstating the role of a Vice Convenor from another non-administration party
- Independent experts joining the committee
- Enhancing the scrutiny oversight of Executive Committees
- Annually setting objectives and goals for scrutiny and evaluating whether these have been achieved
- Undertaking an annual skills assessment to identify the expertise required
- Enhancing training arrangements for GRBV members
- Preparation of an annual report of the Committee's activities
- Agreement of a formal protocol between GRBV and Executive Committees.

147. We would endorse the recommendations made in this

independent review as further ways to improve the effectiveness of the Committee's work.

148. The Council has responded to each of the recommendations with most of the actions scheduled for after the May 2022 election. Those which are scheduled to be implemented by an earlier date are in progress and expect to be in place by the agreed date.

Internal Audit

149. The Council's internal audit service is an independent assurance function that provides an opinion on the Council's control environment. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of the work of internal audit.
150. Internal audit's annual audit opinion on the Council for the year to 31 March 2021 was presented to GRBV in August 2021.
151. As a result of some service teams being unable to support the completion of planned audits due to the pandemic a limited opinion was given as only 80% of the agreed plan could be completed. Internal audit's overall opinion was that significant improvement was required as significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance could be provided that risks were being managed and

that the Council's objectives should be achieved. This opinion is consistent with that given in 2019/20.

152. The 2020/21 internal annual opinion has slightly improved in comparison to the 2019/20 position, with internal audit's assessment now at the lower end of the red rated / significant improvement required category. In particular internal audit highlights in its annual report:

- closure of all 26 historic internal audit findings that were reopened in June 2018;
- a decrease in the total number of findings raised, with 69 raised in 2020/21 in comparison to 83 and 82 in 2019/20 and 2018/19 respectively;
- a decrease in the proportion of high rated findings raised, with 23% (16) raised in 2020/21 in comparison to 32% (27) and 37% (30) in 2019/20 and 2018/19 respectively.

153. One of the reports during the year was rated as inadequate due to the inconsistent application of the Council's established supplier management framework to support effective management of high risk contracts. Other areas where improvements were identified as being required were:

- **COVID-19 response:** Areas were identified where the design and implementation of controls relating to the Council's COVID 19 response could have been improved.
- **Governance, Decision making and scrutiny:** Improvement of second-line frameworks to support

- effective management and scrutiny of the Council's ALEOs. Improvement areas were identified in the GRBV effectiveness review
- **Resilience:** Only limited assurance could be given over the Council's ability to restore critical systems and services in the event of a technology resilience incident
 - **Health and Safety:** The Council's violence at work policy required updating. Education and Children's Services policies and procedures required to be updated and consistently applied
 - **Technology and Information:** significant improvement was required to the security of the Council's corporate and learning and teaching networks
 - **Service delivery:** some weaknesses identified in service delivery controls.
154. Internal audit's view is that the weaknesses identified and highlighted in reports supporting the 2020/21 annual opinion are predominantly attributable to lack of capacity and skills within first line divisions and directorates to ensure that key controls, governance and risk management processes are consistently and effectively applied to support effective ongoing management of service delivery and projects.
155. We note that the Council has agreed to enhance its first and second line assurance capability with a first quarterly cycle of reporting on assurance activities through Directorates and the Corporate Leadership Team by March 2022.
156. The annual audit report continues to report that there are significant overdue findings which have not been implemented by the original agreed dates. 64 recommendations were reported as overdue including 17 high recommendations which could have significant detrimental impact on the Council if not addressed. It is imperative that the upgraded first and second line assurance capability is put in place as soon as possible to ensure that these long overdue weaknesses identified are addressed.
- ### Following the public pound
157. The Council uses a number of arm's-length external organisations (ALEOs) to provide services on its behalf, including Transport for Edinburgh Limited and Edinburgh Leisure. While the ALEOs are responsible for the delivery of the services, the Council remains responsible for the public money it provides to the ALEOs and the quality of services the ALEOs provide. The Council needs to hold ALEOs to account for their use of public funds and should have sufficient governance arrangements in place to do so.
158. The Council's Governance Hub has continued to meet quarterly to scrutinise the management of the Council's ALEOs, seek assurance over the delivery of services, consider activities during the pandemic and ensure that the Council is aware of any risks.
159. The Council's executive committees scrutinise the future direction of each ALEO, service performance, including progress against service level agreements, and any emerging issues.

160. The GRBV Committee scrutinises the ALEOs' financial performance, including the annual accounts, and any risks affecting the Council or any individual ALEO. Reviews of the main Council ALEOs are scheduled for November and December 2021 meetings of the Committee.
161. Through our review of the committee papers, we are satisfied that there has been effective scrutiny, challenge and informed decision making through the financial period.
162. All of the ALEOs undertake services that have been greatly affected by COVID-19, for example leisure services, cultural venues and transport. As reflected in the financial management section of this report the Council has required to make additional payments to a number of its ALEOs as a result of lost income. In the case of Lothian Buses its anticipated annual dividend stream of £6million to the Council has not been made and future dividends income remains unlikely and has been removed from the medium term financial plan. Services will continue to be affected for some time by social distancing requirements, public attitudes and market capacity. These factors will all affect future income forecasts. A further £7million of support is also anticipated in 2021/22 in support of the Council's ALEOs including Edinburgh Leisure.
163. The Council has provided letters of comfort to a number of the Boards of its ALEOs to allow directors to conclude regarding the going concern of these companies.

ALEO restructuring

164. To achieve greater integration of the public transport system, the Council considered options for the reform of its Transport ALEOs (Lothian Buses Limited, Transport for Edinburgh Limited and Edinburgh Trams Limited). A working group comprising Council officers and NEDs from each of the Transport ALEOs was convened to consider the options available.
165. Their conclusions were to reconstitute Lothian Buses with an amended Memorandum and Articles of Association to be responsible for multi-modal public transport delivery with Edinburgh Trams operating as a subsidiary. The proposal required a new shareholder agreement to be drawn up with the minority shareholders of Lothian Buses respected, a new Board appointed and updated corporate documentation. Once this was in place Transport for Edinburgh would be wound down. This process would take place over the 12 months to August 2022. The proposals were considered by the Transport and Environment Committee and approved but referred onto full Council at which the recommendations were approved.

Whistleblowing investigation

166. In October 2020, in response to a motion from an elected member on the council's whistleblowing culture, the Policy and Sustainability Committee agreed that an independent assessment of council culture and relevant processes should be undertaken. Susanne Tanner QC was appointed as an independent chair of the investigation with support provided by Pinsent Masons.

167. Terms of reference were prepared by the chair in consultation with Council political leaders. These included the objective of the review – to: *“examine the organisational culture, processes and practices, relevant to whistleblowing and reporting of and responding to wrongdoing, of the Council as a whole, including amongst elected members, officers and colleagues.”*

168. The terms of reference also specify that the remit is to:

“determine the organisational culture, processes and practices with a view to making recommendations to improve any shortcomings. The Review will necessarily entail looking at the approach to whistleblowing and other relevant processes, which may include reports and investigations both before and after the introduction of the Council’s Whistleblowing Policy in May 2014, insofar as relevant to the assessment of the current position”

169. Anyone from within or out with the Council could raise issues they believed relevant to the investigation. The outcome of the review would be a written report to be provided to the Council with the independent chair reporting publicly on the Review’s findings

170. A call for evidence was opened in November 2020. This is now closed. The inquiry has yet to report its findings to the Council. The total costs to date for this investigation amount to £521,000.

Inquiry into complaints regarding Sean Bell

171. In addition to the whistleblowing culture investigation, the Council commissioned an independent inquiry into complaints about a former senior manager in Communities and Families who died in August 2020. Sean Bell was due to stand trial for charges of non-recent sexual offences but the investigation was closed following his death.

172. The investigation is being undertaken by Pinsent Masons and overseen by Susanne Tanner QC. The purpose of the inquiry is to establish, amongst other things, whether or not any steps were taken by the Council to respond to any past allegations or suspicions of abuse or inappropriate behaviour by Mr Bell.

173. The Inquiry team issued calls for evidence and interviewed nearly 100 witnesses. The Team considered evidence which included consideration of five alleged formal disclosures to the Council from survivors of sexual or physical abuse from Sean Bell. They concluded that Sean Bell was a serial abuser and that the abuse took many forms. There was no evidence that anyone else at the Council was involved in the abuse but there was evidence that there was widespread knowledge of or suspicion of Sean Bell’s inappropriate conduct across the Council. On several occasions, the Council failed to take appropriate action and the Inquiry Team considered that the failure to properly report, escalate and investigate the allegations of inappropriate behaviour was a significant failing of the Council and was in breach of its own policies in place at the time. In 2010 an

incident was reported to two senior officers but there was a failure to take appropriate action which the report considers a dereliction of their duty.

174. The Inquiry Team made a number of recommendations including :
- The Council should consider the implementation of an independent investigation unit of appropriately experienced and properly trained investigators, to investigate all allegations in relation to the Council employees of a sexual nature, domestic abuse, physical violence, harassment or stalking (whether occurring during the course of work hours or on Council premises or not). The Council should either procure an independent external firm to establish an independent team of investigators to take on this role; or create an internal unit of investigators whose sole role is to carry out such investigations. If internal, any such unit should be regularly audited by an independent body;
 - an appropriate Council redress scheme should be set up, without admission of liability, to compensate those who have been abused by Sean Bell;
 - current Council HR practices relating to relationships between Council employees are inadequate and do not reflect the close working and personal relationships between many Council employees, which are often undisclosed. These require to be revised and updated;
 - record keeping must be improved within the Council, with notes

taken at all meetings where disclosures or concerns are raised by employees to line managers regarding sexual or physical violence, harassment or stalking (whether occurring during the course of work hours or on Council premises or not). Once recorded, line managers should be obliged to report such disclosures or concerns up the management structure at the Council;

- all allegations in relation to Council employees of a sexual nature, domestic abuse, physical violence, harassment or stalking (whether occurring during the course of work hours or on Council premises or not) must be escalated to the Council's Monitoring Officer prior to the appointment of any investigator.

175. The report was considered by the full Council on 28 October 2021 and the Chief Executive was requested to report back to Council within one cycle detailing how the recommendations will be implemented. The failings and omissions identified by the Inquiry were also noted by the Monitoring Officer as amounting to maladministration and injustice.

176. The total costs to date for this investigation amount to £511,000.

Risk management

177. Well-developed risk management arrangements help councils to make effective decisions and secure better use of resources. The Council's GRBV committee is responsible for monitoring the effectiveness of the risk management arrangements in place with risk management responsibilities held at corporate, divisional and team

level and leadership teams reviewing risks quarterly. Emerging risks are escalated to the Corporate Leadership Team (CLT) as appropriate.

178. In 2019/20 the Council reviewed and updated its risk management framework. It has established a 'three lines of defence' model:
- The 'first line' is the team responsible for consistent application of the risk management framework.
 - The 'second line' is the team responsible for establishing and communicating an appropriate organisational risk management and governance framework and a risk appetite statement framework.
 - The 'third line' provides independent assurance (for example, Internal Audit) on the controls established to manage risks.
179. As part of the process of updating the risk management framework, the Council has restructured the team responsible for risk management. It has increased oversight by Service Director: Legal and Risk and the Head of Internal Audit, along with transferring more responsibility for risk management from the second to the first line of defence.
180. The implementation of the new risk management framework is planned to be undertaken over the three years to 2022/23. In 2020/21 this included the establishment of appropriate governance structures. In 2021/22 further work will be undertaken

including the implementation of sample-based assurance reviews. 2022/23 is planned to include detailed assurance mapping as recommended by CIPFA.

181. In response to the COVID-19 pandemic the Council's Incident Management Team agreed on the approach to be applied to the ongoing management assessment and recording of new and emerging COVID-19 risks and associated mitigating actions. A risk management plan was drawn up which continues to be updated to reflect any new and emerging COVID-19 risks. The risk management plan is discussed weekly at a Risk Forum and reviewed fortnightly at the incident management team.
182. The original and current risk assessment ratings (24 September 2021) for each of the COVID-19 strategic risks are detailed below. This assessment demonstrates that mitigating actions have reduced the risk in eight of the nine strategic risks.

Covid-19 Strategic Risks as at 24 September 2021

Covid-19 Strategic Risks	Original Risk	Current Risk
Health and Safety of Citizens and Service Users	Critical	High
Council response and governance	Critical	High
Health and availability of employees to deliver services	Critical	Critical
Council premises and physical security	Critical	High
Supply chain risk	Critical	Medium
Technology and information	Critical	High
Financial and economic risk	Critical	Medium
Fraud and Serious Organised Crime Risk	Medium	Low
Legal and Commercial Risk	Medium	Low

Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the Council's reporting of its performance.



Auditor judgement



In response to the pandemic, the Council developed an Adaptation and Renewal work programme, with 5 main workstreams. Regular updates are presented to committee which include the impact the pandemic has on the Council.

The Council has published an annual performance report and report on performance against the Local Government Benchmarking Framework (2019/20). Performance in 2020/21 has been impacted by the pandemic; in particular in areas such as education, social care, housing and waste services.

Further work is required to fully demonstrate compliance with the Accounts Commission Statutory Performance Information Direction; in particular demonstrating best value. During 2021, the Council published its Business Plan which is supported by a newly developed Planning and Performance Framework (PPF). The new PPF is being designed to meet the Council's public performance reporting responsibilities including meeting the requirements of Statutory Performance Information Directions.

The Council's response to the pandemic: Adaptation and Renewal

183. In May 2020 the Council, recognising the significant long-term impact and challenges caused by the pandemic, commenced a programme of work titled Adaptation and Renewal, focussed on post-Covid new ways of working. It aimed to set a clear long-term vision, feeding into the business plan, on how the city would recover while retaining the flexibility to adapt to the changing public health situation.
184. Five officer working groups were established, four of which continue to be active:
- **Public Health - Triage Oversight Group** – bringing together Council, NHS Lothian and Edinburgh Health and Social Care Partnership colleagues to ensure effective communication and implementation of national advice concerning public health within an Edinburgh context;
 - **Service Operations: Wellbeing Programme** – facilitating cross-Council co-ordination to enable a phased and prioritised plan for resumption and adaptation where possible, guided by the Scottish Government's route map;
 - **Sustainable Economic Recovery** – allowing key sectors of the city to survive and thrive thereafter, with a focus on investment and development, employability, business support and resilience, our future cultural capital and fostering innovation;
- **Life Chances** – aligning the Council's recovery activity to the key theme of addressing poverty, promoting sustainability and improving well-being;
 - **Change, People and Finance** – enabling the adaptation and renewal of the Council as an organisation and ensuring that clear direction for the Council's own requirements for change in a post COVID-19 world is aligned with the resources available to deliver these changes. This group has recently reached conclusion and delivered against its original scope so has now been stepped down.
185. Regular updates have been presented to the Council's Policy and Sustainability Committee which covered:
- the impact of the pandemic on the Council over the short, medium and longer term (presented as a dashboard);
 - decisions taken under urgency provisions by the Chief Executive in consultation with the Leader and Deputy Leader. Such matters are discussed by the Council Incident Management Team (CIMT) which has continued to meet twice a week or at the weekly Corporate Leadership Team meetings;
 - service resumption; and
 - update on current system pressures – services impacted include social care, education, waste and cleansing, streetscapes.
186. Since the Adaptation and Renewal programme was approved, the Council Business Plan has been published

and the officer working groups have either delivered their remit, or their activity has moved into business as usual delivery arrangements. In addition, the senior leadership review of Chief Officer roles has concluded with responsibilities and accountabilities for delivery now aligned to the new Council organisational structure.

187. A 'close' report is in development which will look at how well the projects that formed the Adaptation and Renewal Programme delivered against the scope for the now, near and future phases. It will also highlight any 'follow on actions' i.e. outputs or outcomes that still need to be delivered as part of business as usual activities.
188. Lessons Learned have been captured across individual projects and will be consolidated into the close report for awareness and adoption to inform other similar programmes response types.

Performance management framework 2020/21

189. The Council's performance management framework was revised in light of the pandemic. The revised framework comprised the following components in 2020/21:
- Performance reports were produced as required throughout the year. For some services, reports continued to be generated throughout the year whereas for others reporting was suspended as the service ceased due to COVID restrictions. As services started to resume, performance reporting was restarted. For other services,

reporting was refocused to reflect new ways of working or additional support as they set up to support people during lockdowns (for example, the customer contact team ran the shielding/vulnerable lines and reports were developed to show changes in activity and pressures).

- New reports were created to highlight the impact of COVID on demand for Council services as well as the wider impact on Edinburgh to support senior managers' decision making.
- Quarterly scorecards were paused and weekly/monthly Corporate Leadership Team (CLT) COVID dashboards were developed. Quarterly scorecards contained KPIs on services that were paused during 2020/21.
- A Weekly Covid Dashboard was created and shared with Elected Members and the wider Leadership Team with key COVID data.
- A monthly CLT COVID dashboard was created to provide CLT with an overview of Covid Public Health data as well as core services information to support their decision making due to impact of the pandemic.
- The focus of most reports to Committee during 2020/21 was on impact of the pandemic and service resumption not improvement plans. Regular Adaptation and Renewal report updates went to the Policy and Sustainability Committee to give an overview of the Council's

response to the pandemic and changes to services.

- An annual performance report was presented to elected members which sets out progress against the key performance indicators (KPIs) in its Change Strategy. Elected members also received six-monthly updates on the 52 Business Plan commitments and annual updates on the Local Government Benchmarking Framework (LGBF).

Performance management framework 2021/22

190. Following the approval by Council of its Business Plan in February 2021, a new Planning and Performance Framework has been developed. The Planning and Performance Framework includes a new suite of key performance indicators aligned to the business plan. The performance indicators have been mapped against the National Performance Framework and seven best value themes.
191. The new Planning and Performance Framework will support the use of performance information including benchmarking data, such as the Local Government Benchmarking Framework (LGBF), to drive continuous improvement.
192. Where appropriate, targets for 2021/22 have been set. However, the impact of COVID-19 over the last year has resulted in some indicators requiring new baselines to be established before meaningful target setting can be done.
193. Performance scorecards and trend dashboards are to be aligned to

service plans and monitored regularly at each level in the organisation.

194. On an annual basis, a review of its Directorate/Divisional Plans will be undertaken to ensure that the Council is on track to deliver its outcomes and objectives. Benchmarking data such as LGBF will be used to review performance against plans and inform the next year's annual planning process, the budget cycle and year end performance reporting.
195. This suite of measures (and targets) will be kept under review as part of the Planning and Performance Framework annual cycle to ensure they remain fit for purpose.
196. The framework sets the Council's approach to monitoring and reporting performance including service level arrangements, elected members scrutiny of performance and public performance reporting arrangements:

Elected members scrutiny of performance

197. A Council performance report with both supporting narrative and trend analysis will be submitted to the Policy and Sustainability Committee once every four months. This will include the annual performance report which will be brought to the Policy and Sustainability Committee and full Council in June of each year. In addition, there will be the publication of data of specific performance indicators for elected member and public oversight. The Council aims to move to a more transparent and open data led approach, with the intention of supporting wider discussions about the performance of specific services beyond the Committee. The Best Value Assurance Audit Report progress update will be presented

alongside the Council performance reports.

Public reporting of performance information

198. The Council intends to, in addition to publishing all committee performance reports, develop a suite of core measures to be published on a quarterly basis. A data section on the website is to be developed to give a wider perspective on city data, for example, Edinburgh by Numbers.

199. The Council is also reviewing its website with a view to simplifying public access to performance data and ensuring timely publication of the performance information. The redesign of the performance web pages is due to be completed by the end by March 2022.

Statutory Performance Information

200. 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 ('2018 Direction') in December 2018, which applied for the first time in 2019/20 and remains in effect for 2020/21 and 2021/22. The 2018 Direction 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.

201. The information reported in the Council's 2020/21 Annual Performance Report and the 2019/20 Local Government Benchmarking Framework Report is the Council's response to meeting the requirements of the 2018 Statutory Performance Direction.

202. In the prior year we recommended that the Council map its annual performance report against the 7 Best Value themes and publish these as part of the Annual Performance Report. An exercise was carried out by the Council to show coverage against the best value themes; however this has not been included in the Annual Performance Report. A similar exercise has been carried out to map the new performance indicators under the Planning and Performance Framework against the best value themes.

203. Statutory Performance Indicator 2 in the 2018 Direction is on demonstrating best value; including the Council's assessment of how it is performing against its duty of best value and its plans to improve against this assessment. On review of the 2020/21 Annual Performance Report, and notwithstanding the current environment, we consider that the performance report could be further developed to fully demonstrate the Council's compliance with the 2018

Direction as it relates to demonstrating best value. We recommend that the Council develop future performance reports to ensure / demonstrate full compliance with the 2018 Direction.

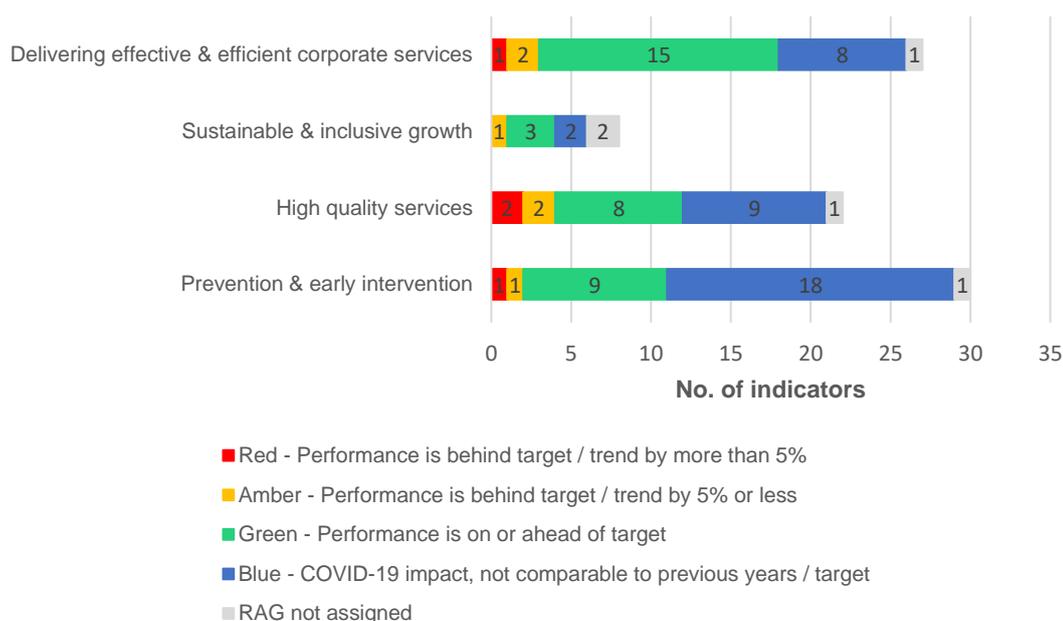
indicators and benchmarking data including the Local Government Benchmarking Framework 2019/20 data.

Overview of performance in 2020/21

204. The Council's 2020/21 Annual Performance Report provides an overview of council performance against its Change Strategy themes, drawing on corporate performance

205. The impact of the COVID-19 pandemic has been varied across Council services. The Council has implemented a Blue RAG assessment to show where this impact makes comparison with performance in previous years or against targets not appropriate (37 out of 87 indicators)²

Council performance against KPIs by theme, 2020/21



Source: City of Edinburgh Council 'Annual Performance 2020/21' Report

² Comments on the performance information as reported in the Annual Performance Report:

The suite of performance indicators reported has changed slightly from last year, with one indicator re-introduced; 6 indicators revised; 3 indicators added; and one indicator removed.

Some of indicators refer to the latest academic school year (running from August 2019 to June 2020) and trend analysis and RAG status has been reported on this data.

The lag time in the publication of some national reports (delayed by the impact of COVID-19) means there are some indicators where full year data for 2020/21 is not available.

206. The 'blue' assessed indicators covered the following areas:

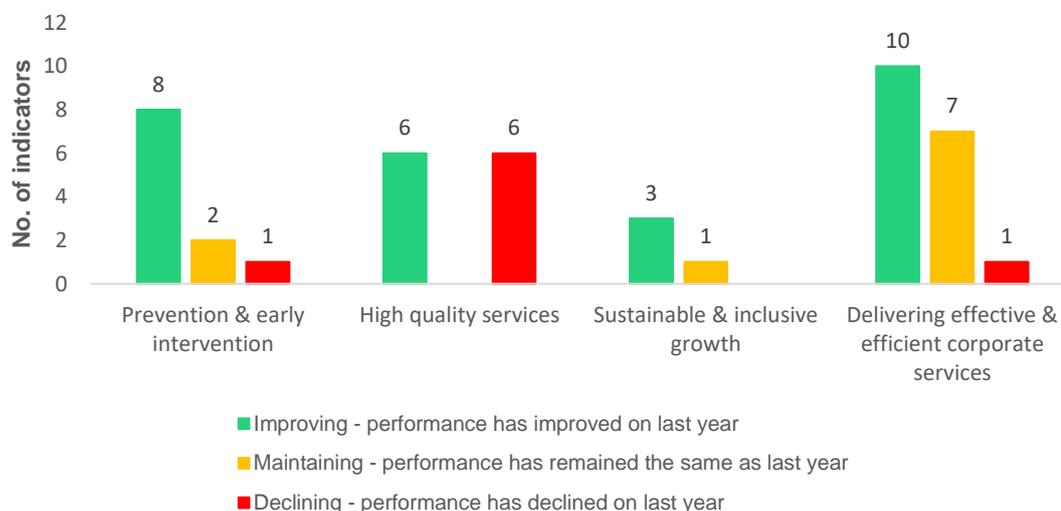
- Schools and education
- Homelessness
- Criminal justice orders
- Street cleansing
- Rent arrears
- Attendances at museums and galleries
- Non-Domestic Rates / Council tax collection
- Commercial income
- Asset management
- Lost working time due to ill health

- Delivery of budget savings

207. Of the remaining indicators where a RAG status has been assigned, 36 show improved or maintained performance and nine show a decline. The indicators that show a decline in performance in 2020/21 are found across the services rather than focused in a single service area, including: waste management, roads, adult social care, housing and customer services.

208. The report identifies areas where performance challenges remain and sets out how the Council is focussing on these areas and the next steps being put in place to address these areas.

2020/21 Performance in comparison with 2019/20



Source: City of Edinburgh Council 'Annual Performance 2020/21' Report

Local Government Benchmarking Framework

209. The Council's annual LGBF report (2019/20) was reported to the Policy and Sustainability Committee in June 2021. As this information is based on 2019/20 it does not show the impact of

COVID-19. These results will be reported in 2022.

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Appendix 1: Respective responsibilities of the Council and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both the Council and the auditor and are detailed below.

Council responsibilities

The Council is required to make arrangements for the proper administration of financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Service Director: Finance and Procurement has been designated as that officer.

The Service Director: Finance and Procurement is responsible for the preparation of the Council's annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Area	Council responsibilities
Corporate governance	<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>
Financial statements	<p>The Council has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its 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 its financial statements and related reports disclosures; • maintaining proper accounting records; and • 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. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the Council. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the</p>

Area	Council responsibilities
	<p>entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</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. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</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>
<p>Financial position</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 statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best value</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>

Auditor responsibilities

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 and the regularity of transactions;
- 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 of audit

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.

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; and value for money.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Council's best value arrangements has been integrated into our audit approach, including our follow up on the Council's Best Value Assurance Report and work on the wider scope dimensions.

Independence

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Audit and non-audit services

The 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
Total audit	487,439
Non-audit services	34,000
Total fees	521,439

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 nd manager review of the financial statements is performed by an audit manager not involved in the audit of the financial statements.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at the Council since appointment can be found at <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix 2: Audit differences identified during the audit

Adjusted audit differences

Prior year audit adjustments - Group

No	Detail	Balance Sheet	Comprehensive Income and Expenditure Statement
		Dr / (Cr) £million	Dr / (Cr) £million
1.	CEC – adjustments in respect of Residual Waste PPP	(10.939)	10.939
2.	Transport for Edinburgh – adjustment in respect of B shares	8.800	(8.800)
3.	Lothian Valuation Joint Board – adjustment to reflect prior year audit adjustment in its accounts	0.173	(0.173)
Net impact on total comprehensive (income)/expenditure (increase)/decrease			1.966
Total reserves per the unaudited annual accounts (Group)			3,102.490
Revised reserves per the audited annual accounts (Group)			3,100.524

Current year audit adjustments - Group

No	Detail	Balance Sheet	Comprehensive Income and Expenditure Statement
		Dr / (Cr) £million	Dr / (Cr) £million
1.	CEC – COVID funding adjustments	(0.268)	0.268
2.	CEC – IAS 19 pension adjustments	(2.084)	2.084
3.	CEC – PPP adjustments	(11.582)	11.582
4.	CEC – Provisions adjustments	3.476	(3.476)
5.	Transport for Edinburgh – IAS 19 pension adjustments	43.009	(43.009)
6.	Transport for Edinburgh – B shares consolidation	17.131	(17.131)
7.	Transport for Edinburgh – IFRS 16 adjustment	0.006	(0.006)
8.	Transport for Edinburgh – Minority interests	4.254	(4.254)
9.	Group bodies – adjustments to reflect audited accounts of group bodies	(0.583)	0.583
Net impact on total comprehensive (income)/expenditure (increase)/decrease			(53.359)
Total reserves per the unaudited annual accounts (Group)			3,400.879
Revised reserves per the audited annual accounts (Group)			3,454.238

Unadjusted audit differences - Group

No	Detail	Balance Sheet	Comprehensive Income and Expenditure Statement
		Dr / (Cr)	Dr / (Cr)
		£million	£million
1.	Alignment of group accounting policies (treatment of capital grant income)	5.233	(5.233)
Net impact on total comprehensive (income)/expenditure (increase)/decrease			(5.233)
Total reserves per the audited annual accounts (Group)			3,454.238
Revised reserves if the adjustment were amended for (Group)			3,459.471

We have discussed this unadjusted audit difference with management and confirmed that it is immaterial to the annual accounts.

Disclosure amendments

Note reference in the annual accounts	Detail
Movement in reserves statement	Restricting the statutory adjustment from the General Fund to the Capital Adjustment Account to depreciation on the asset's historical cost in line with LASAAC guidance. Depreciation on the asset's revaluation element has been transferred from the Revaluation Reserve to the General Fund.
Note 4	Assumptions made about the future and other major sources of estimation uncertainty – Property, Plant and Equipment Additional disclosure included on key assumptions made in relation to the valuation of other land and buildings, council dwellings and investment properties.
Note 4	Assumptions made about the future and other major sources of estimation uncertainty – Housing Rent Arrears Additional disclosure included on the sensitivity of the carrying amount of the provision for doubtful debt to the methods, assumptions and estimates underlying its calculation.
Note 15	Property, Plant and Equipment Correction to the disclosure of Queensferry High School within the Public Private Partnership and similar assets disclosure.
Note 25	Provisions Provisions split between long term and short term.
Note 29	Cash flow statement notes Additional disclosures provided.

Appendix 3: Best Value Assurance Report – follow up

In assessing the Council’s progress on implementing the recommendations included in the Best Value Assurance Report we have considered both the pace and depth of improvement.

The recommendations have been categorised under the key areas of focus for the Best Value audit and an overall auditor judgement applied. The definitions for our judgements are as set out in the Executive Summary.

1. Council vision and strategic direction Overall auditor judgement:



Recommendation	As part of its Adaptation and Renewal Programme, the council should quickly amalgamate its Business Plan and Change Strategy, to provide clearer priorities and direction for the council.
Status and progress to date	<p>On 27 January 2021 the Council published the draft three-year Council Business Plan: The three year Business Plan: Our Future Council, Our Future City and budget were approved by the Council on 18 February 2021.</p> <p>The Business Plan is supported by a People Strategy and Workforce Plan.</p> <p>The Business Plan brings together 15 outcomes and accompanying actions for the next three years. It includes detail on working with partners, finances and the new planning and performance framework.</p> <p>The Business Plan is a live document which staff are using across the Council to provide strategic direction for deliverables – replacing the previous Business Plan and Change Strategy.</p> <p>It is available on both the Council’s intranet and public pages alongside the People Strategy and Strategic Workforce Plan. It remains a live document which will be updated as required.</p>
Audit assessment	<p>Complete</p> <p>The 5 year Business Plan now provides strategic direction. The Business Plan is a well-developed document setting out how the Council will achieve its priorities. It needs to be fully costed and supported by a Financial Plan which covers the same time horizon.</p>

1. Council vision and strategic direction

Overall auditor judgement:



<p>Recommendation</p>	<p>To help them carry out their best value responsibilities, elected members should take advantage of the learning and development opportunities provided by the council.</p>
<p>Status and progress to date</p>	<p>To fully respond to this recommendation the Council is proposing a short (end of March 2021), medium (2021/2022) and longer-term response (post local government 2022 election).</p> <p>Short (end March 2021) – To ensure elected member learning and development meets statutory requirements, is continuous, relevant and of good quality officers will carry out an audit of all current training materials and communicate the current offering to members.</p> <p>Medium (2021/2022) – A training needs analysis will be carried out with elected members. This will be fundamental to identify any gaps in learning and development and help implement further training that is useful, relevant, developmental and will encourage and support participation.</p> <p>Long-term (post Local Government elections) - The training needs analysis will be a fundamental tool to support the induction and on-going training offering to new and returning members after the 2022 election. As in previous election years, a full 8-week induction programme will be offered to members. Building on this, there will then be a focus on continuous learning and development with members supported to take an active role in their development and monitor their participation in further training.</p>
<p>Audit assessment</p>	<p>In progress</p> <p>An audit of all current training materials has been undertaken and Members have been informed about the learning and development opportunities.</p> <p>The medium-term and long-term commitments are currently at planning stage. Officers are currently developing a programme of workstreams - Council 2022 in preparation for the 2022 Local Government elections.</p>

1. Council vision and strategic direction Overall auditor judgement:



<p>Recommendation</p>	<p>In order to make community engagement an integral part of service improvement and delivery, the council should support community groups to complete asset transfers</p>
<p>Status and progress to date</p>	<p>Community Asset Transfer (CAT) is an important element of the Council's approach to Community Empowerment. The Council has a well-established CAT Policy and provides advice and guidance to community organisations at all stages of the process to enable them to present the best possible case for an asset transfer. Prior to formal asset transfer requests being submitted, officers score the draft submissions following the CAT policy scoring matrix and works with the community to improve their business case so that it is as strong and robust as possible in terms of finance, operation, community consultation and governance. The Council has recently seen evidence of a greater number of Community Asset Transfer requests which it has supported and the number of approved requests has risen during the last 12 months.</p>
<p>Audit assessment</p>	<p>In progress</p> <p>Since the publication of the Best Value report there have been three further Community Asset Transfers completed and a further four transfers have been agreed to by the Council and legal work is ongoing to bring them to a successful conclusion. There are a further 14 CATs being worked on.</p>

2. Performance and outcomes, including public performance reporting

Overall auditor judgement:



Recommendation	<p>The Council should further improve its performance reporting by making better use of performance measures and targets, particularly to demonstrate the impact of improvement work.</p>
Status and progress to date	<p>The Council’s draft Business Plan includes a new strategy performance map which details the outcomes, actions and initial metrics.</p> <p>In June 2021, the Policy and Sustainability Committee approved the new planning and performance framework for the Council Business Plan, including an initial suite of Key Performance Indicators (KPIs) which are aligned to Specific, Measurable, Achievable and Relevant (SMART) performance indicators and milestones.</p> <p>The new planning and performance framework provides a clear link between the three- year business plan, key strategies, annual service plans and the underlying performance framework including benchmarking.</p> <p>The next phase of work will look to develop service plans and targets against each performance indicator or milestone.</p>
Audit assessment	<p>In progress</p> <p>The Planning and Performance Framework includes KPIs. Some of these KPIs do not have targets. The covering report notes that 2021/22 targets have been set where appropriate but that the impact of COVID-19 has resulted in some indicators requiring new baselines to be established before meaningful targets can be set. It is important that progress is made in setting these targets.</p> <p>The intention is that a Council Performance Report with both supporting narrative and trend analysis is submitted to the Policy and Sustainability Committee every four months. The first Council Performance Report under these new arrangements is due in November 2021.</p>

2. Performance and outcomes, including public performance reporting

Overall auditor judgement:



Recommendation	The Council should further improve its performance reporting by publishing easily accessible, up-to-date performance information on its website.
Status and progress to date	<p>Officers are working to improve the performance reporting available to the public via the Council website. Key improvements have focused on the layout and format of its reporting to ensure that publications are both accessible and timely.</p> <p>Along with publishing all committee performance reports officers are working to improve the performance reporting available to the Public via the Council website. Key improvements have focused on the layout and format of our reporting to ensure that publications are both accessible and timely.</p>
Audit assessment	<p>In progress</p> <p>The Annual Performance Report for 2020/21 was approved by the Council in June 2021 and is available on the Council web-site. It follows a similar structure to previous report. Quarterly reporting under the new planning and performance framework is due to start in November 2021</p>

3. Effective use of resources

Overall auditor judgement:



<p>Recommendation</p>	<p>As part of its Adaptation and Renewal Programme, the Council should prepare sustainable medium and long-term financial plans, and detailed workforce plans, to support its strategic priorities.</p>
<p>Status and progress to date</p>	<p>Given the announcement on 5 January 2021 that Edinburgh and all other mainland authorities in Scotland would be returning to arrangements akin to the March 2020 lockdown and the significant consequent increase in uncertainty and risk that any longer-term budget is based on incomplete information or flawed assumptions, the primary focus for 2021/22 activity has reflected the Council’s statutory responsibility to set a balanced budget for the following year by 11 March. This shorter, one-year timeframe is consistent with both the UK and Scottish Governments and councils elsewhere in Scotland.</p> <p>Once the financial position is clearer, a strategic long-term financial plan, guided by the overarching vision, principles and priorities set out within the Business Plan: Our Future Council, Our Future City will be developed.</p>
<p>Audit assessment</p>	<p>In progress</p> <p>A high level medium term financial revenue plan was submitted to Finance and Resources Committee in October 2021 covering the period 2022/23 to 2026/27. The plan reflects a number of assumptions over the period and the fact that the local government finance settlement has not been published beyond 2021/22. Currently the plan shows an estimated funding gap of £8.237m in 2022/23 rising to £126.350m in 2026/27. The financial plan will need to be updated as some of the assumptions used become clearer. Savings plans to address the shortfalls in 2022/23 and beyond require to be drawn up to ensure the plan reflects a realistic assessment of the next five years’ position.</p> <p>A capital budget covering the 10 years from 2022-2032 was also agreed by the Finance and Resources Committee. Whilst the capital budget is fully funded there is a recognition that capital budgets are expected to come under significant pressure as a result of higher tender prices. Delivery of the capital budget will also be impacted by the revenue budget which as noted above is currently showing significant funding gaps over the first 5 years of the capital budgets timescale</p>

<p>3. Effective use of resources</p>	<p>Overall auditor judgement:</p>	
<p>Recommendation</p>	<p>A People Strategy and Strategic Workforce Plan has been approved. However these are not detailed workforce plans. The Strategic Workforce Plan includes within its action plan an action to develop workforce plans for Customer, Property and Facilities Management, Waste, Housing, Culture and Education as part of the organisational review process but to date none of the workforce plans have been completed.</p>	

<p>4. Partnership working and community engagement</p>	<p>Overall auditor judgement:</p>	
<p>Recommendation</p>	<p>In order to make community engagement an integral part of service improvement and delivery, the Council should embed the lessons from effective community engagement activity and clearly communicate the results of, and the Council’s response to, community consultation.</p>	
<p>Status and progress to date</p>	<p>A new Consultation and Engagement policy has been approved to formally embed the principles of high-quality engagement and consultation. This came into effect in August 2021.</p> <p>A Consultation Advisory Panel of expertly trained council officers who will evaluate proposed significant consultations and make recommendations to the Corporate Leadership Team has been established. The Consultation Advisory Panel has met successfully to review high-assessed consultation proposals. The first CAP report has been considered and approved by CLT. The Consultation Advisory Panel will ensure that planning for consultation and engagement takes account of and commits to the public reporting of how citizens’ views have shaped the decisions of the Council.</p> <p>A 3-year training programme has been developed to upskill colleagues and elected members on consultation practice and funding has been agreed for year one.</p> <p>The Council is considering its approach to empowering communities and the relationship with community councils with partners in the city, under the auspices of the Edinburgh Partnership. Funding has been agreed for a new team to drive community and voluntary sector</p>	

<p>4. Partnership working and community engagement</p>	<p>Overall auditor judgement:</p>	
	<p>engagement in the development of major new change projects – 20-minute Neighbourhoods and Poverty Prevention.</p>	
<p>Audit assessment</p>	<p>In progress</p> <p>The Consultation and Engagement policy was approved in April 2021 and set out a new 12-week standard for consultations. In August the first Consultation Advisory Panel proposals regarding consultations were submitted to CLT. These considered consultations on short-term letting controls, extension of 20mph speed limits and the use of public spaces for filming and events.</p> <p>It is not clear how the work of the CAP and the decisions made by CLT will be communicated more widely across the community as part of the Council’s ongoing engagement.</p>	
<p>Recommendation</p>	<p>The Council should work with the Edinburgh Partnership Board to implement its new governance arrangements, effectively involve community representatives and deliver improved outcomes for communities.</p>	
<p>Status and progress to date</p>	<p>Work to progress this recommendation is being taken forward in two parts;</p> <ul style="list-style-type: none"> i. as a Community Planning Partnership looking at effective partnership working, and, ii. as a Council in support of community capacity and local empowerment. <p>The Edinburgh Partnership</p> <p>Following a meeting of the Edinburgh Partnership Board on 15 December 2020, a working group of key partners led by the Council’s Executive Director of Place was established to consider the Accounts Commission’s recommendations and formulate a partnership response. Progress on delivering the BV improvement Plan was reported to the Edinburgh Partnership Board in September.</p> <p>The Council</p> <p>The Council Business Plan has clearly articulated how the Council’s priorities and key strategic programmes of work align with the Community Planning Partnership priorities and, in response to committee agreement to give further consideration of genuine local</p>	

4. Partnership working and community engagement

Overall auditor judgement:



	<p>community empowerment, the Council is carrying out a review of the Localities teams.</p> <p>A new Local Outcome Improvement Plan (LOIP) Delivery Plan with corresponding performance measures was approved in September 2021.</p>
<p>Audit assessment</p>	<p>In progress</p> <p>The Council has acknowledged that not enough capacity and resource had been allocated to establish the new governance arrangements successfully in all parts of the city and committed to strengthening the resourcing and capacity to support Neighbourhood Networks and the LCPPs through the establishment of new Community Empowerment teams. Work is in progress.</p>
<p>Recommendation</p>	<p>The council should work with the Edinburgh Partnership Board to produce progress reports with clear targets, accountable leads and links between the actions taken and the impact on performance.</p>
<p>Status and progress to date</p>	<p>Officers worked with community planning partners to agree clear performance measures and a reporting framework. These were incorporated in a LOIP Delivery Plan. Further work will be carried out to revise the LOIP and to develop refreshed 10 year outcome measures to align with the reframed priorities. Account will be taken of the outcome measures contained within the city’s strategic framework to ensure appropriate alignment and specifically incorporate the End Poverty Edinburgh targets set by the Poverty Commission</p>
<p>Audit assessment</p>	<p>In progress</p> <p>A new LOIP delivery plan including priorities, proposed actions, timescales and measures for success was approved by the Edinburgh Partnership Board in September 2021.</p> <p>The LOIP does not yet reflect a full performance reporting matrix with clear targets and accountable leads. The report notes that further work will be carried out to revise the LOIP and to develop refreshed 10 year outcome measures. This will be a mix of existing and new performance metrics to align with the reframed priorities.</p>

5. Continuous improvement

Overall auditor judgement:



<p>Recommendation</p>	<p>The Council should implement a strategic approach to self-evaluation and continuous improvement. This should include better demonstrating how it responds to feedback and scrutiny findings.</p>
<p>Status and progress to date</p>	<p>Continuous improvement is central to the Council’s approach for an integrated planning and performance framework aligned to the Council’s new business plan. This integrated framework is underpinned by the ‘plan, do, check, review/act’ model and methodology.</p> <p>To ensure delivery of the draft business plan outcomes and service priorities the Council will introduce the development of annual service plans at all levels in the Council (from Directorate to Service Team level). Plans will be aligned to Key Performance Indicator (KPI) scorecards and underpinned by trend dashboards which will be monitored and actioned regularly.</p> <p>Each year service teams will undertake a detailed review of their plans and associated performance to assess the progress made in delivering outcomes and improving performance. This review will inform service planning for the next year which will ensure that continuous improvement is embedded at all levels.</p> <p>To ensure effective scrutiny of our performance a regular cycle of performance reporting will be developed for Elected Members as well as the wider public.</p> <p>The Council also plans to engage with the Improvement Service to look at the options open to the Council to implement a strategic approach to self-evaluation.</p>
<p>Audit assessment</p>	<p>In progress</p> <p>The Performance and Planning Framework provides an overview of the strategic and performance framework together with a suite of KPI’s to support the Council’s key priorities. There are targets for some but not all of these KPIs.</p> <p>Annual Service Plans in the form of a “Plan on a Page” are being developed. A template has been devised and workshops have been held with CLT, Directors and senior managers to develop these plans at Directorate and Service level. Final approval from Directors for these plans is awaited. Once approved a corporate action tracker will be used alongside the Business Plan together with a KPI scorecard and dashboard.</p>

Appendix 4: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

To assist the Council in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. Our rating structure has been revised to ensure consistency with the structure/terminology used by internal audit.

Rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Current year action plan

1. Communication with valuer	Medium
Observation	<p>We identified the following examples of communication and collaboration between the valuer and the Finance team where further improvements could be made:</p> <ul style="list-style-type: none"> • One asset where incomplete cost information was provided to the valuer; • The valuer provided one consolidated valuation for two assets which was not made clear to the Finance team and incorrectly recognised in the fixed asset register; • Management allocating the assets valuation as provided by the valuer between individual asset components without initially engaging with the valuer over the reasonableness of this estimated split; • Valuations provided by the valuer for assets under construction when the Finance team correctly intend to continue holding these assets at cost.
Implication	<p>Valuation of assets may be misstated within the annual accounts if the valuation exercise is not based on fully clear, complete or timely information.</p>
Recommendation	<p>A more collaborative approach should be taken to the valuation exercise to ensure valuations are based on complete information, are only obtained when both the Finance team and the valuer deem it necessary, and the valuer's expertise is used to inform all key estimates where appropriate.</p>
Management response	<p>In 2020/21 a total of 559 valuations were completed, equating to 19% of asset records and over 30% of the portfolio by value, with a further 15 deletions or additions meaning that 574 assets were reviewed before componentisation is considered. In addition, there were 500 lines of capital expenditure reviewed and capitalised as part of the year end process over the course of several weeks.</p> <p>Finance and Estates maintain strong communication throughout the year, with the valuation process underway in October through to completion of the unaudited accounts in May.</p> <p>The first bullet point relates to one asset that had been primarily constructed under a Design, Build, Finance, Maintain (DBFM) contract but there was a minor element of largely historic capital expenditure incurred by the Council on the same asset. This had</p>

been treated as one asset as it was all under one AIS reference, however, following the audit it became clear that we should treat the two elements separately based on their respective funding arrangements and this has now been reflected in the Audited Accounts. This issue should be a one-off and was the reason for the gap in the process this financial year.

The second bullet point relates to two assets which were held as one asset due to their having the same AIS reference as they are located on the same land, however, during the audit it became clear that we should treat the two elements separately and that has now been reflected in the Audited Accounts.

Finance will continue to work collaboratively with the valuer on asset componentisation in future years, following audit advice on the matter this year.

Finance will make it clear to the valuer that any asset which isn't completed by the end of the financial year will be carried at cost in Assets Under Construction, subject to the impairment review recommended at Action 2. As a result of this impairment review, as well as purposes such as insurance, valuations may still be required on Assets Under Construction. On completion, they would be transferred to the correct asset categorisation, most likely Other Land and Buildings.

Responsible officer: Senior Accountant (Capital Accounts), Finance and Procurement

Implementation date: March 2022

2. Impairment of assets under construction		Medium
Observation	Assets under construction are not considered as part of the Council's impairment assessment.	
Implication	There is a risk that assets under construction may be overstated as at 31 March if indicators of impairment are not appropriately considered and acted upon.	
Recommendation	The Council should ensure their assessment of impairment adequately considers events and changes in circumstance that may indicate an impairment to assets under construction. This includes, but is not limited to, evidence of obsolescence, physical damage or a change in the way that asset is expected to be used by the Council.	
Management response	<p>All assets under construction will be reviewed for impairment during the financial year to ensure that there is no evidence of obsolescence, physical damage or a change in the way that asset is expected to be used by the Council.</p> <p>Responsible officer: Senior Accountant (Capital Accounts), Finance and Procurement</p> <p>Implementation date: March 2022</p>	

3. Provision for doubtful debts		Medium
Observation	The Council provides for a specific percentage of doubtful debt based on the age of the sundry debtor and housing rent arrears. Whilst we deem the provision for doubtful debt to be free from material misstatement as at 31 March 2021, the key assumptions applied should be subject to regular review.	
Implication	The provision for doubtful debts may be materially misstated if the method and assumptions applied do not appropriately reflect the expected recovery rate of debt over the next 12 months.	
Recommendation	The Council should reflect on any significant changes in recovery rates of sundry debtors and housing rent arrears when calculating their provision for doubtful debts and adjust the percentages provided for as appropriate.	
Management response	<p>The Council will review any significant factors that affect the likely recovery of sundry debts and house rents on an annual basis and ensure these are considered when determining the appropriate impairment level.</p> <p>Responsible officer: Head of Corporate Finance, Finance and Procurement</p> <p>Implementation date: March 2022</p>	

4. Common good – accounting estimates		Medium
Observation	Improvements have been noted relating to accounting estimates in common good expenditure recognition. While we have gained reasonable assurance that the estimates are materially correct, the council should ensure going forward that all relevant assets are considered, and the estimates are based on timely and relevant data.	
Implication	There is a risk that expenditure on assets held in the common good does not reflect all information known at year end due to improvements which could be made to the quality of data used.	
Recommendation	The Council should review processes to ensure that Common Good expenditure is complete and estimates are based on complete and relevant information.	
Management response	<p>The Council will review relevant processes with a view to ensuring the completeness and robustness of expenditure-related Common Good disclosures.</p> <p>Responsible officer: Senior Accountant (Common Good), Finance and Procurement</p> <p>Implementation date: March 2022</p>	

5. Payroll reconciliations		Medium
<p>Observation</p>	<p>While the Council undertakes monthly payroll reconciliation focused on the Balance Sheet, a year-end reconciliation of employee expenditure to the payroll system is not undertaken by management.</p> <p>Procedures have been undertaken to gain assurance that the accounts materially reflect the payroll system.</p> <p>We further identified issues in relation to inaccurate employer pension contribution percentages, which are set by the Pension Fund actuary, for a small number of employees. While we have gained assurance that the impact is trivial, action should be taken to ensure that employer pension contributions are set appropriately.</p>	
<p>Implication</p>	<p>There is a risk that inappropriate adjustments to employee expenses, including payroll costs, are not identified due to a lack of appropriate management processes.</p>	
<p>Recommendation</p>	<p>The Council should undertake a year-end reconciliation of employee expenses to the payroll system.</p>	
<p>Management response</p>	<p>“A year-end reconciliation of employee expenses to the payroll system will be undertaken going forward</p> <p>Responsible officer: Principal Accountant (Corporate Accounts), Finance and Procurement</p> <p>Implementation date: June 2022</p>	

6. Implementation of BVAR recommendations		High
Observation	While, overall, progress has been made against all of the recommendations in the Best Value Assurance Report, further detailed work is now required to support the agreed approaches and overarching strategies.	
Implication	The BVAR noted that the Council needs to quickly increase the pace of improvement to help it demonstrate that it is achieving Best Value. Implementation of these recommendations will help the Council address the improvement areas as identified in the BVAR. The Commission will monitor the pace and depth of implementing these actions.	
Recommendation	<p>In particular, the Council should:</p> <ol style="list-style-type: none"> 1. Develop detailed savings plans to address the significant funding gaps identified in the medium-term financial plan. 2. Develop detailed workforce plans for service teams to support the strategic workforce plan. 3. Develop annual service plans for directorates and teams that support the delivery of key performance targets. Targets should be set for all KPIs agreed within the new Planning and Performance Framework. 4. Continue to progress approved Community Asset Transfer requests as a matter of priority. 5. Progress the framework drawn up for collaboration with community councils and ensure this delivers the real involvement of community representatives in delivering community outcomes. <p>Specific timescales should be documented over implementation of these actions.</p>	
Management response	<p>Action 1</p> <p>A detailed update and response on this recommendation is included within the prior year’s action follow-up section of the report.</p> <p>Responsible officer: Service Director: Finance and Procurement Implementation date: December 2022</p> <p>Action 2</p> <p>The Council’s Strategic Workforce Plan 2021/24 was approved at the Policy and Sustainability Committee in April 2021 (in conjunction with an approved People Strategy 2021/24) and aligned to the Business Plan 2021/24.</p>	

6. Implementation of BVAR recommendations

High

We have developed an approach to workforce planning and this is currently being piloted within Human Resources. This will then be taken to the Corporate Leadership Team in December 2021 for approval before implementation within identified teams.

Responsible officer: Service Director: Human Resources

Implementation date: June 2022

Action 3

A detailed update and response on this recommendation is included within the prior year's action follow-up section of the report.

Responsible officer: Change and Delivery Manager (Data, Performance and Business Planning), Strategic Change and Delivery, Corporate Services

Implementation date: March 2022

Action 4

Community Asset Transfers continue to be actively encouraged across all property service areas as part of business as usual. In the past twelve months, there has been a sizeable increase in interested parties who are at the pre-application stage and the service continues to support and advise these aspirations.

Responsible officer: Investments Senior Manager, Sustainable Development, Place Directorate

Implementation date: The original recommendation has been implemented but work in this area is, by its nature, on-going

Action 5

A working group comprising senior Council officers and members of the Edinburgh Association of Community Councils (EACC) has been established to discuss the areas the community councils identified as requiring improvement. Following on from this, a draft improvement plan has been produced which is due to be considered at a further meeting being held on 10 November. The plan responds directly to the asks of the EACC and covers actions to improve the immediate ways of working, together with longer-term structural changes. The work to date has focused on the relationship between the Council and community councils and further work is required to address the collaborative working with members of the Edinburgh Partnership. A report on this is anticipated to be presented to the Edinburgh Partnership Board in December 2021.

6. Implementation of BVAR recommendations

High

Responsible officer: Head of Policy and Insight, Corporate Services Directorate

Implementation date: December 2021 (for identification of proposed improvements), followed by period of implementation, timescales for which will be dependent upon these agreed actions

Appendix 5: Follow up of prior year recommendations

We have followed up on progress in implementing actions raised in the prior year/s. The table below summarises progress made by the Council in implementing these actions.

		Year recommendation raised			
	Rating	2016/17	2017/18	2018/19	2019/20
Ongoing	High	1	3	2	-
	Medium	-	-	1	2
Closed	High	-	1	-	-
	Medium	-	-	-	1
Total		1	4	3	3

Actions outstanding or in progress from previous years

2019/20 recommendations which are in progress in 2020/21

Long term financial plan		Medium
Recommendation	Management comments	
<p>The agreement of a three year revenue budget and long term capital budget was a positive achievement, particularly given the delays in the announcement of UK and Scottish Government budgets. We note however that a three-year revenue budget is at the lower end of what Audit Scotland would consider as adequate medium-term financial planning and would recommend that the council agrees a longer term financial planning framework for its revenue budget.</p>	<p>In recognising the continuing uncertainty resulting from both the pandemic's longer-term impacts and a succession of one-year financial settlements, the primary focus will remain on setting a balanced, three-year revenue budget. Once greater certainty is obtained in these areas, opportunities to plan over a longer timescale will be considered and reported to the Finance and Resources Committee. At this stage, however, it is difficult to state with accuracy when this might be.</p> <p>Responsible officer: Head of Finance Implementation date: TBC</p>	
Current status	Update	
<p>Superseded by Best Value recommendations</p>	<p>An update on the revenue budget framework, based on a five-year planning timeframe, was presented to the Finance and Resources Committee on 7 October 2021, highlighting a projected annual savings requirement of some £126million in 2026/27.</p> <p>Recognising the lead-in time for the scale of change likely to be required to address this requirement, the report emphasised the need for early consideration and a corresponding comprehensive and sustainable savings plan, rooted in the Council's priorities as set out in the Business Plan, to be initiated by Autumn 2021 to address the projected funding gap in 2022/23 and, in particular, the significant shortfalls in subsequent years.</p> <p>The provision by the Scottish Government of three-year high-level budgets in spring 2022 will assist in the development of a longer-term plan.</p>	

Long term financial plan		Medium
Revised implementation date	December 2022 (for the development of savings plan for the medium term financial plan to 2026/27 and an indicative longer term financial plan)	
Responsible officer	Service Director: Finance and Procurement	

Public Performance Reporting

Medium

Recommendation

Management comments

The information reported in the Annual Performance Report and the Local Government Benchmarking Framework is one of the main ways the Council provides updates to the public on how it is performing and demonstrating Best Value. It is not clear however how the Council has addressed the SPI 2 requirements regarding performance against Best Value responsibilities. We recommend that annual performance is mapped against the 7 Best Value themes.

The Council is developing a new business plan and performance framework which will be in place by the next financial year. As part of this process we will consider how we demonstrate our performance against Best Value responsibilities and in particular compliance with the SPI 2 requirements. In the interim we will map our existing KPIs against the seven best value themes as part of our annual review of the Councils KPIs.

Responsible officer: Change and Delivery Manager (Data, Performance and Business Planning), Strategy and Communications

Implementation date: March 2021

Current status

Update

Superseded by Best Value recommendations

The Council's new Business Plan was approved by Council in February 2021. Thereafter, a new Planning and Performance Framework including a new suite of key performance indicators aligned to the business plan was developed and approved by the Policy and Sustainability Committee in June 2021 (both papers are available on the Council's website). The framework details our approach to planning and performance including Elected Members' scrutiny of performance as well as performance updates for the public. We have commenced the implementation of the framework and expect our annual service plans to be completed by the end of September 2021. We will provide performance updates to the Policy and Sustainability Committee in November 2021 and February 2022. A detailed annual performance report and an LGBF report will be submitted to Committee in June 2022. All reports will be published on the Council website for members of the public to access. The Business Plan KPIs have been mapped against the National Performance Framework and the seven Best Value themes.

Additionally, we are reviewing the Performance and Data section of our website to simplify public access to our performance data and

Public Performance Reporting	Medium
	<p>ensure performance and data reports are collated under a single section. Our current pages include all performance reports to Committee, but we will expand what is available to include a quarterly performance update report and a range of data analytic reports, for example; Edinburgh by Numbers, SIMD, Locality profiles and the Annual Complaints report will also be located with the performance and data section. The redesign of our performance web pages will be completed by the end by March 2022.</p>
Revised implementation date	March 2022
Responsible officer	Change and Delivery Manager (Data, Performance and Business Planning), Strategic Change and Delivery, Corporate Services

2018/19 recommendations which are in progress in 2020/21

Elected member and officer protocols		Medium
Recommendation	Management comments	
<p>Councillors and the senior leadership team should review the current protocols to ensure these are still appropriate and that both members and officers can comply fully with their responsibilities.</p>	<p>A review was carried out on the Member/Officer Protocol in 2019 and this included workshops with the Governance, Risk and Best Value Committee and officers separately and then a facilitated workshop (by the Improvement Service) with a cross-section of elected members and officers. The protocol was then to be taken back to committee before approval. This has, however, been paused whilst the Council awaits the review of the Councillors' Code of Conduct and associated appendix on member/officer relations so as to ensure it is consistent.</p>	
Current status	Update	
Ongoing	This will now form part of the wider review of political management arrangements following the Local Government Election.	
Revised implementation date	August 2022	
Responsible officer	Head of Democracy, Governance and Resilience, Legal and Assurance Division, Corporate Services	

Implementation of audit recommendations

High

Recommendation	Management comments
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In August 2019 internal audit reported that 47 internal audit findings (those overdue where management action had not been actioned or evidenced) were outstanding. Of these 26 were more than one year old. 118 management actions were also identified as overdue. There were high rated findings in both overdue management actions and internal audit findings.

Whilst we are satisfied that audit is seen as an important element of the internal control framework by senior management and Councillors there needs to be a greater prioritisation of addressing issues raised by internal audit across the Council.

As at July 2020 there were 82 open internal audit findings across the Council. This was a significant deterioration in performance in comparison with previous quarters as a result of the impact of Covid-19. The Council agreed an approach whereby management would assess the significance of the risks of open internal audit findings and then prioritise the most significant risks for closure with extensions applied to the remainder of findings.

We recognise the impact of the pandemic on council services however it is essential that in future all internal audit findings are closed in line with the revised protocol.

Current status	Update
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Ongoing	In recognising the crucial importance of implementing internal audit recommendations on a timely basis, approval has recently been granted to recruit to a number of dedicated posts across Directorates. These posts have a specific remit to oversee progress in reducing the number of higher-risk actions beyond their agreed implementation dates, as well as heightening wider awareness around the importance of internal control.
Revised implementation date	On-going
Responsible officer	Chief Executive and all Executive Directors

2017/18 recommendations which are in progress in 2020/21

Common good asset register		High
Recommendation	2019/20 Management comments	
<p>The Council, in preparing the 2018/19 common good fund annual accounts should review the accounting policies for property, plant and equipment and heritage assets to ensure that:</p> <p>The assets are classified correctly;</p> <p>The appropriate valuation basis has been applied; and</p> <p>Depreciation is applied dependent on the accounting policy and classification of the asset.</p>	<p>Work on categorising civic regalia and artefacts that are assets of the Common Good fund is advancing well but has been delayed by the COVID-19 lockdown and the changes to working practices. This workstream will not be able to proceed until it is safe to return to the office to catalogue the items. Once this work has been completed, we will subsequently need to value the assets to be transferred.</p> <p>While one further workstream remains outstanding, this does not, however, alter the land and property assets as listed in the Common Good Asset Register as published. This work comprises larger assets that are “split”, having been acquired at different times under different titles, some being deemed Common Good and others not so, being held on other accounts. This workstream had commenced but will also not be able to be completed until it is safe to return to the office to review the title deeds and plans.</p> <p>Those categorised as assets of the Common Good will be added to the register which is live on the Council’s webpage.</p>	
Current status	Update	
Ongoing	The above commentary is still current and until there is access back to the office, we will be unable to finalise an action plan to resolve progress on the outstanding items.	
Revised implementation date	June 2022 (access permitting)	

Common good asset register

High

Responsible officer

Senior Accountant (Common Good), Finance and Procurement

Financial sustainability – health and social care

High

Recommendation

2019/ 20 Management comments

The EIJB continues to face financial pressures. The EIJB's financial plan in 2019/20, despite a challenging efficiencies programme and the release of unallocated funds, remained unbalanced by £7.1million as at 31 August 2019. The financial and service performance of the EIJB remains a high risk issue and the Council needs to work together with the EIJB and NHS Lothian to reach an agreed financial settlement.

The EIJB continues to face significant financial pressures despite significant investment. Development of the EIJB medium term financial plan has been delayed and ongoing work halted as a result of the emerging pressures and impact of COVID-19. The EIJB has committed to developing their medium term strategy by December 2020 and the Council needs to work together with the EIJB and NHS Lothian to deliver this.

Current status

Update

Ongoing

The EIJB continues to face significant financial pressures.

In March 2021, the Integration Joint Board (IJB) agreed the 2021/22 financial plan and associated savings and recovery programme. Recognising that the impact of the additional measures which would be required to balance the plan would have a significant negative impact on performance gains and, ultimately, on outcomes for people, the board made the difficult decision to support a budget which did not deliver financial balance. At this point the plan had a deficit of £9.3m and, following the allocation of £2.5m of additional funding from the Council, this has reduced to £6.8m. Discussions are continuing with the Scottish Government to explore the extent to which additional funding for the financial impact of Covid-19 can be applied to support the range of financial pressures and challenges faced.

The EIJB savings and recovery programme has been adversely impacted by the pandemic. The EIJB Chief Finance Officer has reported that the Senior Responsible Officers for the purchasing savings scheme (with total approved savings of £11.2m in 2021/22)

Financial sustainability – health and social care

High

	<p>are agreeing recovery and mitigation actions with the Partnership’s Executive Management Team as a matter of urgency.</p> <p>In December 2020 the IJB considered the draft financial outlook for 2021-24 which set out the projected financial gap for the 3 year period. This paper introduced the EIJB Integration and Sustainability Framework (ISF), developed in response to the longer term financial challenges and advised that the ISF will be aligned to and underpinned by the EIJB’s strategic plan. Urgent work is required to develop a detailed medium-term revenue budget savings and prioritisation programme, guided by the EIJB strategic plan, to address the estimated revenue funding gaps in future years</p>
Revised implementation date	On-going
Responsible officer	Chief Finance Officer, Edinburgh Integration Joint Board

Health and Social Care performance

High

Recommendation	2019/20 Management comments
<p>Whilst there has been some improvement in performance, it remains too early to conclude whether this can be sustained. The approval of a new Strategic Plan should provide a framework for delivering real improvement however there is a danger that this is compromised by the significant financial challenges faced by the IJB in reaching a balance position.</p>	<p>The committee conducted its first meeting in September 2019 and met bi-monthly until all committee meetings were suspended in April 2020.</p> <p>A performance report is presented at each Performance and Delivery committee, providing an overview of performance against the seven key local indicators and national Ministerial Strategic Group measures. Detailed dashboards are supported by a narrative report which highlights key risks and noteworthy changes to performance.</p> <p>Performance reports are significant in length with the most recent committee report in excess of 60 pages. Whilst the</p>

Health and Social Care performance

High

level of detail may be beneficial to some members, this does not support efficient scrutiny. Members should focus discussions on area of concern or underperformance and the current reporting format does not succinctly summarise or highlight these areas.

Performance reports would benefit from the inclusion of a performance scorecard that summarises for each indicator whether performance has improved, declined or remained constant and how this compares against targets or thresholds. A RAG rating could be used to draw members' attention to areas of underperformance or concern

Current status

Update

Ongoing

The EHSCP's Performance and Evaluation Manager has been in post since February 2021. Performance reports to the Performance and Delivery Committee have evolved since this point to include more upfront narrative outlining the key aspects of performance that committee members should be aware of. This is specifically done in an overarching rather than indicator by indicator approach to allow the committee to be aware of performance issues and pressures that are impacting across a range of measures. It also allows explanations of the links between performance across indicators to be explained.

The P&E Manager is working on a performance framework that will review the performance information included in the performance report to the Performance and Delivery Committee. Consideration of whether a scorecard and RAG dashboard is appropriate will be considered at that stage, however this is likely to be based on progress towards achieving our strategic priorities rather than at an indicator by indicator level for the reasons outlined above and to support an outcomes-based approach to performance.

More detail on the process for preparing this performance report is set out below.

- The partnership's overall performance report is prepared on a triannual basis to align with the Performance and Delivery Committee meeting schedule. This process is now led by

Health and Social Care performance

High

	<p>the Performance and Evaluation Manager who started in February 2021. Once the report is prepared, the P&E Manager meets with the four locality managers to discuss the content of the report, any factors that are influencing performance and trends to be highlighted to the EMT and P&D committee. Additional commentary and insight is then added to the report by the P&E Manager.</p> <ul style="list-style-type: none"> • The report first goes to our Executive Management Team (EMT) who have a half hour slot on their agenda to discuss it. The P&E Manager will present EMT with a summary of the report, including any areas of significant positive or negative trends. EMT discuss the report, raising any particular pieces of data they have concerns about and discussing the general context of the trends. Where EMT deem it necessary, further pieces of work ('deep dives') into particular indicators are commissioned, for example, we are currently undertaking a deep dive into the readmissions rate in Edinburgh. These deep dives are reported back to EMT and the P&D Committee at future meetings either as part of the performance report or as separate papers. • Following EMT, the paper is updated to incorporate any additional insights then circulated for the Performance and Delivery Committee. Again the P&E Manager presents a summary of the report at the P&D meeting before opening for discussion and questions. Committee members review the report carefully prior to the meeting and will raise questions about particular pieces of data. As at EMT, the Committee will ask for deep dives to be done on particular indicators where they need more information.
Revised implementation date	On-going
Responsible officer	Chief Officer, Edinburgh Integration Joint Board

2016/17 recommendations which are in progress in 2020/21

Delayed discharges	High
Recommendation	2019/20 Management comments
<p>Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland.</p> <p>We recommend that improving performance in this area remains a priority.</p>	<p>The IJB has historically underperformed against its delayed discharges target (the number of days people spend in hospital when they are ready to be discharged) but reported a significant improvement in the 2019/20 annual performance report.</p> <p>In March 2020 partnerships were asked to prepare mobilisation plans in response to the COVID-19 pandemic with the aim of creating capacity and space within hospitals. As associated target to reduced delayed discharges was set across Scotland.</p> <p>The partnership identified a number of actions to reduce delays, free up beds in acute services and develop capacity within the community. This had a significant impact on performance and the IJB reported an improvement of 27% compared to 2018/19. However, the IJB continues to significantly underperform compared to the Scottish average (50% higher) and remains in the bottom quartile, ranking 27th compared to other integration authorities (2018/19: ranked 31st).</p> <p>Partnerships across Scotland managed to reduce delayed discharges, A&E attendances and hospital admissions in March and April as the pandemic hit. A national lessons learned exercise was completed in July 2020 highlighting local initiatives and examples of good practice that could support a sustainable improvement in performance.</p>

Delayed discharges

High

Current status

Update

Ongoing

The rate of bed days lost due to delayed discharged for those over 75 has decreased sharply in 2020/21 for both Edinburgh and Scotland. The 2020/21 figures will be affected by the pandemic both due to the lower number of people being admitted to hospital and the focus on this area to free up beds to increase hospital capacity. However, between 2019/20 and 2020/21, this figure decreased by 51% in Edinburgh compared to a 37% decrease in the figure for Scotland.

We remain higher than the national level, but the gap has closed over the last few years. The 2020/21 figure for Edinburgh was 579 compared to 488 in Scotland. This is a decrease in Edinburgh from 1,175 days in 2019/20. In 2020/21 we were ranked 22nd out of 31 partnerships, an improvement from our ranking of 27th in 2019/20.

We continue to work to reduce the levels of delayed discharges in Edinburgh, however we are seeing these increase again as our services remobilise and system-wide pressures on capacity increases following the removal of pandemic restrictions. However, the trend in Edinburgh follows the same pattern as the national trend (see below graphs).

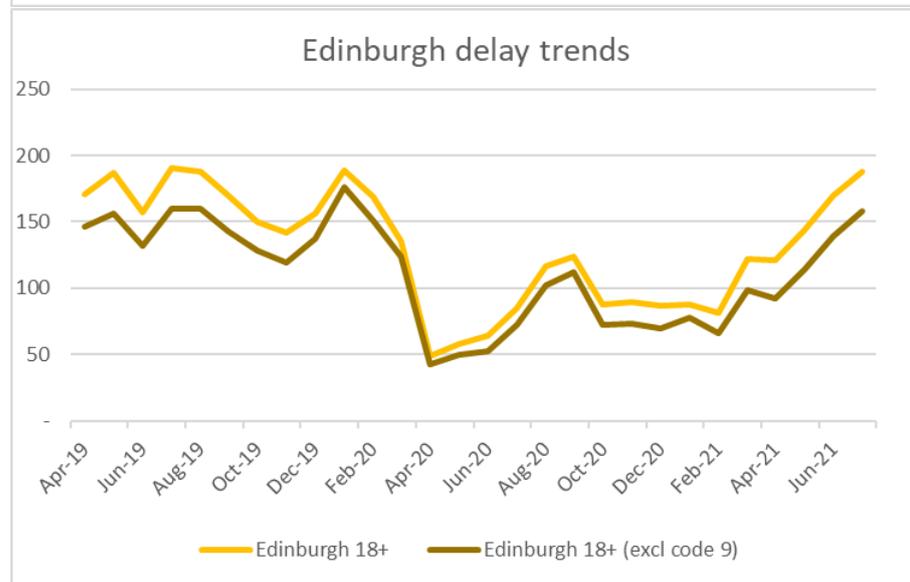
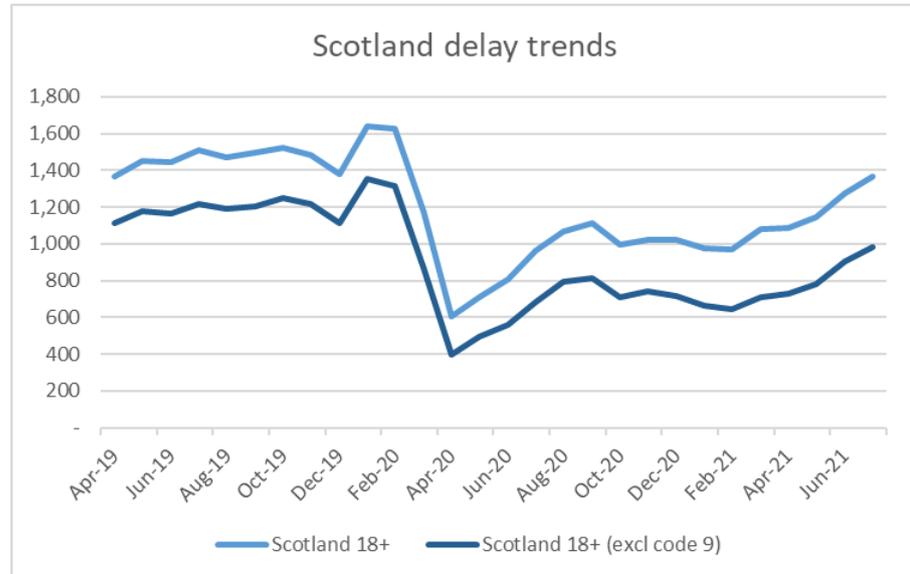
Our bed-based strategy and market shaping projects will implement changes that support increased capacity in care at home, intermediate care and nursing homes, which will facilitate timelier hospital discharges. Ongoing work through the Home First project on implementing a Planned Date of Discharge will also support more proactive discharge planning.

Delayed discharges

High

Figure 1: Number of delays across Scotland

Figure 2: Number of delays across Edinburgh



Revised implementation date

On-going

Responsible officer

Chief Officer, Edinburgh Integration Joint Board



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