



City of Edinburgh Council

2021/22 Annual Audit Report to the Council and the
Controller of Audit

November 2022



Table of Contents

Key messages	3
Introduction	9
Annual accounts audit	12
Financial sustainability	38
Financial management	44
Governance and transparency	50
Value for money	60
Best Value	67
Appendices	75

Key messages



This report concludes our audit of the City of Edinburgh Council for 2021/22.

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

Annual accounts audit

<p>Audit opinion</p>	<p>The annual accounts were considered by the Governance, Risk and Best Value Committee on 31 October and approved by the Finance and Resources Committee on 10 November.</p> <p>We report unqualified opinions within our independent auditor’s report.</p>
<p>Key findings on audit risks and other matters</p>	<p>We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate.</p> <p>All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p> <p>The Council had appropriate administrative processes in place to prepare the annual accounts and the required supporting working papers.</p>
<p>Audit adjustments</p>	<p>The Council updated the annual accounts for all potential audit adjustments identified during the audit process.</p> <p>We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.</p>
<p>Accounting systems and internal controls</p>	<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>

Wider scope audit

Auditor judgement



The Council continues to face significant financial pressures resulting from increased demand for services, inflation, legislative reform and increased citizen expectations, as well as the continuing financial impacts of the pandemic.



Financial Sustainability

The development of a medium-term financial plan, which aligns to the Council's business plan, and identifies options to address savings requirements over the term of the plan is critical to the Council demonstrating and achieving financial sustainability.

Current projections indicate a need to deliver at least £70million of recurring savings in 2023/24, increasing to £153million over the five year period to 2026/27. Work is underway to develop potential options to address this gap with reference to the priorities set out in the Council's business plan.

The impact of increasing costs to the Housing Revenue Account (HRA) as well as a reduction in income as a result of rent freezes means that the HRA business plan goes into considerable deficits over the next few years unless mitigating measures are implemented. The Council will need to make difficult decisions over the medium-term to ensure the financial sustainability of the HRA is maintained.

Auditor judgement



Financial Management

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

The Council reported a surplus outturn position in 2021/22. 89% of approved savings were delivered, a continued improvement in comparison to previous years.

Around 91% of the revised general fund capital programme and 62% of the revised HRA capital programme was delivered in 2021/22.



Auditor judgement



Governance arrangements at the Council were found to be satisfactory and appropriate. These arrangements will continue to develop over the coming year, following the local government elections and future changes in the corporate leadership of the Council. A review has commenced into the Council's political arrangements with a view that this will be reported in December 2022. A review of the officer governance structure and senior leadership team has also commenced. This was paused until the political management arrangements are confirmed.



Value for Money

Auditor judgement



The Council implemented its Planning and Performance Framework during 2021/22. The Planning and Performance Framework includes a 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.

The Council published an annual performance report and report on performance against the Local Government Benchmarking Framework (2020/21). The impact of the Covid-19 pandemic has been varied across Council services. 2021/22 saw the gradual decrease of restrictions and the report highlights how the Council has continued to adapt to the ongoing effects of Covid-19.

Further work is required to fully demonstrate compliance with the Accounts Commission Statutory Performance Information Direction; in particular demonstrating best value.

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



Progress continues to be made against all of the recommendations. Agreed approaches to address the recommendations and many of the overarching strategies have been confirmed. Detailed work continues to support these agreed approaches.

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

1. 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 2021/22 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

2. 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.
3. 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 31 October and approved by the Finance and Resources Committee on 10 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 2022/23. 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>

Opinion	Basis for opinion	Conclusions
<p>Opinions prescribed by the Accounts Commission on:</p> <ul style="list-style-type: none"> • Management Commentary • Annual Governance Statement • Remuneration Report 	<p>We plan and perform audit procedures to gain assurance that the Management Commentary, Annual Governance Statement and the audited part of the Remuneration Report are 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 Statement); and • The Local Authority Accounts (Scotland) Regulations 2014 (Remuneration Report) 	<p>We have concluded that:</p> <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. 	<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 2022. 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*.

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.

Significant risk areas

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.

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.

Key observations

At the planning stage of our audit we concluded that the revenue recognition risk was present in all material 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.

Significant risk areas

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.

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 to ensure all property, plant and equipment required to be measured at fair value is revalued at least every five years.

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.

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.

Investment properties are valued annually at fair value, in line with the Code.

There is a significant degree of subjectivity in the measurement and valuation of property, plant and equipment. This subjectivity and the material nature of the Council's asset base represents an increased risk of misstatement in the annual accounts.

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.

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.

Significant risk areas

Key observations

Valuers

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.

We considered the instructions and information provided to the valuer and performed procedures to confirm the accuracy and completeness of the 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.

In accordance with ISA (UK) 500 - *Audit Evidence* we have considered the competence, capability and objectivity of the professional valuer and did not identify any items which gave us cause for concern over the suitability of the valuer.

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, valuation movements were in line with our expectation.

We reviewed the valuation assumptions against external sources of evidence including private rental prices for HRA Revaluation movements, general cost indices and construction prices for Other Land and Buildings Revaluation movements and capital values for Investment Properties. From our testing, we are satisfied that assumptions used within determination of valuation movements can be corroborated to third party sources.

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 was considered. An uplift of 2.8% was applied in 2021/22 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

Significant risk areas

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 2021/22 a total of 633 valuations were completed, equating to 21% 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.

In 2021/22, the Council introduced the process of using indices to reflect market changes in interim years between valuations. An uplift of 8.9% was applied in 2021/22 to the build cost component of other land and buildings not revalued during the year. Based on the professional judgement of the valuer it was deemed appropriate to apply the uplift in 2021/22 to reflect the significant increase in build costs during the year. We deem this assessment to be reasonable and the uplift factor to be reasonable based on the evidence available.

The Council applies component accounting to land and buildings. The Council's accounting policies reflect that the building component of an asset is separated into further components primarily to those with a carrying value of over £5million. This methodology is deemed to be reasonable.

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 any properties declared surplus to requirements;
- 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.

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

Significant risk areas

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 including disclosure to reflect the change in methodology in 2021/22 to apply an uplift to all other land and buildings asset not subject to revaluation during the year.

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.

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*.

Significant risk areas

Key observations

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. In addition, we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.

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.

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 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

7. Financial instruments: fair value measurement (significant accounting estimate)

Significant risk description

The Council maintains significant debt and investment portfolios. The Council has adopted IFRS 13 for the calculation of fair values. Financial assets classified as available for sale are carried in the Balance Sheet at fair value. For Treasury Bills and shares in Money Market Funds, the fair value is taken from the market price. Financial assets classified as loans and receivables and all financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values are estimated by calculating the net present value of the remaining contractual cash flows.

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.

How the scope of our audit responded to the significant risk

Key judgements

As noted above, whilst for fair values assessed at level 1 and level 2, valuations are supported by independent expert advice, 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 2022 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, sovereign / supranational debt 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 2022, the value of financial liabilities in relation to these projects was £283.119million. 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
Access to audit evidence	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>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>
Timescales / administrative processes	The pre COVID-19 deadline was 30 September. The Scottish Government amended the Accounts Regulations to require the 2021/22 annual accounts to be approved for signature no later than 30 November 2022 (and published no later than 15 December 2022).	The annual accounts were approved by the Finance and Resources Committee on 10 November 2022 and therefore are in line with the revised timescales.

Accounting for Infrastructure Assets

19. The Code requires infrastructure assets to be measured using the historical cost measurement basis and carried at depreciated historical cost. Where a component of an asset is replaced the cost of the new component should be reflected in the carrying amount of the infrastructure asset and the gross cost and accumulated depreciation of the old component should be derecognised to avoid double counting. Auditors have

identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to International Financial Reporting Standards in 2010/11 due to information deficits.

20. CIPFA/LASAAC attempted to resolve the issues and undertook an urgent consultation on temporary changes to the Code. However, it was unable to agree an approach that addressed the concerns of all stakeholders whilst also supporting high quality financial

reporting. CIPFA/LASAAC therefore requested that the Scottish Government (and governments in England and Wales) for a temporary statutory override while a permanent solution is developed.

21. The Scottish Government published statutory guidance on 29 August 2022 and sets out the following 2 statutory overrides:
 1. Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
 2. Statutory Override 2: For accounting periods commencing from 1 April 2010 until 31 March 2024 the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent adjustment shall be made to the carrying amount of the asset with respect to that part.
22. The Council has chosen to adopt both of the statutory overrides. The annual accounts have been updated to reflect the adoption of these overrides. There has been no impact on the financial position of the Council; amendments were applied to the notes to the financial statements.
23. The Scottish Government expects bodies will begin to address information deficits to ensure adequate accounting records for the measurement of infrastructure assets and the timely adoption of the Code requirements once a more permanent solution is delivered.

Common Good

24. 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.
25. The Common Good Fund stands separately from the Council's annual accounts and has been described as "the ancient patrimony of the community".
26. During 2021/22, a surplus of £1.059million was reported on the common good fund. Overall useable common good funds stood at £2.657million as at 31 March 2022.
27. 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.
28. 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, £12,600 on Portobello Municipal Clock, £36,200 on Queensferry Harbour and £600 on Key to City Repairs.
29. During our 2021/22 audit of the Common Good fund annual accounts, we noted the following:

Common Good income & expenditure

30. 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 £4.307million which has been offset by rental income for the period of £0.358million. In order to achieve a “breakeven position” on property costs, the Council has offset the expenditure with an income recharge from the Council of £3.930million and capital funding of £1.090million.

31. In 2021/22, the Leith Links was transferred from the Council to the Common Good Fund. £1.071million capital expenditure was incurred during 2021/22 on this asset. This has resulted in an adjustment to the Common Good financial statements in order to present the property costs as Assets under Construction.
32. As part of 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.
33. Our audit work consisted of reviewing the keys areas for any indication of bias and assessing whether the judgements used by management are reasonable.
34. While we gained reasonable assurance that expenditure was materially appropriate, we identified areas for improvements. An audit adjustment was made to the Common Good Fund financial statements to reflect expenditure on parks and other green spaces which were not included in management’s estimate.

Common Good Asset Registers

35. 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.
36. As part of audit work 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.
37. We identified three 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. These were as follows:
 - Promenade, Portobello
 - South Bridge
 - Belford Street
38. The Council has committed to add these assets to the accounting register in 2022/23. We are satisfied that exclusion of these assets does not have a material impact on the 2021/22 accounts.
39. We also identified one asset, Princes Street Gardens Dean Ramsay Memorial Cross, which was on the accounting asset register but not on the published register which remains unactioned from previous years. This asset remains under investigation by the Council’s Solicitors and we are satisfied that exclusion of this asset

does not have a material impact on the 2021/22 accounts.

- 40. We reviewed the requirements of the Community Empowerment (Scotland) Act 2015 along with related Scottish Ministerial guidance. We noted that the target to 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.

to asset valuations, pension assumptions, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, financial instruments (fair value measurement) and accruals. Other than asset valuations, pension assumptions, provisions for doubtful debts and financial instruments (fair value measurement), 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.

Estimates and judgements

- 41. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
- 42. 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

- 43. Our audit work consisted of reviewing these key 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 valuations

Balanced

Valuations are carried out by an internal valuer. 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. We have not identified any indication that the asset valuation as at 31 March 2022 is not materially appropriate.

Estimates and judgements

Pension Assumptions

Balanced

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience.

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.

We reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.

The Council has disclosed in its annual accounts a sensitivity analysis to help users of the annual accounts understand the judgements management have made about the sources of estimation uncertainty.

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: fair value measurements

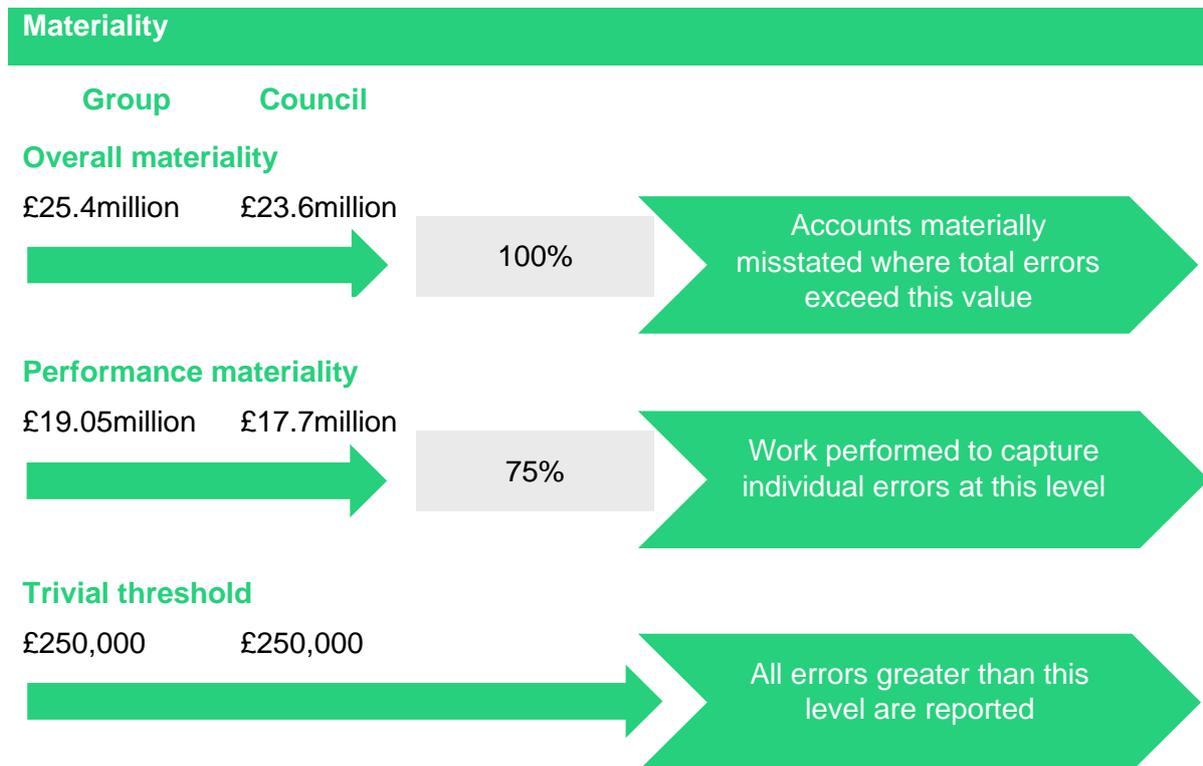
Balanced

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.

PPP liabilities are assessed as level 3 under the fair value hierarchy. 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.

Materiality

44. 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.
45. Our initial assessment of materiality for the group annual accounts was £22.5million and for the Council single entity annual accounts £20.8million. 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 2021/22 unaudited annual accounts.

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

Materiality

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

Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Group audit

46. 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.
47. 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.

48. 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.
49. 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.
50. In 2021/22, an adjustment was made to the Council's group accounts for net pension asset as reported by Transport for Edinburgh (whose financial statements are prepared to 31 December). The overall impact was an increase in the net pension asset of £36.339million.
51. The audited annual accounts also include the following prior year adjustments as they relate to the group bodies:
- Edinburgh Living MMR LLP – adjustment to align income recognition policy to the Council's accounting policy;
 - CEC Holdings – adjustment to reflect revised assessment of the CEC Holdings investment consolidation entries.
52. Overall, we concluded that the results of the group bodies had been appropriately consolidated into the Council's audited group accounts.
53. 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.

54. We revisited our assessment, following receipt of the unaudited accounts and our assessment remained the same.
55. 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.
56. 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 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.

Audit differences

57. The Council updated the annual accounts for all potential audit adjustments identified during the audit process.
58. We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

Internal controls

59. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our

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>We have noted suggestions on possible process improvements in respect of accounting for property, plant and equipment as documented at Appendix 2 (action plan points 1-3).</p> <p>We also identified scope for improvement in the Council's payroll processes and controls. Our findings have been reported to management.</p> <p>Our assessment has taken into account Internal Audit's annual audit opinion. Internal audit's overall opinion was that <i>"some improvement is required across the Council's control environment, governance and risk management arrangements to ensure that the Council's most significant risks are effectively identified, mitigated, and managed"</i>.</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

60. 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 our findings are included in Appendix 3.

appropriateness of the accounting policies adopted by the Council.

62. The accounting policies, which are disclosed in the annual accounts, are considered appropriate.

63. 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.

Other communications

Accounting policies, presentation and disclosures

61. Our work included a review of the adequacy of disclosures in the annual accounts and consideration of the

64. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

65. 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.
66. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

67. 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

68. 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.
69. Overall we concluded that appropriate arrangements were in place to comply with the Regulations.
70. Following the statutory accounts being made available for inspection, an objection was received in relation to the Growth Accelerator Model Agreement (GAM) between Nuveen and the Council for the delivery of the new St James Quarter. The GAM was

a funding mechanism whereby the Council funds the delivery of public realm and other improvements in and around the St James Quarter and then recovers these costs from the Scottish Government based on the achievement of increased amounts of non-domestic rates arising as a result of the development.

71. Payments amounting to £56.4million were made in 2022 to Nuveen in relation to costs incurred. Accrued expenditure and retentions totalling £5million were held back by the Council pending completion of all outstanding works. On final payment of this retained sum, the growth assets covered by the agreement will be conveyed to the Council and a leaseback arrangement simultaneously put in place with Nuveen.
72. Following audit consideration the objection to the accounts was not upheld. During the objection process the individual objecting was denied access to certain information within the GAM agreement that the Council designated as commercially confidential. The Council's view was informed by a legal opinion on this. This matter has not been subject to legal proceedings in the Scottish courts and it is therefore not known what the view of the Scottish courts would be in the event of legal proceedings being commenced which attempted to challenge the Council's position.

Written representations

73. We presented a letter of representation to the Service Director:

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.

Finance and Procurement (section 95 officer) to sign at the same time as the annual accounts were approved.

Related parties

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

Confirmations from third parties

75. All requested third party confirmations were received.

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



The Council continues to face significant financial pressures resulting from increased demand for services, inflation, legislative reform and increased citizen expectations, as well as the continuing financial impacts of the pandemic.

The development of a medium-term financial plan, which aligns to the Council's business plan, and identifies options to address savings requirements over the term of the plan is critical to the Council demonstrating and achieving financial sustainability.

Current projections indicate a need to deliver at least £70million of recurring savings in 2023/24, increasing to £153million over the five year period to 2026/27. Work is underway to develop potential options to address this gap with reference to the priorities set out in the Council's business plan.

The impact of increasing costs to the Housing Revenue Account (HRA) as well as a reduction in income as a result of rent freezes means that the HRA business plan goes into considerable deficits over the next few years unless mitigating measures are implemented. The Council will need to make difficult decisions over the medium-term to ensure the financial sustainability of the HRA is maintained.

Significant audit risk

76. 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 2022/23 are due to be approved by the Council in February 2022, subject to approval of the Scottish Government's budget in March 2022. The Council will approve a five-year revenue forecast projection and a 10-year capital budget strategy alongside the 2022/23 budget.

The Council has developed a medium-term financial framework. The revenue budget for the first five years remains unbalanced. A report to the Finance and Resources Committee in February 2022 noted a cumulative funding gap of £418.104million for the period 2022/23 to 2026/27.

The report presented to the Finance and Resources Committee in February 2022 considered the proposed medium-term savings and noted that additional savings targets are to be allocated to Directorates based on 5%/3%/3%/3% of gross expenditure respectively in 2023/24 to 2026/27. This would reduce the savings requirement to a surplus position of £21.646million. The savings plan, if all approved, is ambitious and presents a significant financial challenge to the Council. Work is ongoing to develop these potential savings options, which are to form the basis of public engagement in Autumn 2022.

The Council continues to identify the adequacy of current COVID-related provision as a key financial risk on achieving financial balance in the medium term. Provision for the anticipated recurring financial impacts of the pandemic totals £25.3million in 2022/23, £11million in 2023/24, £9million in 2024/25 and continuing at that level thereafter.

The 2022/23 Local Government Finance Settlement confirmed that Local Authorities can, in line with the prior year, utilise financial flexibility whereby the payment of the principal element of the planned loans fund repayment is deferred by one year. The Council has recognised that if utilised, this would allow funding up to £30million of COVID-related expenditure over a longer timeframe. The application of the financial flexibilities does however impact on subsequent years and the Council continues to review the situation with an updated position due to be presented to the Finance and Resources Committee in March 2022. This report will also provide an update on the availability of the service concession financial flexibility.

Noted in the 2021/22 External Audit Plan (March 2022)

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

2022/23 revenue budget

78. In February 2022 the Council set a balanced revenue budget for 2022/23 based on the Council's provisional grant funding allocation and a 3% increase in Council Tax rates. The grant funding allocation was confirmed following approval of the Local Government Finance Order for 2022/23 in March 2022.

79. The approved budget included the following:

- Service investment (£9.860million): the Council budget motion included a number of one-off (non-recurring) service investments. No carry-forward is assumed on any unspent elements of these investments.
- Savings: the budget is underpinned by the delivery of £19.2million of savings measures, primarily in corporate budgets.
- Additional resources for business support and low-income households: the Council's share was £6.435million. The budget allocated the majority of this to supporting the most vulnerable households by committing to providing a cash grant of £150 to each of the 33,000 low-income households across the city. In addition £100 was provided for every child within a low-income household, determined with reference to free school meal eligibility.
- £25.3million provisions in respect of the on-going financial impacts of the pandemic including sums provided to recognise continuing homelessness pressures, loss of the Lothian Buses dividend,

support to the Council's ALEOs (Arm's Length External Organisations) and reduced parking and commercial rental income.

80. As at month three of 2022/23, the Council forecast an overall overspend of £5.627million with the potential for further risks to emerge during the remainder of the year, particularly in respect of the 2022/23 employee pay award and other inflationary uplifts. The Council is also seeking certainty with regard to securing full funding for the significant additional costs being incurred as part of the Council's response to the Ukraine crisis.

Participatory budgeting

81. Officers have continued to work with relevant services in developing a proposed programme of Participatory Budgeting (PB) activity for 2022/23. While opportunities for further activity are to continue to be explored, areas in scope have been agreed as follows:

- Gypsy / Traveller Accommodation Fund
- Estate Improvement Programmes (formerly Neighbourhood Environmental Projects)
- Road Safety, particularly more sustainable routes to school
- Pupil Equity and / or other attainment-related devolved education funding; and
- £eith Chooses

Medium term financial framework

- 82. As part of the Council’s response to its Best Value Assurance Report (BVAR), a medium-term financial framework has been developed.
- 83. The Council has forecast significant incremental savings requirements beyond 2022/23, amounting to £70.4million in 2023/24 and increasing by a further £152.9million over the period to 2026/27.

23/24	24/25	25/26	26/27
£m	£m	£m	£m
70.4	99.2	125.8	152.9

Estimated funding gap September 2022 (Revenue Budget Framework 2023/27: progress update, September 2022)

- 84. Work is underway to develop potential options to address this gap with reference to the priorities set out in the Council’s business plan. A dedicated project lead has been appointed. Directorates have been requested to identify potential options, detailing service and performance impacts, risks and dependencies, with reference to the priorities set out in the Council’s business plan. The proposals will be framed by a refreshed Business Plan that articulates the Administration’s priorities, forms the basis of collaboration amongst political parties and sets out the narrative of a strategic case for change.
- 85. Given the extent of the financial challenge, members will need to make increasingly difficult choices about the Council’s priorities, including considering service reductions, across

all service areas to maintain expenditure in line with available income.

- 86. The development of a medium-term financial plan which aligns to the Council’s business plan and identifies options to address savings requirements over the term of the plan is critical to the Council demonstrating and achieving financial sustainability.

Action plan point 4

Capital plans

- 87. The Sustainable Capital Budget Strategy 2022-2032 sets out priorities for £1,459.874million of Council general fund capital investment, in alignment with the Business Plan, over the medium to long-term, and sets out a plan as to how they could be funded.
- 88. The programme is fully funded over the ten-year period. However, if a funding gap in the strategy emerges through failure to deliver revenue savings or project cost pressures increase, then further re-profiling of priorities, reduction in scope of projects or additional revenue savings to fund borrowing costs to deliver the Capital Budget Strategy will be required. This could potentially mean that later phases of the programme could not be delivered within the ten-year strategy.
- 89. The Capital Budget Strategy is expected to come under significant financial pressure as a result of higher tender prices, caused by external factors including Covid-19, inflation and Brexit. Currently, this is most notable in the scarcity and cost pressures in various key construction materials which is leading to slippage on delivery of projects. Delivery of funded capital expenditure priorities is

dependent on the achievement of a balanced medium-term revenue budget. The strategy assumes that some priorities, such as the City Centre Transformation and wider transport initiatives, will require to be funded primarily from external funding, unless significant realignment of existing budgets is undertaken. The wider financial implications of City Plan 2030 infrastructure requirements are also likely to have a further impact on the 2022-32 Capital Budget Strategy.

90. In September 2022, the Sustainable Capital Budget Strategy was adjusted to reflect actual levels of slippage and acceleration following the reported outturn position for 2021/22. The programme, fully funded, now sets out £1,469.644million in capital investment.

Housing Revenue Account

91. The financial framework underpinning revenue and capital decisions on the Housing Revenue Account is the HRA Business Plan 2022/23- 2051/52. The Business Plan is reviewed annually in consultation with tenants and a ten-year capital programme and one-year revenue budget are approved by Council.
92. The HRA Budget Strategy, approved by the Council in February 2022, included a ten year £2.9billion capital programme and £1.2billion revenue programme. The Council approved a rent freeze for the second year in a row equating to £179million loss of income over the lifetime of the business plan from the two rent freezes.
93. This position has now been reviewed and to deliver the same outcomes over the next ten years is now

projected to cost £3.5billion in capital and £1.4billion in revenue. The key factors include:

- Increase in cost of delivering services (inflationary, staff costs, electricity costs)
- Cost of borrowing to fund capital investment
- Delays in financial efficiencies coming from the Housing Service Improvement Plan – impact from the pandemic
- New build programme cost increases
- Bringing existing homes up to EESSH2

94. As part of the 2022/23 Programme for Government, the First Minister announced in September 2022 that emergency legislation would be introduced to freeze rent with immediate effect until at least 31 March 2023 and a moratorium on evictions. Scottish Government has indicated that it would like to discuss the potential for a “cap” on rent increases in the social rented sector.
95. In September 2022, the Council agreed a motion on “rent freeze”. A report was subsequently presented to the Housing Homelessness and Fair Work Committee on the implications of a rent freeze for council tenants in 2023/24 and the subsequent impact of this freeze across the HRA for the three years commencing 2023/24.
96. The impact of increasing costs as well as a reduction in income as a result of rent freezes means that the business plan goes into considerable deficits over the next few years unless mitigating measures are implemented.

97. A rent freeze in 2023/24 reduces rental income by c.£121million over the 30-year plan period. The Council forecast rent increases of 7.4% would be required over the following five years to be able to deliver EESSH2 by 2040 and build more council homes.
98. Officers continue to work on the development of the HRA Budget Strategy 2023/24 to 2032/33, the draft 2023/24 one-year revenue budget and the capital investment programme.
99. The Council will need to make difficult decisions over the medium-term to ensure the financial sustainability of the HRA is maintained.

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 2021/22. 89% of approved savings were delivered, a continued improvement in comparison to previous years.

Around 91% of the revised general fund capital programme and 62% of the revised HRA capital programme was delivered in 2021/22.

Financial performance

100. The 2021/22 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 deficit on the provision of services of £255.479million. The accounting deficit 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.

101. 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 £36.172million to £257.205million. In total, cash backed (useable) reserves held by the Council increased by £37.281million in the year to £397.156million.

Movement in the Council's useable reserves per the Annual Accounts 2021/22

	2020/21 £million	2021/22 £million	Movement £million
General Fund	221.033	257.205	36.172
Housing Revenue Account	0	0	0
Renewal and Repairs Fund	41.162	50.407	9.245
Capital Fund	49.731	42.550	(7.181)
Capital Grants Unapplied Account	47.949	46.994	(0.955)
Total useable reserves	359.875	397.156	37.281

102. The increase in general fund balance comprises:

- Application of COVID-related funds of £14.518million
- Increase in sums set aside for specific investments of £31.680million

- Increase in various funds (including the Council Tax Discount Fund, Devolved School Management Fund and the Council's General Fund) of £19.010million

103. The unallocated General Fund was £28.891million as at 31 March 2022,

an increase of £3.956million from the previous year. This is equivalent to 2.51% of annual budgeted net expenditure.

104. The remaining balance of £228.224million is earmarked for specific purposes including 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

105. The final outturn position on the General Fund for 2021/22 shows a surplus of £3.877million compared to the balanced budget set at the outset. This surplus has been set aside in reserves. The Council approved in February 2022 that £2.628million was applied in setting the budget for 2022/23. The remaining balance (£1.249million) was earmarked by the Council in August 2022 to support the Council's response to the cost of living crisis.
106. The approved 2021/22 budget was predicated on the delivery of £31.087million of directorate-specific and corporate savings. 89% of approved savings by value were delivered in year. This represents continued improvement on previous years – 2020/21: 82%, 2019/20: 77%, 2018/19: 60%.

Covid-19 financial impact

107. The outturn position in 2021/22 reflects an underspend of £13.5million against the £39million set aside to address the in-year income and expenditure impacts of the pandemic.

This lower requirement was offset by a corresponding reduction in sums drawn down from reserves. As at 31 March 2022, the Council held £86million in reserves to off-set future specific or unknown Covid costs (2020/21 £101million).

Housing revenue account (HRA)

108. The balance on the HRA is nil. In line with the HRA Business Plan, at the end of 2021/22 the HRA was balanced after making a contribution totalling £8.653million towards the Strategic Housing Investment Fund.

Capital Expenditure

109. During 2021/22, the Council reported total capital expenditure of £436million; of which £371million was general fund expenditure and £65million was housing revenue account (HRA) expenditure. In doing so the Council delivered on 92% of the revised general fund capital programme and 62% of the HRA revised capital programme. The slippage was primarily caused by the impact of the pandemic and market conditions including rising costs, material shortages and shortfalls in supply chains.
110. Projects contributing to the slippage on the general fund capital programme include:
- Trams to Newhaven
 - Rising school rolls and Maybury Primary School projects
 - Edinburgh Living LLPs
 - Active Travel Investment Programme

- Asset Management Works Programme

111. Acceleration in the Castlebrae High School and St Crispin's Special School projects however significantly offset the slippage in the general fund projects attributable to Education and Children's Services.

112. Projects contributing to the slippage on the housing revenue account capital programme were:

- Land acquisition of Liberton Hospital
- Improvements to existing homes and estates
- New homes development

Trams to Newhaven

113. The Trams to Newhaven project incurred capital expenditure of £68million against a budget of £72million. The in-year underspend is a result of a rescheduling of works due to the impact of the pandemic and industry wide material and skilled labour shortages.

114. While an in-year underspend is reported for 2021/22, the project is still expected to complete on time in 2022/23 and within the approved budget of £207million.

St James Centre Redevelopment Growth Accelerator Model (GAM)

115. The Growth Accelerator Model (GAM) Agreement was agreed between the Council and TH Real Estate (now Nuveen) as a means of ensuring the delivery of the new St James Quarter,

securing additional public realm benefits alongside the new centre, and generating new jobs and economic growth for the city.

116. 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.

117. In September 2021, a report was presented to the Council that stated that the works were all substantially complete with the exception of Leith Street, St James Square, Elder Street, Cathedral Lane and Little King Street works.

118. In light of the progress made with the development of the new St James Quarter, Nuveen submitted a request for payment for the delivery of the Growth Assets. In line with the GAM Agreement, the Council is obliged to pay for the Growth Assets once three requirements are met, as summarised below:

Progress of GAM Requirements

Requirement	Assessment
Requirement 1: That 50% of the Retail and Leisure Element in respect of which non-domestic rates are payable is open for trading.	Assessment : MET
Requirement 2: A statement or statements of practical completion has been issued for the areas comprising the Retail and Leisure Element.	Assessment : NOT MET This requirement has not been met as the cinema has not yet reached practical completion.
Requirement 3: A statement or statements of practical completion has been issued for the areas comprising the Growth Assets	Assessment : MET

Source: St James Quarter GAM: Interim Payment- September 2021

119. Despite the second requirement not being met, the Council proposed an interim payment of £56million on the proposed GAM payment of £61million to be made to Nuveen. The Council agreed to retain the remaining £5million as a contingency to ensure that those assets still to be completed are done to the required standard. The full amount of Scottish Government funding to meet the borrowing costs of the GAM payment was received in 2021/22.
- of the Council's Treasury Management Policy.
121. The Council increased its borrowing in 2022 by £206million. However, £54million in previous loans were repaid during the year, meaning the Council's net borrowing increased by £152million during the year. There was a significant increase in the Council's net advances from the Loans Fund during the year, resulting in the Council's external debt still being below its Capital Finance Requirement at year-end.

Treasury management

120. Treasury management is undertaken with regard to the CIPFA Code of Practice for Treasury Management in the Public Services and CIPFA's Prudential Code. In 2021/22, the Council operated within both the Authorised Limit and the Operational Boundary and there were no breaches
122. The Council's money is invested via the Treasury Cash Fund. The investment return for 2021/22 continued to show out-performance against the Fund's benchmark while maintaining the security of investments.

Systems of internal control

123. We have evaluated the Council's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.
124. While we did not identify any significant weaknesses in the Council's accounting and internal control systems during our audit we have noted areas with scope for improvement in the Council's payroll processes and controls. Our findings have been reported to management.

Prevention and detection of fraud and irregularity

125. We found the Council's arrangements for the prevention and detection of fraud and other irregularities to be sufficient and appropriate. The Council continued to operate an appropriate control environment throughout the pandemic to ensure that those controls and procedures which prevent fraud were appropriately managed.
126. The Council's whistleblowing arrangements operate with oversight from an independent external service provider, with the autonomy to decide who investigates the concerns raised. The Governance, Risk and Best Value Committee receives a quarterly update on whistleblowing and the whistleblowing policy is reviewed annually by committee. The whistleblowing policy is currently being reviewed and will take on board the recommendations of the Cultural Review. The Council's approach to investigations will also be changed through the recruitment of an investigatory team as recommended by the Tanner Review. This will replace the current practice of

managers taking on an investigatory role and this will cover both whistleblowing and HR matters.

127. During the year, internal audit conducted a review into the Council's management of fraud and serious organised crime which identified significant areas for improvement. Although there are policies in place, there is a need for these to be reviewed and updated. In addition, there is no corporate overarching framework that pulls the different strands and policies together. As yet there is no owner within the Council for this role and further work is necessary to devise an implementation plan to make the necessary improvements in this area.

National Fraud Initiative (NFI)

128. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
129. The most recent NFI exercise commenced in 2020. We completed a questionnaire and submitted this to Audit Scotland earlier this year. Overall we concluded that NFI arrangements were satisfactory.

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. These arrangements will continue to develop over the coming year, following the local government elections and future changes in the corporate leadership of the Council. A review has commenced into the Council's political arrangements with a view that this will be reported in December 2022. A review of the officer governance structure and senior leadership team has also commenced. This was paused until the political management arrangements are confirmed.

Governance arrangements

Local government elections

130. The Local Government election on 5 May 2022 resulted in a change in political representation for the Council, with a new minority Labour administration formed. The Council currently has 63 Councillors representing 17 wards within the city.

131. The elections saw 32 newly elected members with 31 re-elected.

Member training

132. Work was undertaken in the early and middle of 2022 to prepare for a new Council following the local government elections. This included preparing for how a new programme of work could be supported, a revised business plan, a medium-term financial plan and new political management arrangements. Work was commenced earlier than usual so as to allow this work to inform discussions between groups following the election.

133. Elected member training took place between May and June 2022. This was extensive training from a wide range of subjects that prioritised what was needed to ensure elected members were ready to take decisions at committee. Training offered was classified as mandatory; mandatory for those appointed to specific committees, strongly recommended or recommended. We noted the following participation in mandatory and strongly recommended sessions:

- 68% attendance at the mandatory session; all newly appointed members attended.
- On average 38% attendance at strongly recommended sessions for all members

- On average 44% attendance at strongly recommended sessions for newly appointed members.

134. Further training is being provided throughout the autumn and winter with the intention that there will be regular training slots to explore further into subjects such as equality duties and corporate parenting.

Member-officer protocols

135. In our 2019/20 audit we highlighted the importance of adhering to approved member-officer protocols in respect of sensitive information and the importance of all councillors and senior officers having a clear understanding of their respective rights and responsibilities in relation to information held by the Council. A review of the Member/Officer protocol had commenced but completion of the revised document was delayed by Covid-19 and a subsequent delay pending the publication of the revised Councillors' Code of Conduct. A revised protocol was considered and approved by the Council in August 2022. The delay to the agreement of this document has been significant but there is a benefit to the new protocol having been agreed by the new Council following the local government elections.

Effectiveness of the Council committees

136. As part of the 2021 internal audit programme the Council appointed the Chartered Institute of Internal Auditors to undertake a review of the effectiveness of the scrutiny applied by the Council's Governance, Risk and Best Value Committee.

137. 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.

138. A number of weaknesses were found, and these findings will be built into the review of the Council's political management arrangements for the new Council; scheduled to be reported in December 2022. Councillors from the committee and across the Council embraced the audit and saw it as a real opportunity to look at the strengths and weaknesses of its scrutiny and improve the committee structure.
139. Self-evaluation workshops have been carried out for all the executive committees and the Governance, Risk and Best Value Committee. This was a recommendation from the Governance, Risk and Best Value

Committee audit. The workshops considered the terms of reference for their committee, the balance of reporting, time spent at committee, the membership of the committee and training. The findings of each workshop were considered by the respective committees and these findings would go into the consideration of the political management arrangements following the elections. The workshops were a useful exercise and, although each workshop differed in its value, they allowed an opportunity for elected members to reflect and discuss the committee system and how it operated. Further feedback was also taken from a survey of members and exit interviews with those councillors standing down at the election.

Corporate leadership team

140. The Council's corporate leadership team, managed by the Chief Executive, has experienced change over the last year:
- Executive Director of Education and Children's Services – an interim Director of Communities and Families was in post between May 2021 to December 2021. This post was filled by an Executive Director of Education and Children's Services in November 2021.
 - Executive Director of Corporate Services – following the departure of the Executive Director in February 2022, an interim post has been created and the Council is currently recruiting to this post.
 - Service Director – Housing and Homelessness

141. Further to this, the Chief Internal Auditor (Head of Internal Audit and Risk) post is currently vacant. The Council is actively recruiting to fill these posts.
142. A review of the officer governance structure and senior leadership team has commenced. This was paused until the political management arrangements were confirmed.

Risk management

143. 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.
144. A new enterprise risk management policy was agreed in November 2021. The policy sets out how risk management should be considered when making both strategic and operational decisions and delivering services; the Council's risk culture; the requirements for effective application of the operational risk management framework across Council services; risk management structures and responsibilities across the Three Lines model (including those of senior management); and ongoing risk management assurance arrangements. The policy is a robust policy and should support identification and realisation of the improvements and benefits associated with both planned and unexpected opportunities, whilst protecting the

Council. However, the success of the policy will be determined by its implementation across Council directorates, and it is still too early in its application and embedding across the organisation to judge its success. The risk framework is supported by a service director, and on an interim basis, the Head of Health and Safety has taken on the management of the risk team. There are two FTEs supporting the framework and enabling managers to take responsibility to ensure the consideration of risk is an integral part of their day to day business.

Responding to the Covid-19 pandemic

145. The Council responded promptly and effectively in its political management arrangements to the Covid-19 pandemic.
146. During 2021/22, the impact of Covid-19 on political decision making was minimal. All meetings were re-established, and virtual and hybrid meeting arrangements were put in place to allow meetings to carry on as close to normal as possible. Meetings continued to be webcast and available to the public in the archive.
147. To reduce the impact on attendees of committees and elected members, changes were made to Standing Orders to manage the time taken at committee whilst still ensuring that effective scrutiny could take place. Hybrid meetings are set to continue in a post Covid environment and Standing Orders will be reviewed in 2022 to determine whether the changes implemented during the pandemic should continue.

148. The Council's Incident Management Team (CIMT) and directorate IMTs met frequently during the pandemic, operating flexibly to ensure the Council could react rapidly to any arising issues.
149. Three guiding principles were set out at the beginning of the response. These have been the framework for every decision taken:
- to protect the most vulnerable in the city;
 - to minimise the risks to colleagues; and
 - to continue to provide services in challenging circumstances.
150. The Chief Executive established measures to ensure that decision making was as transparent as possible and that critical decisions were taken only by officers where absolutely necessary. The following principles were applied:
- The Chief Executive would be the only officer to take decisions in response to the Covid-19 emergency using powers outlined in the Scheme of Delegation to Officers;
 - The Chief Executive would consult on all these decisions with the Leader and Deputy Leader;
 - Decisions would be considered and discussed at the Council's Incident Management Team;
 - If possible, Executive Directors would discuss matters at their directorate incident management teams before escalating to the CIMT;
 - Decisions would only be taken by the Chief Executive where urgent

and where they could not be considered in good time by the Leadership Advisory Panel;

- Decisions would be reported to the Leadership Advisory Panel for information; and
- When making decisions, the potential risk and impact of those decisions, whether existing controls are effective and what new measures or controls may be required should be considered. This process should be as efficient and streamlined as possible.

151. The Council has reduced both the number and frequency of its Covid-19 meetings from the peak in 2020-21, but the Council's Incident Management Team continues to meet weekly and other meetings have been stood back up depending on the changing situation of the pandemic.

Internal Audit

152. 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.
153. The Head of Internal Audit and Risk's Annual Opinion for the year ended 31 March 2022 stated that whilst some control weaknesses were identified in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable

assurance that risks are being managed, and the Council's objectives should be achieved. The Head of Internal Audit and Risk noted that this reflected an improvement on the 2020/21 position which was a limited 'red' (significant improvement required opinion) based on 80% plan completion due to the ongoing impacts of Covid-19. The Head of Internal Audit and Risk also noted there was significant progress with implementation of agreed management actions to address the risks associated with internal audit findings raised during 2021/22, reflecting significant focus from management and the impact of two Internal Audit secondments into the Place directorate and Health and Social Care Partnership, with the final (31 March 2022) position confirming that the proportion of overdue findings is at the lowest level across the last five years.

154. The opinion was based on 82% completion of the 2021/22 internal audit annual plan which was directly attributable to the impact of the pandemic across the Council, and the status of open internal audit findings as at 31 March 2022.
155. The annual opinion for 2021/22 occurred whilst the Council continued to operate in an ongoing Covid-19 resilience environment for a significant part of the financial year and also supported both the UK and Scottish Government's responses to the Ukraine crisis by supporting the welcome and accommodation of Ukrainian citizens in Edinburgh. Both of these challenges have continued to impact the Council's risk profile and the design and effectiveness of the Council's established control

environment and governance and risk management frameworks.

Internal audit external quality review

156. During 2021/22, the Chartered Institute of Internal Auditors (IIA) undertook an External Quality Assessment (EQA) of the Council's Internal Audit function, in line with the requirements of the Public Sector Internal Audit Standards (PSIAS). These standards require internal audit to have an external quality effectiveness review completed on a five-yearly basis. The EQA concluded that the Council's internal audit function generally conforms with the PSIAS, which set out the expected standards for internal auditing, including a code of ethics, core principles and international standards. Two recommendations were made to address partial conformance with the standards. Management responses and action dates have been agreed.
157. The EQA report also identified a series of continuous improvement opportunities and suggestions. These were not conformance issues but support the ongoing development of the Council's internal audit function and were in the following areas:
- Engagement audit methodology
 - Closure of audit actions
 - Risk Resolution processes and responsibility for the acceptance of risk
 - Audit reporting
 - Monitoring of internal audit performance
 - Role of Head of Audit and Risk
158. The EQA report and internal audit's response to the recommendations and improvement actions were presented

to the Governance, Risk and Best Value Committee in October 2022.

159. Outcomes of the EQA and improvement actions will be included in Internal Audit's Quality Assurance and Improvement Programme and monitored quarterly. Progress updates on implementation of the recommendations and improvement opportunities will be reported quarterly to GRBV.
160. The structure of the Internal Audit function is currently being reviewed, following both the departure of the Head of Audit and Risk and the improvement actions identified by IIA.

Following the public pound

161. 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.
162. The Council is continuing to review how it works with its ALEOs, in particular examining the shareholder agreements and Service Level Agreements in place to ensure a greater degree of consistency, alignment with key outcomes and clarity of relationship. The lack of an ALEO framework is a Council recognised weakness that requires to be resolved and it is anticipated that specialist resource will be brought in to assist in this work in 2022/23.

ALEO support / funding

163. All of the ALEOs undertake services that were greatly affected by Covid-19, for example leisure services, cultural venues and transport. Over the course of the pandemic, the Council has required to make additional payments to a number of its ALEOs as a result of lost income.
164. 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

165. 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 Non-Executive Directors (NEDs) from each of the Transport ALEOs was convened to consider the options available.
166. 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. The proposals were considered by the Transport and Environment Committee and approved but referred onto full Council at which the recommendations were approved. The Council is currently working

towards September 2023 for implementation.

Project Forth

167. In September 2021, Lothian Pension Fund agreed in principle to merge Lothian Pension Fund with Falkirk Pension Fund, subject to further work including approvals by the City of Edinburgh Council and Falkirk Council, as administering authorities. The intention to merge was publicly announced on 24 May 2022.
168. The aim and business case behind Project Forth is that a merger will result in substantial cost savings, achieve economies of scale and provide a future proofed best in class governance model fit for the increasing legal and regulatory landscape of the Local Government Pension Scheme (LGPS).
169. The proposed structure agreed by the Lothian Pension Fund Pensions Committee was a joint venture between the City of Edinburgh Council and Falkirk Council, as administering authorities. This would be a company limited by guarantee holding nominal membership pro-rated to contributing assets.
170. Under the original timeline, the administering authorities were due to consider the proposal in February 2022. However, further due diligence was proposed by the City of Edinburgh Council, delaying the approval first to September and then to December 2022, at the earliest. The two Councils intend to align the timing of when the proposal is considered for approval.
171. Due diligence undertaken to date has not identified any fundamental issues with the proposed plans. However, further work is being undertaken over

the proposed structure and the impact on the Funds' VAT recovery. A revised proposal will be considered by the administering authorities when the full due diligence process has been completed.

Whistleblowing investigation and Independent Inquiry

172. 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.
173. The Report was presented to full Council in December 2021 and concluded that:
 - Despite considerable steps taken to improve organisational culture since 2014, there was not a universally positive, open, safe and supportive whistleblowing and organisational culture for the raising of and responding to concerns of wrongdoing within CEC.
 - While overall CEC's whistleblowing processes and practices were considered to embody good practice, there were areas in respect of which the whistleblowing processes and practices could be made more effective.
 - Most of those who responded to a survey undertaken as part of the investigation indicated that they would more likely than not make a whistleblowing disclosure if the

need arose. There were individuals however who would not, or were unlikely to make a whistleblowing disclosure. The reasons for this were a mixture of perceptions on how a whistleblowing disclosure would be handled and the impact of the lived experiences of others.

- Both Councillors and the most senior CEC managers generally felt empowered to respond to allegations of wrongdoing and concerns raised with them. Most officers in management roles who responded to the survey believed that they knew what to do if an employee raised a concern with them. However, it appeared that in practice some managers did not know how to respond to an employee raising a concern with them and that others did not feel empowered to respond to concerns of wrongdoing.
- All whistleblowing disclosures notified to Safecall (the Council's independent whistleblowing service provider) were found to be investigated, although the timeliness of the investigations conducted in response to whistleblowing disclosures needed to be improved. Steps also needed to be taken to monitor more closely the effectiveness of investigations conducted internally.
- The Inquiry did not identify any current or recent failures by CEC to respond to or to address concerns of wrongdoing. However, a concern about prejudicing other legal processes was a contributory factor in delays by CEC to conclude whistleblowing investigation reports. The occasional application of legal

professional privilege to investigations did create strains between the legal department and Councillors.

174. The Report made 50 recommendations to improve the Council's culture and relevant processes.
175. 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. A summary of the findings and recommendations from this inquiry was included in our 2020/21 Annual Report on the Council.
176. Reports from both the whistleblowing investigation and the independent inquiry were considered by the Council and additional budget was approved to develop and deliver a substantial programme of work to implement all the recommendations. Since the approval of this, work has been undertaken across five themes of work against which all the recommendations were mapped.
 - Policy review/development
 - Investigations
 - Leadership, training and development
 - Systems and processes
 - Redress scheme and other matters
177. Work on all themes is currently ongoing. The Redress Scheme which will pay compensation to those eligible was launched on 5 September 2022 and will remain open until March 2023. An update on progress against the

themes was provided to Members in August 2022.

Learning the lessons from Scottish Borders Council

178. In February 2022 a Report was published by Andrew Webster QC into the handling of school assault allegations at Scottish Borders Council (SBC). To ensure that CEC's processes addressed the findings of this report and that lessons had been learned from the SBC experience, the Council's then Chief Social Work Officer and Head of Safe and Stronger Communities reviewed the findings against CEC's systems and processes. She concluded that no further significant changes were required to the Council's procedures beyond those already being taken forward following the Tanner report. She did recommend that the Council's guidance in respect of allegations of abuse made by staff be circulated to education managers and relevant staff within the Council. Independent legal advice has also been sought on relevant aspects.

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



The Council implemented its Planning and Performance Framework during 2021/22. The Planning and Performance Framework includes a 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.

The Council published an annual performance report and report on performance against the Local Government Benchmarking Framework (2020/21). The impact of the Covid-19 pandemic has been varied across Council services. 2021/22 saw the gradual decrease of restrictions and the report highlights how the Council has continued to adapt to the ongoing effects of Covid-19.

Further work is required to fully demonstrate compliance with the Accounts Commission Statutory Performance Information Direction; in particular demonstrating best value.

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

179. 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.
180. From the outset of the pandemic, the Council agreed three principles that would guide its decision-making process:
- To protect vulnerable residents;
 - To keep staff as safe as possible; and
 - To continue to deliver as many essential services as possible.
181. The Adaptation and Renewal Programme was established to guide the Council's operations and response to the pandemic. As the work was either completed or moved to business as usual within directorates, the programme was closed early in 2022, with the last report covering the remit of the programme being presented to and approved by the Policy and Sustainability Committee in February 2022.

Performance management framework 2021/22

182. In February 2021 the Council approved a new Council Business Plan: Our Future Council, Our Future City which sets out the Council's

strategic priorities and how the aims set out in the Community Plan will be taken forward over the next three years.

183. The Business Plan sets out the three main priorities the Council will focus on in the coming years:
- Ending poverty by 2030;
 - Becoming a sustainable and net zero city; and
 - Wellbeing and Equalities.
184. The Business Plan describes the approach the Council will take to deliver its priorities in the form of 15 outcomes with actions. This plan stands as one part of a "golden thread" linking and guiding operations, through to the shared goals and commitments of the Edinburgh Partnership and towards the long-term ambitions for Edinburgh to be a fair, welcoming, pioneering, and thriving City, as outlined in the 2050 Edinburgh City Vision.
185. Following the approval by Council of its Business Plan, a new Planning and Performance Framework was developed. The Planning and Performance Framework includes a 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.
186. The framework sets out the Council's approach to monitoring and reporting performance including service level arrangements, elected members' scrutiny of performance and public performance reporting arrangements:
187. The Planning and Performance Framework supports the use of

performance information including benchmarking data, such as the Local Government Benchmarking Framework (LGBF), to drive continuous improvement.

188. Performance scorecards and trend dashboards are aligned to service plans and monitored regularly at each level in the organisation.
189. On an annual basis, a review of its Directorate/Divisional Plans is undertaken to ensure that the Council is on track to deliver its outcomes and objectives.
190. This suite of measures (and targets) is kept under review as part of the Planning and Performance Framework annual cycle to ensure they remain fit for purpose.
191. The Council has also created a Data Dictionary which provides a description of each KPI, the source of the information, frequency and target rationale.
192. The Business Plan is being reviewed and updated. Thereafter a transition plan will be developed to align the planning and performance framework to the revised Business Plan including development of appropriate measures / KPIs and reporting / monitoring cycles.

Elected members' scrutiny of performance

193. A Council performance report with both supporting narrative and trend analysis is submitted to the Policy and Sustainability Committee once every four months. This includes the annual performance report which is brought to the Policy and Sustainability Committee and full Council in June of each year. In addition, there is the publication of data of specific

performance indicators for elected member and public oversight.

Public reporting of performance information

194. The Council has reviewed its website with a view to simplifying public access to performance data and ensuring timely publication of the performance information.

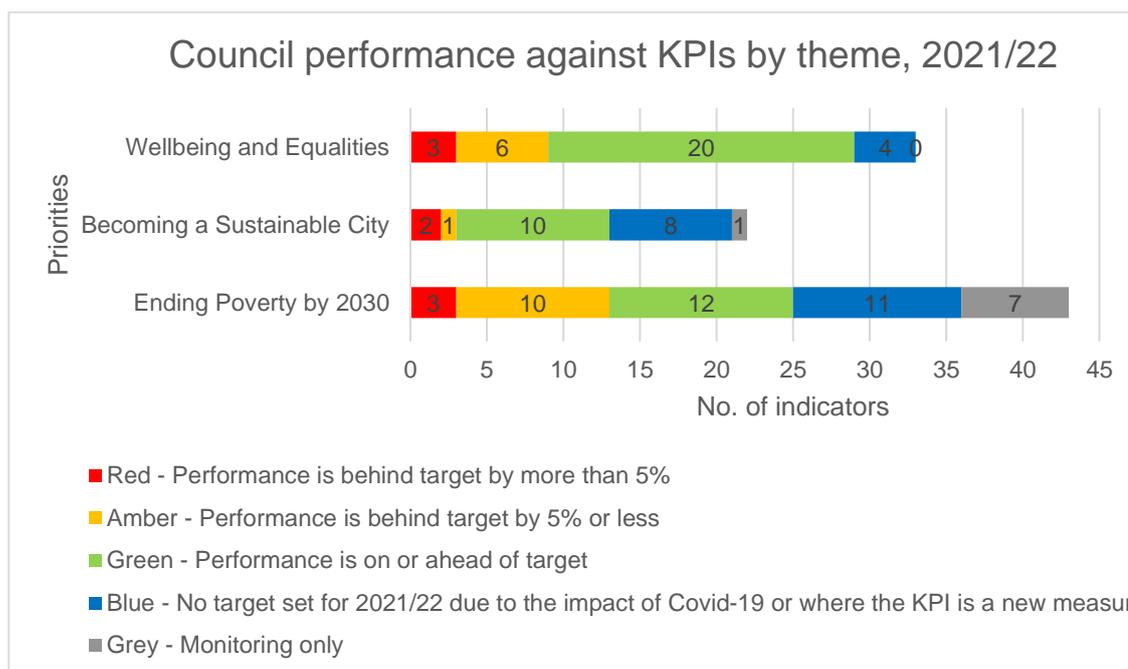
Overview of performance in 2021/22

195. The Council's 2021/22 Annual Performance Report provides an overview of council performance against its three priorities and fifteen outcomes in the Business Plan.
196. The impact of the Covid-19 pandemic has been varied across Council services. 2021/22 saw the gradual decrease of restrictions and the report highlights how the Council has continued to adapt to the ongoing effects of Covid-19.
197. Where appropriate, targets for 2021/22 were set and the status of the Council's performance in relation to these targets reported. 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. There are also KPIs that are for monitoring purposes only, due to the Council not having full control of the indicators, but it may take action depending on performance in these areas.
198. 56 KPIs had targets set for 2021/22 and were assigned a red, amber or green status (RAG). 23 KPIs had no target set for 2021/22 and as such were assigned a blue status. Eight KPIs were for monitoring purposes

only, and these were assigned a grey status.

199. Further to this, some of the KPIs are also defined by the Council as “milestones”. In addition to having a RAG system for these milestones, the

Council has a milestone status system that details if the milestones are completed, in progress or delayed/behind target. Four milestones are completed, three are in progress and four are delayed/behind target.



Source: City of Edinburgh Council ‘Annual Performance 2021/22’ Report

200. The annual performance report highlights areas, across the three council priorities, where performance challenges remain and sets out how it is focussing on these and the next steps being put in place to address them.

- Ending Poverty by 2030 – the Council is performing on target with many of its KPIs. Most of the green KPIs relate to the outcomes of ‘More residents experience fair work and receive living wage’ and ‘Increased attainment for all and reducing the poverty-related attainment gap’. The red KPIs are for ‘A new city-wide approach to commissioned advice services is

agreed with partners’, ‘New long-term plan for delivery of a prevention-based Council service model approved and in implementation’ (both of which have been delayed) and ‘Number of affordable homes completed’.

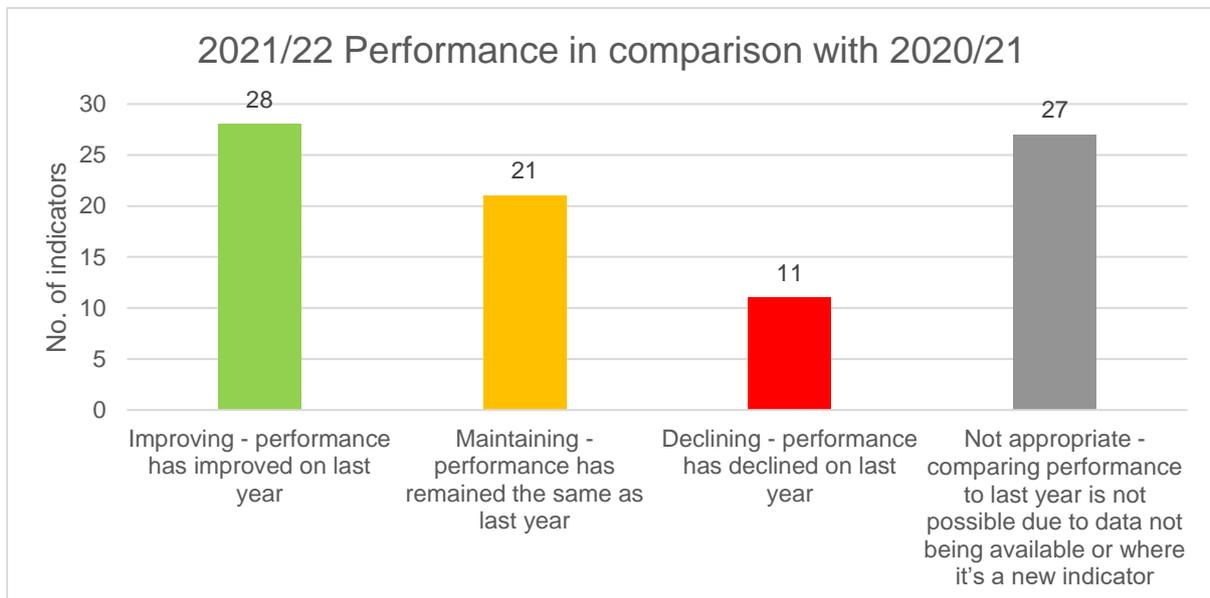
- Becoming a Sustainable City – most of the KPIs are green or blue. The green KPIs are mostly in relation to the outcomes of ‘On track to deliver our 2030 net zero target’, ‘Develop key strategic sites and projects to meet the needs of a diverse and growing city’ and ‘The city has a well-connected and sustainable transport and active travel network’. The red KPIs are

for 'Percentage of Consultation Advisory Panel (CAP) approved consultations with "you said, we did" published within three months of closing date' and 'Outline business case for the West Edinburgh Active Travel and Public infrastructure agreed'.

- Wellbeing and Equalities – the Council is making satisfactory progress. Most of the KPIs in this category are green. The red KPIs

are for 'Southwest pilot action plan finalised' which has been delayed, 'Litter monitoring system score' and 'Customer hub satisfaction'.

201. The Council's performance can also be compared to performance in 2020/21. Although most of the KPIs are new for this year, where measures were reported in previous years, performance data has been available for comparison.



Source: City of Edinburgh Council 'Annual Performance 2021/22' Report

Local Government Benchmarking Framework (LGBF)

202. The Council's annual LGBF report (2020/21) was reported to the Policy and Sustainability Committee in June 2022. As this information is based on 2020/21 it is the first LGBF report to show the impact of Covid-19.
203. The LGBF shows the performance of four cities (Edinburgh, Aberdeen, Dundee and Glasgow) compared to the national average for 88 indicators.

204. The LGBF shows that Edinburgh is ranking in the top two quartiles for 59% of the indicators, which is above the national average. Edinburgh is also ranking better than Aberdeen, Dundee and Glasgow, by having the highest number of indicators above the Scottish average (52) and the fewest number of indicators in the bottom quartile (10).
205. Edinburgh has also improved its ranking in 43 of the indicators and maintained its ranking in 12 of the

indicators, resulting in a decline in performance for 33 of the indicators.

206. Indicators in the bottom quartile (ranking 25-32):

- “Children Looked After” in a Community Setting per Child per Week
- % of the highest paid 5% of employees who are women
- Asset Management - % of accommodation that is suitable for its current use
- % of adults who agree they are supported to live as independently as possible
- Net cost of street cleaning per 1,000 population
- Cleanliness Score (% Acceptable)
- Cost of maintenance per kilometre of roads
- Cost of Environmental Health per 1,000 population
- % of adults satisfied with refuse collection services (3 year average)
- No of business gateway start-ups per 10,000 population

Statutory Performance Information

207. 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 Statutory Performance Information Direction (‘2018 Direction’) in December 2018, which applied for the first time in 2019/20 and continues to apply in 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.

208. The information reported in the Council’s 2021/22 Annual Performance Report and the 2020/21 Local Government Benchmarking Framework Report is the Council’s response to meeting the requirements of the 2018 Statutory Performance Direction.

209. In developing its Planning and Performance Framework, the Council mapped its 15 Business Plan outcomes to the 7 best value themes. This was presented to members in a performance update report during the year. We noted however that an overall assessment and conclusion as to how the Council is performing against its duty of best value, based on its performance against the business plan outcomes, was not included in the 2021/22 annual performance report.

210. The Accounts Commission has published its Statutory Performance Direction for periods ending 31 March 2023 to 31 March 2025. We would encourage the Council to review the Direction to ensure it is meeting all requirements through its Planning and Performance Framework.

Action plan point 5

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



Progress continues to be made against all of the recommendations. Agreed approaches to address the recommendations and many of the overarching strategies have been confirmed. Detailed work continues to support these agreed approaches.

Best Value Assurance report follow-up

211. 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.
212. The Chief Executive put into place an improvement plan for all the areas of improvement outlined in the Best Value Audit report. As outlined above,

the Business Plan has been created to ensure strategic priorities are aligned to a set of key priorities. Changes have been made to ensure the Council is working to the business plan, including senior management structural changes and work will continue to align work streams and governance with the Business Plan and the priorities within.

213. 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.
214. 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:	
Action	Status	Audit observation	
<i>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.</i>	Complete	As noted in 2020/21, the Business Plan provides strategic direction. The Business Plan is a well-developed document setting out how the Council will achieve its priorities. The Business Plan is currently being reviewed and updated.	

1. Council vision and strategic direction

Overall auditor judgement:



Action	Status	Audit observation
<p><i>To help them carry out their best value responsibilities, elected members should take advantage of the learning and development opportunities provided by the Council.</i></p>	Ongoing	<p>As noted in the Governance and Transparency section of this report - Elected member training and induction programme took place during May 2022 and June 2022 and development of the ongoing programme 2022/23 is now being programmed. An evaluation of the programme to date will take place.</p> <p>All elected members also have access to mylearning hub where all materials are stored and members can use this to continually enhance their personal learning and development.</p>
<p><i>In order to make community engagement an integral part of service improvement and delivery, the Council should support community groups to complete asset transfers</i></p>	Ongoing	<p>A further two community asset transfers have been concluded, bringing the total number of completed transfers to six since the introduction of the Community Empowerment (Scotland) Act 2015.</p> <p>In addition, a further two transfers have been agreed to by the Council and legal work is ongoing to bring them to a successful conclusion.</p> <p>After a hiatus during lockdown, community groups have resumed CAT activity and are preparing requests. Two stage 2 applications are being processed, six groups are preparing detailed business plans for consideration and a further seven live cases are being discussed with applicants. The Council continues to receive initial enquiries on a regular basis, with 24 considered over the last reporting year.</p>

2. Performance and outcomes, including public performance reporting

Overall auditor judgement:



Action	Status	Audit observation
<p><i>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</i></p>	<p>Ongoing</p>	<p>As noted in the Value for Money section of this report – the Council implemented its Planning and Performance Framework during 2021/22. The Planning and Performance Framework includes a 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.</p> <p>Where appropriate, targets for 2021/22 were set and the status of the Council’s performance in relation to these targets reported. 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. There are also KPIs that are for monitoring purposes only, due to the Council not having full control of the indicators, but it may take action depending on performance in these areas.</p> <p>The Business Plan is being reviewed and updated. Thereafter a transition plan will be developed to align the planning and performance framework to the revised Business Plan including development of appropriate measures / KPIs and reporting / monitoring cycles.</p>

2. Performance and outcomes, including public performance reporting

Overall auditor judgement:



Action	Status	Audit observation
<p><i>The Council should further improve its performance reporting by publishing easily accessible, up-to-date performance information on its website.</i></p>	<p>Ongoing</p>	<p>As noted in the Value for Money section of this report – An annual performance report and LGBF report was presented to Committee in the summer of 2022.</p> <p>The Council has reviewed and updated the Performance and Data section of its website to simplify public access to performance data and ensure performance and data reports are collated under a single section. The webpage includes all performance reports to Committees and the content will be expanded 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 reports.</p>

3. Effective use of resources

Overall auditor judgement:



Action	Status	Audit observation
<p><i>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.</i></p>	<p>Ongoing</p>	<p>The Adaptation and Renewal Programme was ‘closed’ in 2022; with either the actions completed or carried out as business as usual.</p> <p>As noted in the Financial Sustainability section of this report – a medium-term financial framework is in place.</p> <p>A dedicated project lead has been appointed to progress the development of the Council’s medium term financial plan.</p> <p>The development of a medium-term financial plan which aligns to the Council’s business plan and identifies options to address savings requirements over the term of the plan is critical to the Council demonstrating and achieving financial sustainability.</p> <p>The Council agreed a new People Strategy in April 2021, supporting the new Business Plan and aligned to the key priorities. The Plan sets out what employees should expect from the Council as their employer and what the Council expects from its workforce.</p> <p>The People Strategy describes the Council’s strategic workforce agenda. The Council’s Strategic Workforce Plan 2021-2024 (also approved in April 2021) describes further the specific actions to be taken to address the gaps between the current workforce and the future workforce needed to meet the priorities of the Business Plan.</p>

4. Partnership working and community engagement

Overall auditor judgement:



Action	Status	Audit observation
<p><i>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.</i></p>	Ongoing	<p>The Council agreed a new Consultation Policy in April 2021, recognising the need to strengthen community engagement but also introduce more robust controls to manage significant consultations.</p> <p>The first review of the Consultation Policy has begun, involving stakeholders and colleagues. This will be reported to Committee this year (2022).</p>
<p><i>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.</i></p>	Ongoing	<p>The Council and community councils continue to implement the actions identified in the collaborative framework. Development of the partnership element of the work is ongoing with progress to be reported to the Edinburgh Partnership Board, following meetings with the EACC. The EACC is planned to submit a report to the partnership in June to take forward the collaborative working. This however was deferred on their request. A report on the engagement programme for the Edinburgh Partnership Empowerment Strategy will be presented to the Board.</p> <p>A progress report on the framework was approved by the Culture and Communities Committee on 1 February 2022 and was considered by GRBV at the meeting on 8 March 2022.</p> <p>Work on the Edinburgh Partnership Empowerment Plan is ongoing.</p>

4. Partnership working and community engagement	Overall auditor judgement:	
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Action	Status	Audit observation
<i>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.</i>	Ongoing	<p>The Edinburgh Partnership Board approved the revised Local Outcome Improvement Plan (LOIP) at its meeting in March 2022. This is now subject to partner sign off through internal governance arrangements.</p> <p>The revised LOIP will be considered by the Culture and Communities Committee this year (2022).</p>

5. Continuous improvement	Overall auditor judgement:	
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Action	Status	Audit observation
<i>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.</i>	Ongoing	<p>The recommendation for continuous improvement is embedded in the planning and performance framework. Commencing in March 2022, Service Teams carried out a review of the year 1 Annual Plans and Performance. This has informed the development of 2022/23 Annual Plans at Directorate, Divisional and Service Team levels.</p> <p>The Council is currently reviewing the EFQM (excellence model) methodology and toolsets for self-evaluation.</p>

Appendices

Appendix 1: Respective responsibilities of the Council and the Auditor	76
Appendix 2: Action plan	82
Appendix 3: Follow up of prior year recommendations	87

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 entity and its financial performance, including providing adequate</p>

Area	Council responsibilities
	<p>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 we have reported below matters to bring to your attention in relation to our integrity, objectivity and independence.

An employee of Azets was appointed as one of the 63 councillors of City of Edinburgh Council on 5 May 2022. The individual ceased to be employed by Azets on 24 May 2022. The employee was a part time member of the administrative team that had no involvement in the audit business conducted by Azets Audit Services and was either on leave or on non-working days for a total of 10 of the 15 working days between the election result and ceasing to be an employee of the firm.

Whilst the individual is no longer employed by the firm, this constitutes an inadvertent breach of the requirements of the FRC Ethical Standard for a short period of time, which prohibits the appointment of a member of staff of a firm (or networked firm) to a governance position at an audit client.

The point of appointment as a councillor was after the year end under audit (31 March 2022). Based on our assessment of the breach, including the nature of the individual's position at Azets, the period of overlap prior to employment ceasing, the timing of appointment being after the period end under audit, and the subsequent action taken, it was concluded that this situation has not compromised our professional judgement or integrity and as such we believe that an objective, reasonable and informed third party in possession of these facts would conclude that our integrity and objectivity has not been impaired and accordingly we remain independent for the purposes of the March 2022 audit.

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 2021/22 (with prior year comparators) is as follows:

	Current year £	Prior year £
Audit of City of Edinburgh Council (Auditor remuneration)	354,930	333,550
Audit of components (as audited by Azets)	204,750	153,889
Total audit	559,680	487,439
Non-audit services – Council	9,600	-
Non-audit services – wider Group	58,380	34,000
Total fees	627,660	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. We have detailed in the table below the non-audit services provided to both the Council and the wider group, the threats to our independence and the safeguards we have put in place to mitigate these threats.

Non-audit service	Service provided to	Type of threat	Safeguard
Tax and accounting advice in relation to the reorganisation of the Transport ALEO's	Council	Self-review Management decisions	Work is undertaken by a team independent from the audit engagement team. There is no contingent element. The work does not involve carrying out a management role.
VAT advice on energy-efficiency related housing works	Council	Self-review Management decisions	Work is undertaken by a team independent from the audit engagement team. There is no contingent element. The work does not involve carrying out a management role.
Corporation tax compliance services	Wider group	Self-review	Corporation tax compliance services are provided by a separate tax team.
Tax advisory services	Wider group	Self-review Management decisions	Tax advisory services are provided by a separate tax team.
Preparation of financial statements	Wider group	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 SPT since appointment can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

Appendix 2: 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	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.
High	An issue that results in a severe impact to the achievement of objectives in the area audited.
Medium	An issue that results in a moderate impact to the achievement of objectives in the area audited.
Low	An issue that results in a small impact to the achievement of objectives in the area audited.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Current year action plan

1. Assets Under Construction Procedures

Medium

Observation	We noted £9.2million of assets under construction that should have been recognised as completions in 2021/22 under the appropriate asset category.
Implication	The depreciation charge and value of an asset will be misstated if the asset register does not accurately reflect the date an asset was brought into use.
Recommendation	The Council should ensure that a review for completed assets is undertaken as part of the accounts preparation process to ensure the correct treatment is applied.
Management response	<p>A review of items classified as assets under construction will be undertaken prior to the year-end, informed by discussion of the current status of these with the responsible service manager and Estates. This review, the results of which will be documented in a newly created working paper, will in turn inform the appropriate accounting treatment. In cases of material change, consideration will also be given to any need for revaluation.</p> <p>Responsible officer: Senior Accountant, Capital Team, Corporate Finance</p> <p>Implementation date: March 2023</p>

2. Inconsistency between Council's Asset Register and Valuer's records

Medium

Observation	Differences were identified between the brought forward value provided by the valuer and those recorded in the Council's asset register for assets which were not subject to revaluation in 2021/22.
Implication	There is a risk that the results of the valuations are not correctly accounted for in the annual accounts.
Recommendation	The Council should ensure that reconciliations are performed between the records held by the valuers and the Council's asset register.
Management response	<p>An additional column will be added to the Estates register to reflect additions for non-revalued assets.</p> <p>Responsible officer: Senior Accountant, Capital Team, Corporate Finance</p> <p>Implementation date: March 2023</p>

3. Component Accounting

Medium

<p>Observation</p>	<p>The Council applies component accounting to land and buildings. The Council’s accounting policies reflect that the building component of an asset is separated into further components primarily to those with a carrying value of over £5million. We identified one instance where an asset with a carrying value of over £5million was not componentised.</p>
<p>Implication</p>	<p>There is a risk that the depreciation charge will be misstated if the asset register does not accurately reflect details of componentised assets.</p>
<p>Recommendation</p>	<p>We would encourage the Council to develop procedures to ensure all assets are reviewed as part of the accounts preparation to identify all assets which meet the componentisation threshold.</p>
<p>Management response</p>	<p>Going forward, a check will be incorporated within the relevant supporting accounting working paper.</p> <p>Responsible officer: Senior Accountant, Capital Team, Corporate Finance</p> <p>Implementation date: March 2023</p>

4. Medium term financial plans

High

<p>Observation</p>	<p>The Council continues to face significant financial pressures resulting from increased demand for services, inflation, legislative reform and increased citizen expectations, as well as the continuing financial impacts of the pandemic.</p> <p>Current projections indicate a need to deliver at least £70million of recurring savings in 2023/24, increasing to £153million over the five year period to 2026/27. Work is underway to develop potential options to address this gap with reference to the priorities set out in the Council's business plan.</p>
<p>Implication</p>	<p>There is a risk the Council achieving financial sustainability over the medium-term.</p>
<p>Recommendation</p>	<p>The Council should ensure a medium-term financial plan is developed, which aligns to the Council's business plan, and identifies options to address savings requirements over the term of the plan.</p>
<p>Management response</p>	<p>Work is continuing to develop the Council's Medium-Term Financial Plan (MTFP) to deliver a programme of strategic and structural change to address the four-year (medium-term) financial challenge and, more immediately, agree a set of proposals to set a balanced budget for 2023/24. A detailed update will be reported to the Finance and Resources Committee on 10 November 2022 with a further report in January providing additional options that will balance the budget in 2023/24.</p> <p>It is envisaged that the plan presented to the meeting will comprise a set of costed proposals contributing towards addressing the 2023/24 budget gap and outline proposed major change projects that will primarily deliver in years 2 to 4 (i.e. 2024/25 to 2026/27) and, in due course, contribute towards subsequent years' savings requirements. Given the extent of these requirements, however, members will need to make increasingly difficult choices about the Council's priorities, including considering service reductions, across all service areas to maintain expenditure in line with available income.</p> <p>Responsible officers: Service Director: Head of Finance and Chief Executive</p> <p>Implementation date: February 2023 (for 2023/24 budget), annually thereafter</p>

5. Statutory Performance Information

Medium

<p>Observation</p>	<p>In developing its Planning and Performance Framework, the Council mapped its 15 Business Plan outcomes to the 7 best value themes. This was presented members in a performance update report during the year. We noted however that an overall assessment and conclusion as to how the Council is performing against its duty of best value, based on its performance against the business plan outcomes, was not included in the 2021/22 annual performance report.</p> <p>The Accounts Commission has published its Statutory Performance Direction for periods ending 31 March 2023 to 31 March 2025.</p>
<p>Implication</p>	<p>There is a risk that the Council does not fully comply with the Direction.</p>
<p>Recommendation</p>	<p>We would encourage the Council to review the Direction to ensure it is meeting all requirements through its Planning and Performance Framework.</p>
<p>Management response</p>	<p>The outcomes in the business plan have been mapped against the statutory direction. However, we will more explicitly state our compliance with the Directions in our performance reporting going forward. Furthermore, we will ensure that the Directions are considered as part of the work to refresh our Business Plan and the associated Planning and Performance Framework.</p> <p>Responsible officer: Change and Delivery Manager (Data, Performance and Business Planning)</p> <p>Implementation date: February 2023</p>

Appendix 3: Follow up of prior year recommendations

We have followed up on progress in implementing recommendations raised in the prior year/s which were reported as either new or ongoing in 2020/21. The table below summarises progress made by the Council in implementing these recommendations.

Rating		Year recommendation raised				
		2016/17	2017/18	2018/19	2019/20	2020/21
No. of recommendations 'ongoing' at end of 2020/21 audit		1	3	3	2	6
Progress during 2021/22:						
Ongoing	High	1	3	2	-	1
	Medium	-	-	-	-	3
Closed	High	-	-	-	-	-
	Medium	-	-	(1)	(2 ²)	(2)
No. of recommendations 'ongoing' at end of 2021/22 audit		1	3	2	0	4

² These actions were classified as 'superseded by Best Value recommendations' in 2020/21 and therefore have been categorised as 'closed'.

Actions outstanding or in progress from previous years

Recommendation	Audit observation
<p>Communication with the valuer (initially raised in 2020/21)</p> <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> <p>Medium</p>	<p>Ongoing</p> <p>While, during 2021/22, we observed progress in implementing this recommendation, we did note that in preparation of the annual accounts, draft HRA values were used by the accounting team who were not aware of subsequent updates to the information prepared by the valuer.</p>
<p>Impairment of assets under construction (initially raised in 2020/21)</p> <p>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.</p> <p>Medium</p>	<p>Closed</p> <p>Refer to our observations under the Annual Accounts section of this report (significant risk 4: asset valuations). Based on audit work performed concluded recommendation has been implemented.</p>
<p>Provision for doubtful debts (initially raised in 2020/21)</p> <p>The Council should reflect on any significant changes in recovery rates of sundry debtors and housing rent arrears when calculating its provision for doubtful debts and adjust the percentages provided for as appropriate.</p> <p>Medium</p>	<p>Closed</p> <p>Refer to our observations under the Annual Accounts section of this report (significant risk 6: provisions for doubtful debts). Based on audit work performed concluded recommendation has been implemented.</p>

Recommendation	Audit observation
<p>Common Good accounting estimates (initially raised in 2020/21)</p> <p>The Council should review processes to ensure that Common Good expenditure is complete and estimates are based on complete and relevant information.</p> <p>Medium</p>	<p>Ongoing</p> <p>Refer to our observations under the Annual Accounts section of this report (Common Good income and expenditure section). While we gained reasonable assurance that expenditure was materially appropriate, we identified areas for improvements. An audit adjustment was made to the Common Good Fund financial statements to reflect expenditure on parks and other green spaces which were not included in management's estimate.</p>
<p>Payroll reconciliations (initially raised in 2020/21)</p> <p>The Council should undertake a year-end reconciliation of employee expenses to the payroll system.</p> <p>Medium</p>	<p>Ongoing</p> <p>Year end reconciliation was performed. However as noted in the Annual Accounts and Financial Management section of this report we did identify areas for scope for improvement in the Council's payroll processes and controls. Our findings have been reported to management.</p>

Recommendation	Audit observation
<p>Implementation of BVAR recommendations (initially raised in 2020/21) Ongoing</p>	
<p>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> <p>High</p>	<p>Refer to our observations under the Best Value section of this report. Progress continues to be made against all of the recommendations. Agreed approaches to address the recommendations and many of the overarching strategies have been confirmed. Detailed work continues to support these agreed approaches.</p>
<p>Elected member and officer protocol (initially raised in 2018/19) Closed</p>	
<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>Medium</p>	<p>Refer to our observations under the Governance and Transparency section of this report. A revised protocol was considered and approved by the Council in August 2022.</p>

Recommendation	Audit observation
<p>Implementation of audit recommendations (initially raised in 2018/19)</p> <p>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.</p> <p>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.</p> <p>High</p>	<p>Ongoing</p> <p>Refer to our observations under the Governance and Transparency section of this report (Internal Audit). The Head of Internal Audit and Risk noted there was significant progress with implementation of agreed management actions to address the risks associated with internal audit findings raised during 2021/22, with the final (31 March 2022) position confirming that the proportion of overdue findings is at the lowest level across the last five years.</p>
<p>Service performance (initially raised in 2018/19)</p> <p>Whilst there has been some improvement in some of the Council's key indicators we are disappointed to note that there is a continuation of areas of poor performance within Adult Social Care Services, Environmental Services and Homelessness.</p> <p>Significant improvements are required, including the pace of change in implementing such improvements.</p> <p>High</p>	<p>Ongoing</p> <p>Refer to our observations under the Value for Money section of this report. The Council implemented its Planning and Performance Framework in 2021/22 and while not explicitly publicly reporting on such service performance we would encourage the Council to continue to monitor service performance.</p>

Recommendation	Audit observation
<p>Common good asset register (initially raised in 2017/18)</p> <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> <ul style="list-style-type: none"> • The assets are classified correctly; • The appropriate valuation basis has been applied; and • Depreciation is applied dependent on the accounting policy and classification of the asset. <p>High</p>	<p>Ongoing</p> <p>Refer to our observations under the Annual Accounts section of this report (Common Good income and expenditure section). The Council continues to refine its common good asset registers and the accounting for such assets.</p>
<p>Financial sustainability – health and social care (initially raised in 2017/18)</p> <p>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.</p> <p>High</p>	<p>Ongoing</p> <p>This action is being progressed by the Edinburgh Integration Joint Board (EIJB) with tripartite efforts with the Council and NHS Lothian.</p>

Recommendation	Audit observation
<p>Health and Social Care performance (initially raised in 2017/18)</p> <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>High</p>	<p>Ongoing</p> <p>This action is being progressed by the Edinburgh Integration Joint Board (EIJB).</p>
<p>Delayed discharges: (initially raised in 2016/17)</p> <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>High</p>	<p>Ongoing</p> <p>This action is being progressed jointly by the Edinburgh Integration Joint Board (EIJB), Council and NHS Lothian.</p> <p>The EIJB is part of the Scottish Government's national Discharge without Delay programme, aimed of reducing lengths of patient stay and preventing discharges becoming delayed.</p>



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