



Scott-Moncrieff
business advisers and accountants

City of Edinburgh Council





2017/18 Annual Audit Report to the Council and
the Controller of Audit

September 2018

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Key messages

<p>Annual accounts</p>	<p>The annual accounts for the year ended 31 March 2018 are due to be approved by the Finance and Resources Committee on 27 September 2018. We intend to report within our independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters.</p> <p>We have, however, drawn attention in our independent auditor's report to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three- year period to 2017/18. While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect our overall opinion on the financial statements. There are no other matters that we have to report to you by exception.</p> <p>Two material audit adjustments were made to the unaudited annual accounts in respect of property, plant and equipment and the net pension liability.</p> <p>The annual accounts and supporting schedules were of a good standard. Our thanks go to staff at the council for their assistance with our work.</p>
<p> Financial Sustainability</p>	<p>The council has a well-developed and responsive Medium-Term Revenue Funding Framework. Changes to assumptions in relation to grant funding have resulted in the projected savings gap falling to £106million by 2022-23. The achievement of the projected savings requirement still presents a significant financial challenge particularly in the context of delivery of savings in the current year.</p> <p>The council is developing a Change Strategy to ensure that the approach to delivering savings is well governed and maintains focus on strategic priorities.</p>
<p> Financial Management</p>	<p>The council has appropriate arrangements in place for managing its financial position. The council has been able to deliver services within budget for the eleventh successive year, despite delivering on 80% of approved savings. Around 91% of the general fund capital programme and 93% of the HRA programme was delivered in 2017/18.</p> <p>Our initial findings in relation to the proposed tram extension project are included in this report.</p>
<p> Governance & Transparency</p>	<p>The council has appropriate governance arrangements in place and scrutiny arrangements appear to be effective. Partnership working is key to the council's delivery of its vision and arrangements for locality planning continue to develop. The council must ensure that it continues to monitor progress against outcomes.</p> <p>Our work to follow up the progress that has been made in relation to CGI's ICT arrangements highlights that some areas have been addressed but, at the time of our audit in April 2018, five high risk rated actions remained to be completed.</p>
<p> Value for Money</p>	<p>The council has developed a robust Performance Framework to monitor progress against the Business Plan 2017-22. We found evidence that elected members provide robust scrutiny and challenge to reported performance outcomes.</p> <p>The council demonstrates good self-awareness, particularly around areas that require improvement. However, interventions to secure improvement have not always been effective, particularly in roads and building standards.</p> <p>Performance and improvement in health and social care has been poor and requires a significant step up in the pace of change.</p>

Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

**Scott-Moncrieff
September 2018**

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Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of the City of Edinburgh Council for 2017/18.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

At the City of Edinburgh Council, we have designated the Governance, Risk and Best Value Committee as "those charged with governance".

Introduction

1. This report summarises the findings from our 2017/18 audit of the City of Edinburgh Council (“the council”).
2. 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 2017/18 annual accounts, for both the council and its group and the charitable trusts, and related matters;
 - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
 - an assessment of the arrangements for the collection and publication of statutory performance information in accordance with the Accounts Commission direction;
 - provision of opinions on a number of grant claims and returns;
 - providing existing evidence and intelligence for, and participating in, shared risk assessment (SRA) processes leading to the preparation of a local scrutiny plan for the council;
 - audit and report on Best Value and the Strategic Audit Priorities (refer to Appendices 2 and 3) and;
 - 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



Source: Audit Scotland Code of Audit Practice, May 2016

3. The council is responsible for preparing an annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified 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 of the annual report and accounts 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.
4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help the council

assess their significance and prioritise the actions required.

5. We discussed and agreed the content of this report with council management. We would like to thank all management and staff for their co-operation and assistance during our audit.

Confirmation of independence

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

Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.
10. As part of our 2017/18 audit we added value to the council and Audit Scotland in a range of ways:

Regular contact with the council

11. We invest senior time to ensure that we keep up to date with significant issues and share that knowledge across our team. Examples include:

- Our Engagement Partner and Director hold quarterly meetings with the Chief Executive and the Executive Director of Resources;
- We hold regular catch ups with the Head of Finance (Section 95 Officer);
- We hold regular catch ups with the council's Strategy and Insight Team; and
- We meet with the Chief Internal Auditor on a regular basis.
- We hold discussions with the council's finance team, in advance of the preparation of the annual accounts, to consider the applicable accounting treatment of balances and transactions. In 2017/18 this included group accounting, treatment of inverse Lender Option Borrower Option Loans (LOBOs) and PPP.
- We held a debrief session with the council's finance team following the completion of the 2016/17 audit to capture areas for improvement to the audit process. We intend to continue with these meetings at the conclusion of each annual audit cycle.

Training and development

- We supported the council Finance Team to deliver training on understanding the financial statements by providing training materials and examples of scrutiny questions for elected members.

Providing assurance to the council and Audit Scotland

- We met the deadlines set out in Audit Scotland's annual planning guidance in respect of the delivery of audit plans, independent auditor reports and annual reports.
- The council has experienced a number of difficulties in the delivery of ICT services by its partner CGI. During our 2016/17 audit we used specialist ICT auditors to conduct reviews of security management. Our findings have provided the council with leverage to hold senior partners from CGI to account for the service provision.
- In 2017/18, we received three letters citing objections to the annual accounts. One

objection was received outwith the prescribed period. In relation to the other two, hearings have been held/scheduled with regard to the points raised.

Feedback

12. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey:
www.surveymonkey.co.uk/r/S2SPZBX
13. While this report is addressed to the council, it will be published on Audit Scotland's website
www.audit-scotland.gov.uk



Annual accounts

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.

In this section we summarise the findings from our audit of the 2017/18 annual accounts.

Annual accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2018 are due to be approved for signature by the Finance and Resources Committee on 27 September 2018. We plan to report within our independent auditor's report:

- An unqualified opinion on the annual accounts; and
- An unqualified opinion on other prescribed matters.

We have drawn attention to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three year period to 2017/18. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at City of Edinburgh Council for their assistance with our work.

Overall conclusion

An unqualified audit opinion on the annual accounts

14. The annual accounts for the year ended 31 March 2018 are due to be considered by the Governance, Risk and Best Value Committee on 25 September 2018 and approved by the Finance and Resources Committee on 27 September 2018. We intend to report within our independent auditor's report:
- An unqualified opinion on the annual accounts; and
 - An unqualified opinion on other prescribed matters.
15. We have drawn attention in our audit report to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over a three year period (paragraph 29). While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect the overall opinion on the financial statements.

Good administrative processes were in place

16. We received unaudited annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at the council for their assistance with our work.

Our assessment of risks of material misstatement

17. The assessed risks of material misstatement described in Exhibit 2 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 in Exhibit 2.

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

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

Excerpt from the 2017/18 External Audit Plan

- 18. We have not identified any indication of management override in the year. We have reviewed the council's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.
- 19. During our prior year audit, we noted that there was a lack of segregation of duties in respect of the posting of journals. While we acknowledged that compensating controls were in place, including, for example, control account reconciliations and the preparation and presentation of financial monitoring reports to the council we recommended that arrangements were put in place to review and authorise year-end journals. We noted during our 2017/18 audit that processes are in place to review and authorise year-end journals.
- 20. The council provides financial ledger services to a number of organisations. We noted during our audit that any member of the council finance team with ledger access could post entries to those organisations' financial ledgers even though they have no interaction with those organisations. While we understand that those organisations will have their own controls in place to monitor for any unusual transactions, we would encourage the council to review the user access controls.

Action plan point 1

2. Revenue recognition

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

Excerpt from the 2017/18 External Audit Plan

- 21. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams, and carried out testing to confirm that the council's revenue recognition policy is appropriate and has been applied reasonably.

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

3. Risk of fraud in the recognition of expenditure

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

Excerpt from the 2017/18 External Audit Plan

22. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the council's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

4. Property, plant and equipment

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

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

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

Excerpt from the 2017/18 External Audit Plan

Additions

23. During 2017/18, the council reported total capital additions of £223million; of which £150million were general fund additions and £73million were housing revenue account (HRA) additions. We carried out testing on material additions and concluded that those additions had been accounted for in the annual accounts in accordance with the council's accounting policy and the applicable accounting standards.

Valuations

24. We reviewed the council's valuation process and noted the following:
- Valuations are generally carried out by internal valuers. For the valuation process in 2017/18 however, the council's internal valuers commissioned Rydens to carry out some of the valuations. We considered the instructions and information provided to the valuer, along with the instructions provided to the external valuer, and performed procedures to confirm the accuracy and completeness of the information. From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work.
 - We did however note that while the council's operational estates manager (the

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

appointed internal valuer responsible for the overall direction of the valuation process), receives instructions from the council, these are not disseminated to individual valuers who carry out the valuations.

- All property, plant and equipment required to be carried at fair value were included in the five year rolling programme and had been revalued within this time period.
- Valuations are usually carried out as at 31 March. There is however no requirement for valuations to be carried out at this date and authorities may use 1 April subject to the standard condition that the carrying amount at the end of the year does not differ materially from the current value at that date. For 2017/18, the council valuations were prepared as at 1 April 2017. The valuer has provided us with assurance that the carrying amount of these assets as at 31 March 2018 does not materially differ from the date of valuation.
- We confirmed that the basis of valuation for assets valued in year is appropriate based on their usage. We reviewed valuation movements against indices of price movements for similar classes of assets and investigated any valuation movements that appeared unusual against this. Overall the valuation movements were in line with our expectation.
- We reviewed the reasonableness of the valuation assumptions applied, as they relate to land and buildings, council dwellings and investment properties. Based on the audit work performed we concluded that the valuations are reasonable.
- A £27million adjustment has however been made to the valuation of property, plant and equipment in the audited annual accounts. From our audit testing we identified differences between the valuations provided by the valuer and as recorded on the estates register and those which were recorded in the council's asset register (used in the preparation of the annual accounts). We recommend that reconciliations are performed between the estates register and the council's asset register.
- The results of the valuation exercise are not formally communicated to the council. The valuer should provide two documents; a valuation report for each asset valued and an overarching valuation report. The scope and contents of the report should be agreed between the valuer and the council, but the form is governed by the RICS (Royal Institute of Chartered Surveyors) Red Book. The valuation report gives the valuer's opinion of value of the specific properties, stating what has been done and what has not been done, the basis of valuation, any assumptions which have been made, including those as to accuracy of data, and other matters referred to in the instructions.

Action plan point 2

Impairment

25. As noted above and in our external audit plan, in January 2018, a paper was presented to the council's Finance and Resources Committee on the condition of its building estate. The report noted that, based on detailed condition surveys of the council's operational estate (September 2017), there is a requirement to spend £153million over the next five years both to address the backlog maintenance and move the council onto a planned preventative regime for the estate in the future.
26. As part of our audit we considered whether the council had considered these findings in the context of a potential impairment to the value of those assets as reported in the annual accounts.

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

27. We noted that no assessment of impairment has been carried out in 2017/18; other than for those assets forming part of the 2017/18 valuation programme. The Code of Practice on Local Authority Accounting (the Code) requires local authorities to assess at the end of each reporting period whether there is an indication that any asset may be impaired. The condition survey of the council's operational estate is one source of evidence to indicate whether an impairment may have occurred. While no indication of material impairment was identified, we would encourage the council to formalise its procedures for assessing whether there has been an impairment of its estates portfolio.

Action plan point 2

Other risk factors

28. Further to the identification of significant audit risks (Exhibit 2), we also identified in our External Audit Plan a number of risk factors which could potentially result in a material misstatement to the annual accounts. An update on these risk factors is set out below:

Significant trading operations

29. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to operate their significant trading operations so that income is not less than expenditure over each three year period. The council has failed to comply with this statutory requirement for the three year period ending 31 March 2018 in respect of its one significant trading operation; Edinburgh Catering Services – Other Catering. We have reported this matter in our independent auditor's report.
30. Despite improvements in recent years' financial performance, the council's Edinburgh Catering Services – Other Catering trading operation reported a deficit of £42,000 in 2017/18 and a cumulative three year deficit of £0.465million.
31. During 2017/18 two reports were presented to the Governance Risk and Best Value committee outlining the reasons for the underlying deficit position and actions being taken to address the profitability of the service from 2018/19 onwards. The actions focus on four key areas; financial control, workforce/HR, supplier contracts and branding/customer engagement.
32. The most recent report, presented in March 2018, also noted that in tandem with the actions being progressed, there are also opportunities

to consider alternative delivery models or service re-provision in the future, including a partnering model or franchise approach.

Group audit

33. 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.
34. As part of our audit we reviewed the consolidation entries made within the group accounts and confirmed entries back to the financial statements of the group bodies. Overall we concluded that the results of the group bodies had been appropriately consolidated into the council's group accounts.
35. As part of our audit planning process we assessed the group, for the purposes of approach to the audit of the group, and deemed the following subsidiaries to be significant in the context of the group audit:
- CEC Holdings; and
 - Transport for Edinburgh
36. We revisited our assessment, following receipt of the unaudited accounts. Our assessment remained unchanged. We did not identify any further significant components in the context of our group audit.
37. Scott-Moncrieff is the appointed auditor to CEC Holdings and Transport for Edinburgh. During our audit we liaised with the audit engagement teams to confirm that their programmes of work were adequate for our purposes.

38. 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.
39. As reported within our external audit plan we identified a risk factor in respect of the EDI Group which falls within CEC Holdings:
40. **Winding up of the EDI Group** - In early 2017, the council confirmed that operational activities undertaken by EDI Group would in the future be delivered through an in-house council model. The council has instructed directors of the EDI Group to begin a process of closure, with the majority of land transferring to the council and most of the staff leaving the company in June 2018. The company will continue to trade into 2019 and beyond until such time as all projects currently being undertaken by the EDI Group have either concluded or have been transferred to the council.
41. As such, the financial statements for the EDI Group were not prepared on a going concern basis. An emphasis of matter disclosure was included within the independent auditor's report. The impact within CEC Holdings was an impairment charge recognised on the investment in the EDI Group of £3.1million. There were, however, no material uncertainties regarding the going concern status of CEC Holdings, and therefore the independent auditor's report was unqualified.
42. We have confirmed that the impairment charge on the investment has also been appropriately reflected in the council's single entity annual accounts.

Registers of interests

43. The council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.
44. The councillors' register of interests is one way that the council can identify some of its related parties. In the prior year we recommended that councillors were reminded of the importance of

ensuring the register of interests is updated on a regular basis. We have reviewed the actions taken by the council in reminding councillors of their responsibilities in respect of maintaining register of interests. Our findings are included within the governance and transparency section of this report (paragraph 172).

45. With regard to the audit of the annual accounts and the disclosure of related party transactions we identified two undisclosed related parties. These have been reflected in the audited annual accounts.

Common good

46. 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.

Common good asset registers

47. Part 8 of the Community Empowerment Act (Scotland) 2015 came into force on 27 June 2018. This places a statutory duty on local authorities to establish, maintain and publish a register of all property held by them for the common good. Local people must be consulted on the register, to make sure nothing has been left out. Local authorities are also required to publish their proposals and consult community bodies before disposing of or changing the use of common good assets.
48. In July 2018, the Scottish Government, following consultation in 2017, issued statutory guidance for local authorities on how they should carry out these new legal duties.
49. The guidance identifies that local authorities should '*aim to publish the first version of its common good register as soon as practicable after the initial twelve week consultation period has closed, and in any case, within six months of the end of the consultation.*'
50. The council has established a team, with staff from estates, finance and legal. The team is responsible for developing a common good asset register which will be presented for public consultation.
51. This team has prepared the first version of the common good register which is due to be

considered by the Finance and Resources Committee on 27 September 2018. The register will be presented for public consultation thereafter.

Common good fund annual accounts

52. The Common Good Fund stands separate from the council's annual accounts and has been described as "the ancient patrimony of the community".
53. During 2017/18, a deficit of £15,000 was reported on the common good fund. Overall useable common good funds stood at £2.387million as at 31 March 2018.
54. In 2016, the council's Finance and Resources Committee approved the use of the common good fund for planned maintenance 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. Since this earmarked fund was created in 2016, £110,000 has been used on the Scott Monument and £3,000 on surveys at the City Observatory. As at 31 March 2018; £1.887million remained in this fund.
55. During our 2017/18 audit of the common good fund annual accounts we noted the following:

Common good fund income and expenditure

56. The unaudited common good fund comprehensive income and expenditure statement reported £24,000 in expenditure and nil income. On review of the council's working papers to support the annual accounts we noted that the council had included within its records £5.8million spend on common good (covering both revenue and capital), £2.8million in income with the difference being met by a recharge to the council in respect of use of these assets to achieve a breakeven position.
57. To ensure transparency in the operation of the common good funds, the annual accounts have been updated to reflect the transactions which had previously been included in the council's accounting records. We would encourage the council to review its relationship and use of the common good funds and put in place documented arrangements for the use and maintenance of those assets.

Action plan point 3

58. An objection was received in 2017/18 in respect of the common good annual accounts. This objection however was outwith the prescribed period. The objection was in relation to the recognition of income from table and chairs licences. The amounts were deemed to be below materiality and no further work has been performed in respect of the 2017/18 common good fund annual accounts.

Property, plant and equipment

59. Property, plant and equipment and heritage assets, as reported in the common good fund annual accounts, are recorded on an asset register ("the accounting asset register"). The accounting asset register is separate to the register being prepared to comply with the requirements of the Community Empowerment Act (Scotland) 2015 but has been used to inform the compilation of that register.
60. As part of our audit we compared the two registers and noted that there are approximately 55 assets which are not currently included in the accounting asset register and therefore the annual accounts of the common good fund. There is a further six which are potentially no longer considered to be common good assets.
61. The value of those assets thought to be common good and not included in the accounting asset register total £1.68million and represents 42 of the 55 assets identified. The value of remaining 13 assets has yet to be determined. The value of assets deemed no longer to be common good is £4,000.
62. No adjustment has been made to the 2017/18 common good fund annual accounts for these assets and the estimated value is not considered to be material. It is however anticipated that there will be an increase in the value of common good assets in 2018/19. We would recommend that the council in preparing the 2018/19 common good fund accounts reviews the accounting policies for property, plant and equipment and heritage assets to ensure that:
 - 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.

Action plan point 4

Update to our initial risk assessment

63. Following receipt of the unaudited annual accounts we revisit our assessed initial risk assessment. We identified one further risk which is detailed below. Our opinion on the annual accounts was not modified with respect to this risk.

Pension liability assumptions

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

64. We obtained the information provided to the actuary and agreed it to source documentation to confirm accuracy. We reviewed the assumptions used by the actuary and compared these to benchmarks across the sector.
65. We reviewed the validity of the information provided to the actuary and compared this with the actual information reported by City of Edinburgh Council and the Lothian Pension Fund. We considered the results of the actuary alongside our work across the sector and concluded there was a risk of material misstatement arising from difference between the figures relating to asset values. We therefore requested that management instruct the actuary to update its calculations based on year end results. The annual accounts have been updated to reflect these figures. As a result, the pension liability changed from a deficit of £528.359million to a deficit of £482.493million, with the movement recognised as an actuarial gain.
66. As at 31 March 2018, the pension liability showed a deficit of £482.493million, compared

to a deficit of £705.786million as at 31 March 2017.

67. Lothian Pension Fund's triennial valuation was conducted as at 31 March 2017. The triennial valuation also informs the annual actuarial valuation as at 31 March 2018. This can result in larger movements caused by other experience which is driven by the use of updated membership data.
68. The discount rate applied increased to 2.7% from 2.6% in the previous year. This has a positive effect on the scheme liabilities – resulting in a decrease in the liabilities.

Our application of materiality

69. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
70. Our initial assessment of materiality for the group annual accounts was £19.2million and for the council single entity annual accounts £17.6million. We revised our assessment, following receipt of the unaudited annual accounts, to £20.4million for the group¹ and £18.7million for the council and it remained at these levels throughout our audit.
71. Our assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing the performance of the council and its group.

Performance materiality

72. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.
73. We set a performance (testing) materiality for each area of work which was based on a risk

¹ For the significant components, within the council group, we have allocated a materiality that is less than the overall group materiality. For CEC Holdings this was reassessed to £726,000 and for Transport for Edinburgh it remained at £3.5million.

assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Performance materiality £million	
	Group	Council
High	9.180	8.415
Medium	11.220	10.285
Low	14.280	13.090

74. We agreed with the Governance, Risk and Best Value Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £250,000, as well as other misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Governance, Risk and Best Value Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

75. Two material adjustments were made to the unaudited annual accounts in respect of property, plant and equipment (paragraph 24) and the net pension liability (paragraph 65).

76. We did identify further adjustments to the unaudited annual accounts which have been reflected in the final set of annual accounts. While these are reflected in the audited annual accounts they were not considered material.

77. We also identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

78. We also identified a number of potential adjustments which are not considered material to the annual accounts, either individually or in

aggregate. Both the actual adjustments and potential adjustments have been reported to the Head of Finance and are included as an appendix to the letter of representation. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the annual accounts.

An overview of the scope of our audit

79. 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 2018. 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.

80. 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.

81. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Legality

82. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and the council's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

83. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

84. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

85. 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 10² as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.
86. In 2017/18, three letters were received citing objections to the annual accounts. For one the objection was received outwith the prescribed period. In relation to the other two, hearings have been held/scheduled with regard to the points raised. At this time of the audit, neither objection has been upheld although certain matters will be considered in future years

Management commentary

87. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.
88. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

Annual governance statement

89. The Chief Executive and the council Leader have confirmed that in their opinion, reasonable

assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its group systems of governance. The Annual Governance Statement identifies a range of actions that have been, or will be, taken by the council to continue to progress improvements in the council's governance arrangements.

90. Following minor amendments processed during the audit, the governance statement discloses the rationale for internal audit's opinion and other areas of weakness during the year, such as the significant challenges the Health and Social Care Partnership faces from the level of delayed discharges. Subject to the concerns disclosed, the council considered that reasonable assurance could be placed on the effectiveness and adequacy of the systems of governance.
91. We are satisfied that the governance statement within the annual accounts is consistent with the financial statements and that report has been prepared in accordance with the *Delivering Good Governance in Local Government: Framework 2016*.

Remuneration report

92. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Charitable trust funds

93. The council administers six charitable trust funds. Over the last few years the council has rationalised the number of charitable trusts down from over 100 to six, with the Usher Hall Conservation Trust wound up in 2017/18 and further plans in place to wind up the Boyd Anderson Trust in 2018/19.
94. The total charitable trust fund balance as at 31 March 2018 amounts to £14.669million, a reduction of £2,000 in comparison with the prior year.
95. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The council's charitable trust funds are covered by the

² 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.

requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.

- 96.** We have audited the council's 2017/18 charitable trust funds. Our findings from our audit have been separately reported to the Trustees. In summary we reported the following:
- We have provided an unqualified audit opinion on the charitable trust funds annual accounts;
 - The council has complied with the Local Authority Accounts (Scotland) Regulations 2014 as they relate to its charitable trust funds;
 - We did not identify any significant weaknesses over the accounting systems and internal controls associated with the charitable trust funds. We have however identified some areas with scope for improvement which have been included in a separate management report to the Trustees of the charitable trust funds.

Lender Option Borrower Option (LOBO) loan debts

- 97.** A number of objections have been received nationally regarding Inverse LOBOs³. The specific objections raised in regard to the accounting treatment of these loans were;
- Many were on balance sheet at their nominal value (rather than amortised cost); and
 - The embedded derivative had not been separated out.
- 98.** The council has a total of four inverse LOBO contracts totalling £40million taken out between February 2010 and February 2011.
- 99.** In order to confirm that these objections were not also applicable to the council we consulted the Code of Practice on Local Authority Accounting (the Code), relevant accounting

standards, re-examined the inverse LOBO contracts and made relevant enquires of management.

- 100.** Following appropriate audit work and consideration of all relevant sources of guidance referenced within this paper, we reached the following conclusions:
- There are no embedded derivatives within the loan contracts which require separation;
 - An EIR calculation should be performed to enable accurate disclosure at amortised cost. We confirmed during our audit that this has been reflected in the 2017/18 annual accounts.

Looking forward – IFRS 16 Leases

- 101.** The Local Authority Accounting Code Board (CIPFA/LASAAC) has issued a consultation on the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 in respect of IFRS 16 Leases.
- 102.** IFRS 16 Leases will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to pay for that right.
- 103.** There are new requirements for measurement of the lease liability where it will initially be measured at the present value of the lease payments payable over the lease term but may rise to reflect any reassessment or lease modifications, or revised in-substance fixed lease payments.
- 104.** Council finance staff have attended a number of recent events at which the anticipated changes impacts resulting from adoption of the standard have been discussed. Consideration of the readiness assessment questionnaire accompanying the CIPFA/LASAAC consultation has also highlighted a number of areas where further action is required. With this in mind, upon conclusion of the audit, a working group comprising staff from Finance, Procurement,

³ Lender option borrower option (LOBO) is a long-term borrowing instrument. They involve periodic interest re-fixings, which incorporate two linked options lender's option:

- option for the lender to set revised interest rates at predetermined interest reset dates such as annually.
- borrower's option: linked option for the borrower (exercisable only if the lender's option is exercised) to pay the revised interest rate or to redeem the bond although that may involve exit fees.

Estates, Fleet Management and representatives from other relevant areas will be established with a view to capturing all in-scope lease arrangements and the associated detail required to reflect the requirements of IFRS16 implementation.

Qualitative aspects of accounting practices and financial reporting

105. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the council.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to property, plant and equipment and pension liabilities. Subject to commentary above, we consider the estimates made, and the related disclosures, to be appropriate to the council. 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 expert is appropriate.
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2018/19. 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.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.

Qualitative aspect considered	Audit conclusion
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts 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.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

3

Financial management

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

Financial management



The council has appropriate arrangements in place for managing its financial position. The council has been able to deliver services within budget for the eleventh successive year, despite delivering on 80% of approved savings.

Around 91% of the general fund capital programme and 93% of the HRA programme was delivered in 2017/18.

Financial performance

106. The 2017/18 Comprehensive Income and Expenditure Statement shows that the council spent a total of £1.861 billion on the provision of public services resulting in an accounting deficit of £60.589 million. The accounting deficit, however, includes certain 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.

107. 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 £8.674 million to £151.285 million. In total the cash backed (useable) reserves held by the council increased by £9.058 million in the year to £277.762 million.

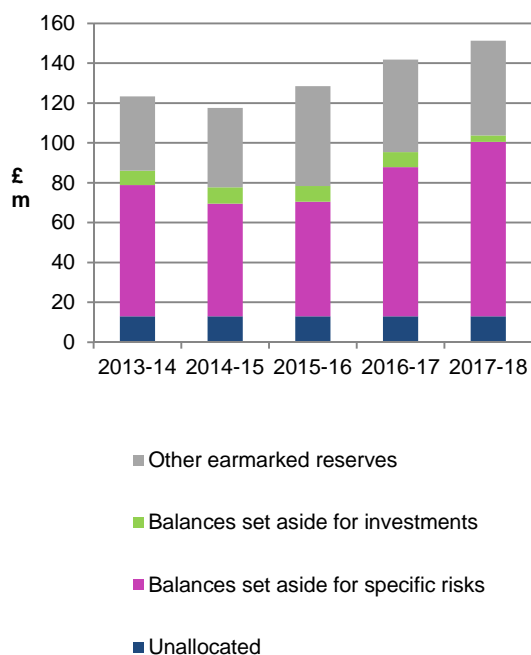
Exhibit 3: Movement in the council's useable reserves per the Annual Accounts 2017/18

	2017/18 £million	2016/17 £million	Movement £million
General Fund	151.285	142.611	8.674
Housing Revenue Account (paragraph 113)	0	0	0
Renewal and Repairs Fund	58.123	64.149	(6.026)
Capital Fund	63.558	61.178	2.380
Capital Grants Unapplied Account	4.796	0.766	4.030
Total useable reserves	277.762	268.704	9.058

108. In 2017/18 £138.260 million of the general fund balance was earmarked with the remainder representing an unallocated general fund of £13.025 million (Exhibit 4). This balance is in line with the medium-term strategy of the council. The unallocated general fund equates to 1.36% of the annual budgeted net expenditure. There were no planned or actual contributions to the unallocated general fund for 2017/18. This is lower than normal practice for

Scottish local authorities, but is mitigated by the earmarked balances for specific risks, and for areas of investment, including the Council Priorities Fund.

Exhibit 4: The council's General Fund balance increased in 2017/18



Source: Annual Accounts 2014/15 to 2017/18

109. Amounts are earmarked for a number of reasons:

- Balances set aside for specific financial risks (£87.435million) – includes, for example, staff release costs, dilapidations and the insurance fund.
- Balances set aside from income received in advance (£41.718million) – includes grant income where there are timing differences between the receipt of grant income and associated planned expenditure.
- Balances set aside for investment in specific projects (£3.349million) – these will deliver savings in future years, such as Spend to Save.
- Balances held under the School Board Delegation Scheme (DSM) and Pupil Equity Fund (PEF) (£5.758million).

Usable reserves

110. The level of usable reserves available is one of the measures used to assess the financial strength and sustainability of councils. Councils hold reserves to manage risks and make

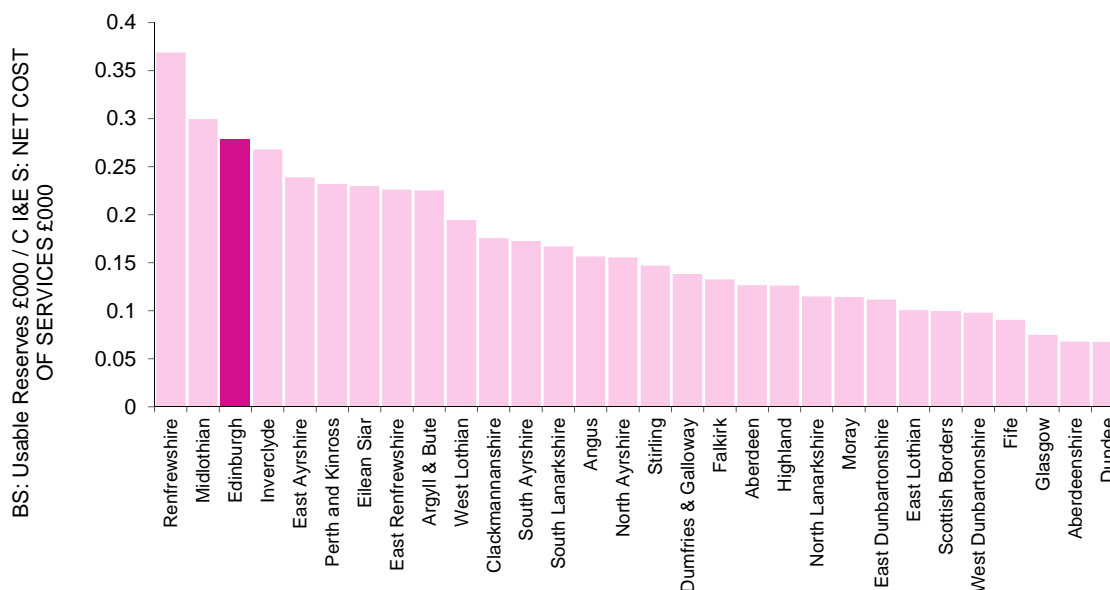
provisions for future spending.

111. We note that the council's level of usable reserves is above the mean of other local authorities in Scotland and supports our view that the council has adequate financial management arrangements in place. This is, however, offset by the relatively low level of uncommitted reserves which creates a higher risk that the council may not be able to respond effectively if faced with a significant adverse event.(Exhibit 5).

112. Other usable reserves include the Renewal and Repairs Fund and Housing Revenue Account (HRA). The HRA is the statutory fund used to record all income and expenditure for the management of, and investment in, council homes. Under statute, all expenditure on homes let by the council is funded through the rent and related service charges paid by its tenants.

113. The balance on the HRA is nil. In 2017/18 a net contribution of £9.042million was made from the Renewal and Repairs Fund to the HRA to support the investment in new affordable homes through the 21st Century Homes programme.

Exhibit 5: Councils' useable reserves as a proportion of the net cost of services



Source: Audit Scotland database compiled from draft Annual Accounts 2017/18. Note that Shetland and Orkney Islands councils have been omitted from the comparison as their level of reserves may distort the assessment.

Revenue performance against budget

- 114.** On 9 February 2017, the council set a 2017/18 balanced revenue budget of £957.910million. A revised Local Government Finance Settlement was issued on 2 February 2017. This announcement reflected the provision of £130million of one-off revenue, and £30million of capital resources across Scotland, with the City of Edinburgh Council's allocations being £9.998million and £2.278million respectively. Given the timing on the revised settlement announcement, these sums were allocated to broad themes within the budget motion.
- 115.** Throughout the year updates are made to the revenue budget to reflect, for example, additional funding received, increases in council tax income, one-off contributions from earmarked funds and savings in loan charges. As at 31 March 2018; the revised, balanced budget, was £973.876million.
- 116.** The council reported a net underspend against its revised balanced revenue budget of £2.416million, equating to 0.24% of the council's net expenditure. The council has been able to deliver services within budget for

the eleventh successive year. There was a net overspend reported within general fund services of £26,000 (Exhibit 6).

- 117.** As reported to the Finance and Resources Committee on 7 November 2017, in view of significant demand-led pressures apparent within both Health and Social Care and Safer and Stronger Communities during the year, £10.6million of additional funding was made available to these areas. In order to maintain overall expenditure within approved levels, however, offsetting savings, comprising a combination of assumed underspends in other service areas (£2.828million), reductions in loans charge expenditure (£1million), additional Council Tax income (£2.714million) and a number of one-off contributions from reserves (£4.058million) were identified.

118. As highlighted in Exhibit 6, two general fund services exceeded budgets during the year:
119. **Communities and Families:** during the year, those services projecting a balanced or underspend position were requested to identify additional savings opportunities to offset pressures in Health and Social Care and Safer and Stronger Communities, with Communities and Families' share of these additional savings being £1m. Increasing underlying pressures across a number of areas of activity during the remainder of the financial year meant that a small underspend was achieved against the core service budget but with the additional savings requirement not met. As such, the overall year-end position showed a £0.987million overspend against the revised budget.
120. **Health and Social Care** - in light of significant demand-led pressures and non-delivery of £6.03million of planned transformational-related purchased savings, £7.1million of additional funding was made available to support the service during the year.

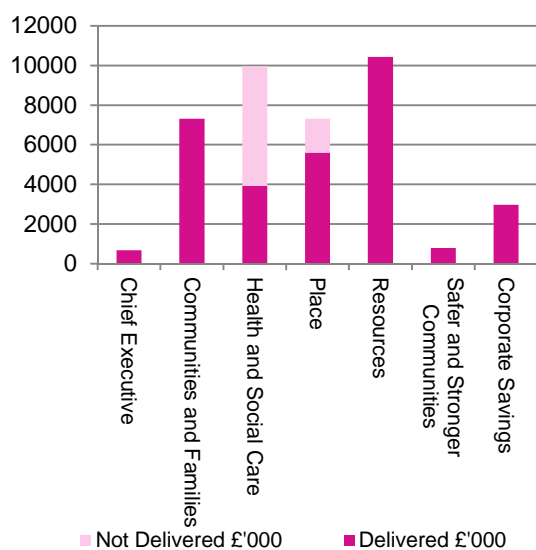
Savings Programme

121. The balanced budget was predicated on the delivery of £39.5million of service specific and corporate savings.
122. The final outturn position for 2017/18 indicates that 80% of approved savings by value were delivered, with those not achieved primarily attributable to slippage in transformation- and demand management-linked savings within Health and Social Care. A number of savings within the Place Management Division of the Place Directorate were, as anticipated, not delivered during the year pending implementation of medium-terms plans geared towards securing financial sustainability in these areas.

Exhibit 6: Extract from the 2017/18 Outturn Statement

Service	Budget £million	Actual £million	Variance £million
Services reporting to the Chief Executive	11.020	11.019	(0.001)
Communities and Families	341.953	342.940	0.987
Health and Social Care	192.910	193.273	0.363
Place	70.449	70.447	(0.002)
Resources	171.202	170.304	(0.898)
Safer and Stronger Communities	31.306	30.470	(0.836)
Lothian Valuation JB	3.741	3.629	(0.112)
GF Services	822.581	822.082	(0.499)
Other non-service specific costs	18.516	19.604	1.088
Net cost of benefits	(0.062)	(0.625)	(0.563)
Total	841.035	841.061	0.026

Exhibit 7: The council achieved 80% of its approved savings in 2017/18

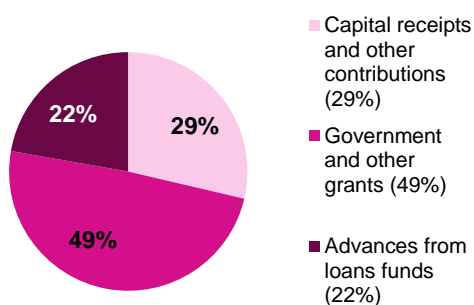


Source: 2017/18 Outturn Report

Capital Expenditure

123. During 2017/18, the council reported total capital additions of £223million; of which £150million were general fund additions and £73million were housing revenue account (HRA) additions. In so doing the council delivered on 91% of the revised general fund capital programme and 93% of the HRA revised capital programme. This was funded as shown in Exhibit 8.

Exhibit 8: Sources of Capital Funding



Source: Capital outturn report 2017/18

Edinburgh Trams extension

124. In November 2015, the council approved in principle Stage 1 plans to extend the Edinburgh tram line from York Place to Newhaven. An Outline Business Case (OBC) was presented to the council in December 2015 and a high level governance structure was agreed in order to progress Stage 1 activities. This included mobilisation of internal resource, commencement of the procurement process for internal support, site investigation and waiving the Contract Standing Orders to retain the existing tram senior advisor.

125. As set out in our 2017/18 External Audit Plan, we are undertaking work in conjunction with the council's internal auditors to review the tram extension project. The scope of our review was considered by the Tram Extension and Leith Programme Board in August 2018. The key areas included within the scope are:

- Options appraisal process;
- Financial model;
- Project business case;
- Project governance;
- Procurement process and supplier management; and
- Lessons learned.

126. Our work has focused on the options appraisal process and the financial model, while internal audit are considering the project business case, governance arrangements, procurement processes and lessons learned.

Options appraisal process

127. We have considered whether the council has completed a detailed options appraisal. It is best practice to consider a wide range of options at the planning stage, assessing them against a range of financial and non-financial criteria, including value for money.

128. In June 2015, a draft Outline Business Case was presented to council for approval. This considered four potential route options, with further information on these options presented to the council in November 2015. The benefit to cost ratio was calculated for each of the four options, and the council considered the wider benefits derived and strategic objectives met through extending the tram line. This work was

subsequently updated in the Outline Business Case, approved by Council.

129. In November 2015 the council approved in principle the selection of option 1 (extension to Newhaven) as its preferred route.
130. Action has been taken to economically appraise the four potential route options. This appraisal has not looked at alternative transport modes to the tram extension. The council has confirmed that the pre-appraisal and appraisal was carried out between 2001 and 2006 resulting in the Edinburgh Tram (Line One) and Edinburgh Tram (Line Two) Acts 2006. This legislation provides the council with the necessary powers to construct the network assessed in the various studies, including planning permission. The option appraisal and the Environmental Impact Assessments were used to support the application for the legislation. Whilst we acknowledge this position we consider that to comply with best practice, the council should reconsider the option appraisal undertaken in support of the Bill in light of the current circumstances. We recommend that this appraisal should be undertaken as part of the final business case being presented to Council.

Action plan point 5

131. In September 2017, following a referral from the Transport and Environment Committee, the council approved the commencement of Stage 2 activities for the project and an updated (OBC) was presented. Stage 2 is the procurement phase and takes approximately twelve months. This will incorporate public consultation and outline initial designs. The council aims to complete tender evaluations by September 2018. Subject to Council approval, the main construction contract is intended to be awarded to the preferred bidder and approval granted to start Stage 3 by December 2018.

Financial model

132. The outline business case for the York Place to Newhaven extension which was presented to council in November 2017 outlined the financial case for the project to go ahead. This focused on the evaluation of the affordability of the project.
133. The capital cost of the project, including risk and inflation, is estimated to be £165.2million. In the short to medium term, an estimated

funding gap of £1million exists after utilising £20million of assured extraordinary dividend from Lothian Buses. In the longer term, the council expects the extension to be funded through tram revenues, providing the council with an additional source of income. The council's finance team has developed a financial model to enable the project costs and revenues to be calculated and closely monitored.

134. Since the outline business case was presented work has continued to refine the financial model. We have carried out preliminary work on the model and have concluded that the model has been appropriately designed and functions in line with expectation. Further work is however required to consider the appropriateness and validity of the key assumptions which underpin the model. We understand that further refinements are due to take place in advance of the full business case being presented to the council in December 2018. We will review the key assumptions and the functionality of the model soon after it is updated.
135. As part of our initial review of the model we noted that the potential impact of delays to the start or completion date of the capital works had not been considered to date. It is our understanding that in advance of the full business case this analysis will be carried out along with a sensitivity analysis on the impact of movements in the key assumptions. We will ensure this is considered as part of our continuing audit work on the trams project.

Other areas identified

136. As reported to the Tram Extension and Leith Programme Board meeting in August 2018, the Head of Finance has requested that the project team investigate how other similar projects dealt with risk and contingency at the final business case stage, and where possible, gain an understanding of how this compared with the outturn cost. The project team has reached out to Dublin, Manchester and Birmingham, all of which have completed schemes recently. This exercise will need to be completed prior to the approval of the final business case.
137. The council has identified a number of project risks that, if realised, may cause delay in the approval of the final business case. These

include for example the findings from the Lord Hardie independent tram inquiry not being published in sufficient time. Any delays will result in budget challenges given the project team will have to continue to operate beyond the original project dates.

- 138.** Our work on the review of the trams project is ongoing. Our findings will be reported in conjunction with the work being carried out by internal audit.

Systems of internal control

- 139.** We have evaluated the council's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included audit testing on the key internal financial controls to confirm that they are operating as intended.
- 140.** As reported more fully in our Review of Internal Financial Controls report, we did not identify any significant deficiencies in the design, implementation or operation of internal financial controls over the council's key financial systems. We considered the systems to be well designed. We did identify a number of areas with scope for improvement which, if addressed, would further strengthen the system of internal financial control. These findings are included within our Review of Internal Financial Controls report.

Internal audit

- 141.** We are committed to avoiding duplication of audit effort and ensuring an efficient use of the council's total audit resource. Each year we consider whether it is the most effective use of the council's total audit resource to place reliance on the work of internal audit. When reliance is to be placed over the work of internal audit we carry out an assessment of the internal audit function to ensure this is sufficient in terms of quality and volume, and is performed in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 142.** We have reviewed the council's internal audit arrangements in accordance with International Standard on Auditing 610 (Using the Work of Internal Auditors), to determine if we could rely on the work of internal audit and if so, to what extent.
- 143.** In its 2017/18 annual report, internal audit noted

that it had not fully conformed with Public Sector Internal Audit Standards (PSIAS) for the following reasons:

- 144.** There had been insufficient follow-up of Internal Audit findings between April 2015 and October 2017 to monitor and ensure that management actions have been effectively implemented; and
- 145.** Long term sickness absence and recruitment challenges within the Internal Audit team had impacted completion of the two internal quality assurance reviews included in the 2017/18 Internal Audit annual plan to ensure consistency of audit quality.
- 146.** Action has been taken to address instances of non PSIAS conformance. We have considered these areas on non PSIAS conformance when assessing whether reliance can be placed on the work of internal audit. We concluded that this has not had a direct impact on our assessment.
- 147.** Overall we concluded that we will place reliance on the work of internal audit where appropriate.

Fraud and irregularity

- 148.** In accordance with the Code of Audit Practice, we have reviewed the arrangements for the prevention and detection of fraud and irregularity. Overall, we found the council's arrangements to be sufficient and appropriate.

National Fraud Initiative (NFI)

- 149.** The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.
- 150.** The NFI exercise produces data matches by comparing a range of information held on various public bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.
- 151.** The most recent NFI exercise commenced in October 2016 and as part of our 2016/17 audit we monitored the council's participation in NFI. We submitted an assessment of the council's participation in the exercise to Audit Scotland in February 2018. Overall we concluded that the council has actively participated in the NFI exercise.

4

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 or the way in which they should be delivered.

Financial sustainability



The council has a well-developed and responsive Medium Term Revenue Budget Framework. Changes to assumptions in relation to grant funding have resulted in the projected savings gap falling to £106million by 2022-23. The achievement of the projected savings requirement still presents a significant financial challenge particularly in the context of delivery of savings in the current year (80% of savings were delivered in 2017/18).

The council is developing a Change Strategy to ensure that the approach to delivering savings is well governed and maintains focus on strategic priorities.

Significant audit risk

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

Financial sustainability

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

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

Excerpt from the 2017/18 External Audit Plan

153. We use this section of the report to describe the council's approach to medium term financial planning. Changes to the underlying assumptions have meant that the projected savings gap has reduced in the most recent update presented to the Finance and Resources Committee. During 2017/18 the council has implemented a Change Board to ensure that key improvement and savings projects are managed in a consistent way, with a focus on strategic priorities and the preventative agenda. However, demographic change and underlying performance issues continue to present a significant financial sustainability risk to the council's management of social care.

Action Plan Point 6

Medium Term Financial planning

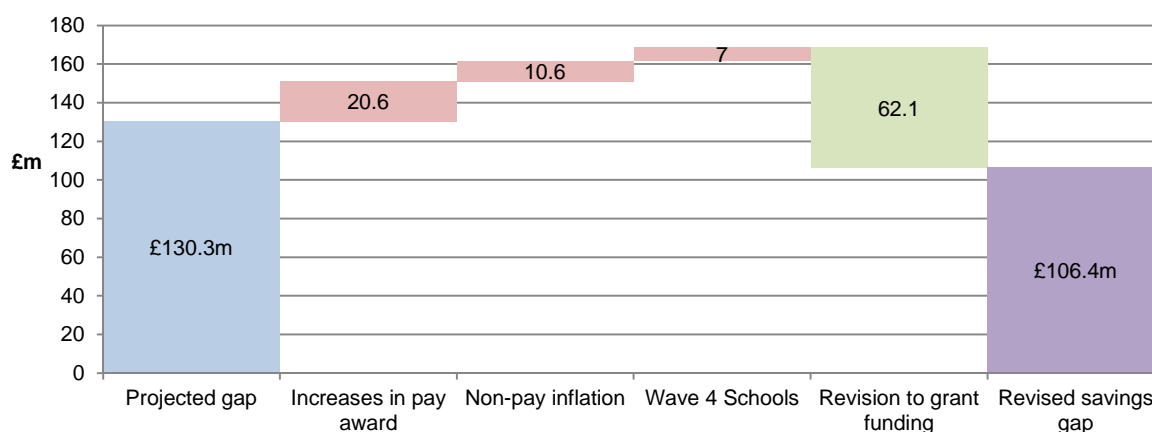
154. The council developed its Revenue Budget Framework in 2015-16 and updates the assumptions and forecasts underpinning the framework on a regular basis. The Framework is subject to review and scrutiny by the Finance and Resources Committee every six months and is used to inform the development of budget proposals.
155. In February 2018, the Finance and Resources Committee considered a report which updated the Revenue Budget Framework to reflect significant changes to the assumptions relating to grant funding. The Framework had assumed decreases in grant levels of around 4.3%. As a result of additional monies within the Local Government financial settlement for 2018-19, the actual grant reduction is around 0.4%,

resulting in a favourable movement in financial projections of £27.1million.

- 156. Officer proposals for the additional income were targeted to council priorities including £4million additional funding for Health and Social Care to provide additional capacity, and £0.9million to support private sector leases for homelessness. The priorities and spending proposals have also been informed by public engagement on budget proposals.
- 157. As Exhibit 9 demonstrates, the change in assumption has had a significant impact on the

projected savings gap to 2022-23. The projected savings requirement has reduced from £130million reported in September 2017, to £106.4million. Scenario modelling continues to be used to consider the implications of a further 1% and 2% reduction in grant funding. The achievement of the projected savings requirement still presents a significant financial challenge particularly in the context of delivery of savings in the current year (80% of savings were delivered in 2017/18).

Exhibit 9: Changes to the assumptions within the Revenue Budget Framework have resulted in a reduction to the projected savings gap, although savings over £100m are required in a 4 year period.



Source: Revenue Budget Framework update reports to the Finance and Resources Committee

- 158. During 2017/18 we reviewed the analysis used to produce the Revenue Budget Framework 2018-23 and we are satisfied that it was based on a strong understanding of the impact of demand, current levels of service expenditure, emerging pressures and up to date expectations of future government funding.
- 159. The council continues to report on the financial impact associated with a growing population. Demand for social care services continued to create financial pressure. Failure to deliver planned savings meant that the council was required to increase its financial allocation to the Edinburgh Integration Joint Board by £7.463million.
- 160. In June 2018, the Finance and Resources Committee received a report on the financial impact of rising school rolls. The report outlined the council's approach to deliver additional

capacity for 810 primary school places at a cost of £7.1million plus revenue and capital on costs.

Transformation Programme

- 161. The Transformation Programme has been the council's key approach to delivering a sustainable financial position. In 2017/18, improvements were made to the monitoring and governance of the programme. All significant projects will now be managed through a single Change Board.
- 162. The Change Board is composed of the council's Corporate Leadership Team. The Change Board meets each month to review new Business Cases, act as the Escalation Point and review the monthly dashboard that sets out progress of the council's portfolio of project which currently contains 54 projects.

163. The council estimates that it has delivered £240million of recurring savings since 2012-13. An overarching strategy is in development to ensure that future change projects address the savings gap while delivering on strategic priorities to:

- Provide high quality services at the right level
- Move Edinburgh to a radical preventative agenda
- Achieve sustainable, inclusive growth.

164. The Change Strategy is expected to be presented to the Finance and Resources Committee in September 2018. Reporting on progress to the council and Governance, Risk and Best Value Committee has been limited to date and we therefore consider it too early to conclude on the effectiveness of the arrangements.

5

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. Through the chief executive, monitoring officer and section 95 officer, the council is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. Organisations usually involve those charged with governance in monitoring these arrangements.

Governance and transparency



The council has appropriate governance arrangements in place and has identified areas for refinement.

Partnership working is central to the council's delivery of its vision for the city. Locality working has the potential to deliver significant improvements, but the council must ensure that it continues to demonstrate improvements in outcomes.

Following concerns regarding the CGI contract for ICT arrangements, we reviewed whether CGI had made progress against the weaknesses identified. Whilst a number of areas had been addressed, a number of actions still remained to be completed.

Governance arrangements

- 165.** The local government elections in May 2017 resulted in significant changes to the membership and profile of the council. The new council reviewed its political management arrangements in June 2017 and agreed to a more streamlined committee structure, moving from 8 executive committees to 6, over an 8 week cycle. It was hoped that the revised arrangements would address historic areas of imbalance in relation to workload and time commitment associated with the previous committee structure.
- 166.** In June 2018, the council considered the 2018 Review of Political Management Arrangements. The review found that overall, the committee structure has delivered a more balanced set of committees, and that remits, decision-making and accountability are clear. The review did, however, note that the number of reports considered by the council has increased substantially since the last election, and the numbers are significantly higher than other Scottish City councils. The review also found that the average length of committees has increased.
- 167.** The Chief Executive has launched a review of committee reporting to ensure that technology can be used to streamline reporting while continuing to deliver scrutiny requirements. Our observations are that current scrutiny at the council is good. There is evidence of well engaged members who hold officers to account for performance.
- 168.** The Executive Committee structure is supported by the Governance, Risk and Best Value Committee (GRBV), which performs the

role of an Audit Committee but with an extended remit. In March 2018, CIPFA released updated guidance on Audit Committees for Local Authorities. Exhibit 10, presents our assessment of the role of the GRBV against the core functions of an audit committee identified by CIPFA. We found only one area of weakness, relating to the consideration of the authority's assurance statements.

- 169.** We highlighted within our action plan for 2016/17 that the council's Annual Governance Statement had not been subject to separate scrutiny by any committee as part of the preparations for the annual accounts process. We note that no changes have been made to the process, which means that the GRBV has not had the opportunity to consider whether the assurance statements reflect their understanding of risk or consider the adequacy of planned governance improvements.

*Follow up of prior year recommendations –
Action plan point 6*

Openness and transparency

- 170.** One of the sector risks identified by Audit Scotland for 2017/18 relates to public sector organisations keeping pace with public expectations on openness and transparency.
- 171.** We found that the council has clear arrangements in place to ensure that members of the public can attend council and committee meetings as observers, and that agendas were available in advance of each meeting. All committee meetings are broadcast on the council's website and a large archive is available for review. In our experience the level

of private papers is appropriate and the reason for privacy is legitimate.

Register of interests

- 172.** On review of the councillors' register of interests in 2016/17, we identified four councillors for which not all interests had been disclosed. We recommended that the council remind councillors of the importance of ensuring their registers of interest are complete and updated on a regular basis.
- 173.** There is ongoing engagement with political group staff to ensure they are aware of members' responsibilities regarding the register of interests. Governance and Democratic Services provide ongoing support to members and offer/deliver one-off briefings for councillors to assist in compliance with the Code. The register of interest process has recently been recorded and a log created to ensure updates are tracked through the approval process.
- 174.** Periodic targeted reminders are also issued following committee and external body

appointments approved by the council. The council also hosted a regional roadshow for elected members on the Councillors' Code of Conduct, delivered by the Standards Commission, in November 2017, with all elected members invited to attend.

- 175.** Despite the actions noted above, from our review of the councillors' register of interests in 2017/18, we identified eight councillors for whom not all interests had been disclosed and a further six for which the registers had not been updated to reflect the fact that the interests had ceased.
- 176.** While the responsibility for complying with the Code of Conduct rests with individual elected members, the Ethical Standards in Public Life, etc. (Scotland) Act 2000 impose a duty on councils to support their members to comply with the relevant code.

*Follow up of prior year recommendations –
Action plan point 2*

Exhibit 10: Our assessment of the extent to which the GRBV fulfils the core functions of an audit committee

Core Function	Achieved	Our observations
To be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to change it, and demonstrate how governance supports the achievement of the authority's objectives	Partly	The GRBV considered the Corporate Governance Framework 2016-17 in November 2017. The Annual Governance Statement was not subject to separate review prior to the Unaudited Accounts being presented to full Council in June 2018.
In relation to the authority's internal audit function: <ul style="list-style-type: none"> To oversee its independence, objectivity, performance and professionalism To support the effectiveness of internal audit process To promote the effective use of internal audit within the assurance framework 	Yes	The GRBV has played a strong role in highlighting and addressing weaknesses identified in the follow up and actioning of historic internal audit recommendations.
To consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations.	Yes	The GRBV considers a quarterly report from the Chief Risk Officer on the Corporate Leadership Team's assessment and mitigation of corporate risks.

Exhibit 10: Our assessment of the extent to which the GRBV fulfils the core functions of an audit committee

Core Function	Achieved	Our observations
To monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption.	Yes	The GRBV has played a decisive role in addressing performance issues identified in relation to the council's ICT arrangements.
To consider the reports of external audit and inspection agencies and their implications for governance, risk management or control.	Yes	Includes consideration of national reports from Audit Scotland.
To support effective relationships between external and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.	Yes	Audit plans considered during March meeting. The National and Local Scrutiny Plan was considered in June 2018.
To review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.	Yes	Reporting on follow up of actions has been presented to the GRBV in January and May 2018.

Source: CIPFA Audit Committees: Practical Guidance for Local Authorities and the Police, March 2018

Leadership and Vision

177. In August 2017, the new Administration published its Business Plan 2017-22. The plan sets out the five Strategic Aims and 20 outcomes for the current term, and links the aims and outcomes to 52 coalition commitments. As the capital city, and lead for the Regional City Deal, the council's role in delivering leadership and clarity of vision for the future will be critical.

178. Since 2016, the council has engaged with partners and communities to develop the Edinburgh City Vision 2050. An ambitious public engagement exercise has recently been launched to work with residents to refine the vision and planning to deliver improvements in the long term. The vision work led by a steering group has identified areas of consensus that have been reflected within the Business Plan, and will be used to inform the revised Community Plan.

Best value focus: Partnership Working

179. The public service landscape in Scotland requires councils to work in partnership with a wide range of national, regional and local

agencies and interests across the public, third and private sectors. As part of our Best Value programme of work for 2017/18, we reviewed the council's approach to partnership working to ensure that there are effective arrangements in place with clear lines of responsibility and accountability, and agreement around targets and milestones to allow the council to demonstrate improvements in outcomes.

Community Planning

180. The council performs the lead role for the Edinburgh Partnership, the Community Planning Partnership (CPP). The CPP includes statutory partners such as NHS Lothian, Scottish Enterprise, Police Scotland and the Scottish Fire and Rescue Service. It also involves a range of other partners such as representatives from the third sector.

181. The Community Empowerment (Scotland) Act 2015 requires each CPP to produce the following plans:

- A Community Plan for the whole council area.






- A Locality or Neighbourhood Plan for each locality it has identified as experiencing significantly poorer outcomes.
- 182.** The current Community -Plan was developed by the previous Administration and covered the period from 2015-18. CPP is undergoing a significant exercise to develop the next Community Plan, which will reflect the council's Business Plan and key strategies to deliver the longer term 2050 City Vision.
- 183.** A significant governance review is also underway to ensure that the CPP is fit for purpose and structured to deliver improved outcomes. However, we note that as a result of the significant development work, the Edinburgh Partnership has not considered progress against outcomes since June 2017.
- 184.** A final performance report will be prepared on outcomes against the 2015-18 Community Plan to coincide with the launch of the new Plan in winter 2018. Our own analysis of performance against some of the key targets within the Community Plan (Exhibit 11) suggests that the pace of change against some priorities has been slower than anticipated.
- 188.** Elected members have expressed interest in further financial information to support improved scrutiny at locality level. Progress in this area has been limited as a result of the complexities of allocating city wide resources across localities. We recognise that Locality Committees are in their infancy but we will continue to monitor the adequacy and usefulness of performance reporting to ensure that Locality Committees have sufficient information to fulfil their potential.

Locality Planning

- 185.** Good progress has been made in 2017/18 to develop locality planning. Locality Improvement Plans are in place for the 4 localities created by the council and its partners. In addition, in February 2018, the first round of Locality Committee meetings were held.
- 186.** Locality Committees represent a significant change in the way that the council engages with communities, and we noted that the new way of working was welcomed with enthusiasm by elected members. Officers of the council and its partners attend the meetings to ensure a local focus and understanding is used to drive improvements. The council has committed to reviewing the effectiveness of the Locality Committee arrangements in January 2019.
- 187.** We understand that one of the aims of the committees is to devolve budgets and decision-making to locality level. Each Committee receives a performance dashboard highlighting key activity trends. We note that the dashboards are not tailored to the individual locality priorities, and focus on activity data rather than performance outcomes.

Exhibit 11: Community Plan 2015-18 Strategic Outcomes

Selected indicators against the CPP's four priority areas

Priority	Indicator	Baseline (Sept 2014)	Community Plan Target	Latest Performance	Status
Economy	Unemployment rate	2.1%	2.5%	2.4% (2017 data)	
	Balance of care: % of older people who are cared for at home	34.6%	Increase	57.3% (2018)	
Health and Wellbeing	Delayed discharges	68	Reduce to zero	267 (March 2018)	
	%age achieving development milestones	79%	85%	79.2% (2015-16)	
Children and Young People	Looked after children per 1000 popn	16.9	16.7	15.5 (2017/18)	
	Violent crime (Group 1) per 10,000 population	18	Reduce	16.3	
Safer communities	Dwelling fires	525	Reduce	453	
	Affordable housing completions	1285 completed	800	1475	

Source: Community Plan 2015-18 / Performance reports


Significant audit risk

189. Our annual audit plan identified a significant audit risk relating to the council's ICT transformation programme:

CGI contract management

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

Excerpt from the 2017/18 External Audit Plan

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190. At the GRBV meeting on 16 January 2018, the committee requested that we prepare a follow up report for the May 2018 meeting to provide an update on the audit recommendations and general security management arrangements.
191. During early April 2018, our specialist ICT auditors conducted additional follow-up work to establish the extent of progress that had been made by CGI in addressing the recommendations contained within our original report from October 2017.
192. We held a number of meetings with senior personnel within CGI, including the Chief Information Security Officer (CISO) dedicated to the CEC account, to discuss the actions that had been taken by CGI to address the recommendations. The meetings were also attended by the council's Enterprise Architect, ICT Security and Governance Manager.
193. We were also provided with evidence by CGI, wherever possible, to demonstrate the progress made.
194. From our discussions with CGI and CEC ICT management as well as review of documentation, we were able to conclude that, whilst progress had been made and mitigating actions put in place in some areas, a number of actions still remained to be completed, all of which had passed their target completion date. In summary:
- Three (25%) actions were regarded as completed
 - One action (8%) was regarded as complete as the risk has been accepted by the council.
 - Three actions (25%) have been assessed as being substantially complete. In this case, the core actions had been implemented by CGI but our requirement was to confirm that they were in place over a sustained period. At the time of our review that time requirement had not yet been achieved.
 - Five actions (42%) have been assessed as partially complete.

Following the Public Pound

195. In May 2018, Audit Scotland published its national performance report on Arm's Length External Organisations (ALEOs) across Scottish Local Government. The report found that ALEOs can bring both financial and operational benefits and that councils have generally improved and strengthened their oversight of ALEOs. The report made a number of recommendations for councils,

including the need to set clear criteria for how councillors and officers are involved with ALEOs, and take steps to demonstrate more clearly how ALEOs secure Best Value.

196. The GRBV considered the national report at its meeting in August 2018. The covering report included a self-assessment of the City of Edinburgh Council's arrangements against the nine recommendations. A further report will be prepared for the Corporate Policy & Strategy

Committee to consider the advantages and disadvantages associated with appointing elected members on the boards of the council's ALEOs.

197. The council has continued to actively manage its ALEOs during 2017/18, using the Governance Hub. The council has also progressed plans to bring the EDI Group back in-house. The council consider this decision will bring significant financial advantages.

Risk Management

198. Well-developed risk management arrangements help councils to make effective decisions and secure better use of resources. The Corporate Policy and Strategy Committee approved a revised Risk Policy and Risk Appetite Statement in August 2018.
199. Ownership of the council's risk management framework rests with the Corporate Leadership Team's (CLT) Risk and Assurance Committee for oversight, scrutiny and confirmation of scoring. The Chief Risk Officer chairs Directorate level Risk Committees and ensures that any emerging risks are escalated to the CLT as appropriate. During our review, we were satisfied that risks are actively managed and subject to escalation or scaling down as appropriate.
200. As we note in Exhibit 12, the council's Risk Management Team won an ALARM award for Excellence in 2018.

Exhibit 12: The council were awarded the 2018 ALARM award for Operational Risk

City of Edinburgh Council won the 2018 Operational Award for the Self-Assurance Framework in place to manage operational risk

The framework is used to manage operational risk and improve the effectiveness of their control environment.

The framework is fully embedded within communities and families and the framework is used as a first line of defence tool within all schools, libraries, residential establishments and care homes.

The multi-disciplinary framework is now being rolled out across other areas of the council, with the enthusiastic support from directors, heads of service and managers at all levels.

Source: ALARM Excellence Awards 2018

201. The CLT risk register is reported to the Governance, Risk and Best Value Committee on a quarterly basis. The reporting includes the top prioritised risks, current mitigating controls and further actions to be delivered. Six risks remain within the council's "high" risk category after mitigating actions had been applied:

- Health and Social Care
- Capital asset management
- ICT capabilities
- Change
- Major incident
- Information Governance.

202. Overall, we were satisfied that risk management arrangements appear to be embedded across the organisation and are well-integrated with the council's internal audit arrangements.

Impact of EU Withdrawal

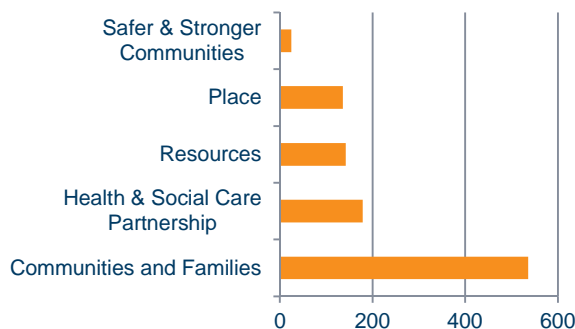
203. Audit Scotland has identified EU withdrawal as an emerging significant risk facing public bodies across Scotland. Three streams of potential impact were identified:

- Workforce
- Funding
- Regulation

204. The council has recognised workforce and economy as being the most significant risk areas.

205. The council's Human Resources team has undertaken a significant programme of work to develop sufficient data and understanding of the service areas that are most likely to be impacted by EU withdrawal. As Exhibit 13 highlights, the employees most likely to be affected predominantly work in the council's Education and Social Care services.

Exhibit 13: The Council's analysis of current EU nationals employed by service



Source: Analysis undertaken by the Council's Human Resources Team

Policy and Strategy Committee agreed at its August 2018 meeting that a Brexit Working Group should be reinstated to review actions currently in place and report on future options to provide support for Non-UK EU nationals within the council workforce and the wider city population.

Standards of conduct

211. In our opinion, the council's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

206. The council has issued guidance and offered support to all employees believed to be directly impacted. Further guidance will be made available as the EU withdrawal process becomes clearer.

207. While the council now understands the impact for its directly employed workforce, a significant amount of uncertainty remains around those employed through third party contracted service providers.

208. The council has also recognised EU withdrawal as a key area of challenge in achieving their vision of Edinburgh as a welcoming international city. As a result, the Edinburgh Economy Strategy, approved in June 2018 recognises the transition as an area requiring action.

209. The strategy highlights three key actions to help minimise the city respond to the challenges and opportunities that EU withdrawal brings:

- Focus on innovation
- Focus on skills
- Focus on places.

210. The council has recognised the potential risk to levels of funding within the Economic Development risk register. The council continues to work with other local authorities and COSLA to assess the potential impact on funding after the guarantees around funding until 2020 have ended. The council's Corporate

6

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 own reporting of its performance.

Value for money



The council has developed a robust Performance Framework to monitor progress against the Business Plan 2017-22. We found evidence that elected members provide appropriate scrutiny and challenge to reported performance outcomes

The council demonstrates good self awareness, particularly around areas that require improvement. However, interventions to secure improvement have not always been effective, particularly in roads and building standards.

Performance and improvement in health and social care has been poor and requires a significant step up in the pace of change.

Performance Framework

212. The council published *The Programme for the Capital: The City of Edinburgh Council Business Plan 2017-22* in August 2018. The Business plan sets out the council's vision, and Strategic Aims for the term of the Administration:

- A Vibrant City
- A City of Opportunity
- A Resilient City
- A Forward Looking Council
- An Empowering Council.

213. The plan links the Aims to 52 coalition commitments and the council wide approaches, values and behaviours needed to deliver the commitments and improvements to services.

214. In November 2017, the Council developed the Performance Framework necessary to measure and monitor progress against the Business Plan. By February 2018, SMART measures and targets were in place for each of the coalition commitments and were subject to robust scrutiny at the Corporate Policy and Strategy Committee. We are satisfied that the measures adopted will provide sufficient information to elected members to allow them to scrutinise the pace and depth of improvement.

Public Performance Reporting

215. The council considered the corporate performance report for 2017/18 in August 2018. The report was comprehensive, and included monthly analysis of key corporate indicators, along with traffic light reporting on achievement against targets. The report contains analysis of key challenges and context impacting performance, such as the demographic pressures associated with a rising and ageing population. It also outlines a number of opportunities, such as the investment associated with the City Region Deal, continuing job growth and low levels of unemployment.

Local Government Benchmarking Framework

216. The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2015 Direction, which applies until 31st March 2019, reinforced the Accounts Commission's focus on public performance reporting (PPR) prescribed two Statutory Performance Indicators (SPIs):

SPI 1: Each council will report a range of information setting out:

- Its performance in improving local public services (including with partners)
- Its performance in improving local outcomes (including with partners)
- Its performance in engaging with communities and service users, and responding to their views and concerns

- Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources.

SPI 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework.

217. We are satisfied that the council Performance Report 2017/18 fulfils the requirements of most of SPI 1. As we note in paragraph 182, the council has not yet reported on its performance on improving local outcomes with partners. We were therefore unable to conclude in full on the achievement of SP1 1.

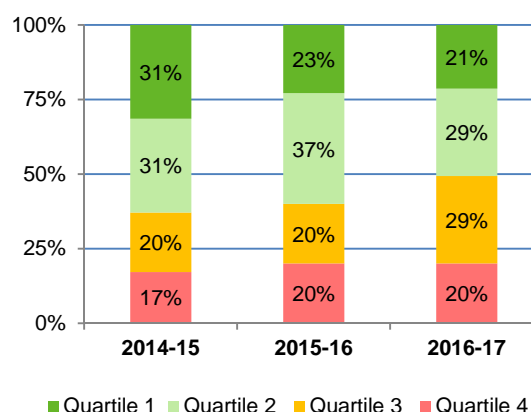
Action Plan Point 7

218. The council fulfilled its obligations to report performance in line with the Local Government Benchmarking Framework. A summary of the performance, including areas for improvement and trends was presented to the council within the Performance Report in August 2018.

219. Exhibit 14 highlights that Edinburgh's performance compared to other Scottish councils continued to fall in 2016-17. Persistent areas of poor performance include

- The quality and standard of council-provided housing (as measured by the dwellings meeting the Scottish Housing Quality Standard) is the lowest of any council. It is rated at 75.7% compared to an average of 92.5%. Edinburgh has been the lowest performing council for this indicator since 2014-15.
- The percentage of adults satisfied with refuse collection services was 66.3% in 2016-17. Edinburgh has been the lowest performing council since 2014.
- For asset management, the percentage of Council accommodation that is suitable for its current use is 59.3%. This indicator has been the lowest performing in Scotland since 2011-12.
- Adult satisfaction with local schools is the lowest in the country at 62.7%. This has been the lowest in Scotland since 2015-16.

Exhibit 14: Overall performance declined relative to other councils in Scotland during 2016-17



Source: Local Government Benchmarking Framework, Improvement Service 2018

220. Sixteen indicators were in the top performance quartile: Areas of good performance include the level of Looked After Children being looked after in the community (91.9% against a national average of 89.9%), resident satisfaction with parks and museums/galleries, and a number of cost indicators such as the cost per primary and secondary school pupil educated.

Best Value: Improvement

221. The Best Value assessment considers whether the council has achieved continuous improvement not in all services areas, but in the outcomes within the council's strategic priority areas. We therefore drew upon the council's Annual Performance Report 2017/18 to consider the pace of improvement against areas that the council has identified as a priority.

222. The report highlights good progress in the priority area to narrow the educational gap between children from deprived areas and the rest of the population. There is also evidence of significant improvements as a result of a transformational review into Looked After Children. The council's improvements resulted in the looked after children rate per 1000 population falling from 16.9 in 2013 to 15.5 in 2018, which means that more children are remaining in their own home. The transformation activity has also resulted in a significant increase in in-house foster care

capacity. In five years, the council has improved the in-house proportion from 55% to 63%.

- 223.** The report identifies concerns relating to homelessness case length as, at 327 days, it is significantly higher than the target of 200 days. While homelessness presentation continues to fall, the council has recognised it as such a significant priority that a member led Homelessness Task Force has been created. The council continues to focus on prevention and long term solutions for homelessness, including the acceleration of the affordable housing programme.

Health and Social Care

- 224.** The council's performance report does, however, identify that progress on shifting the balance of care for older people has remained static over 2017/18. The council is one of the key partners in the Edinburgh Health and Social Care Partnership. The partnership's performance analysis of performance against the rest of Scotland for national outcome indicators continues to place it in the lowest quartile for a number of key indicators including:

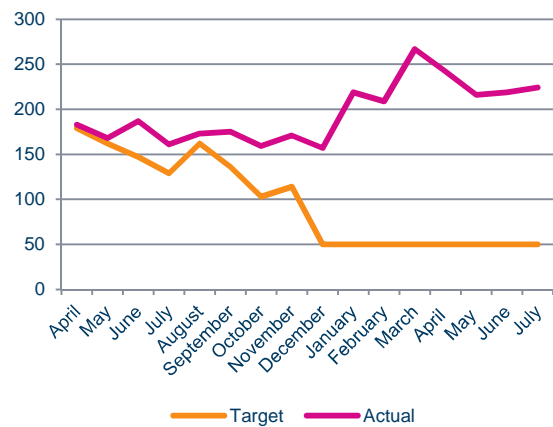
- The number of days people spend in hospital when they are ready to be discharged (refer to Exhibit 15 on “delayed discharges”)
- The percentage of carers who feel supported to continue in their role
- The proportion of the last 6 months of life spent at home or in a community setting.

- 225.** The IJB planned to reduce non-complex delayed discharges to 50 by December 2017. As Exhibit 15 highlights, the planned targets have not been achieved at any point in the year.

- 226.** Over the last 2 years, a number of intervention actions have been taken to reduce delayed discharges, including the creation of a Delayed Discharge Oversight Group which has representation of the whole system.

- 227.** The main reasons for the high level of delayed discharges are lack of available care packages (54% of the total reported) and care home places (27%) due to lack of funding and suspensions in admissions.

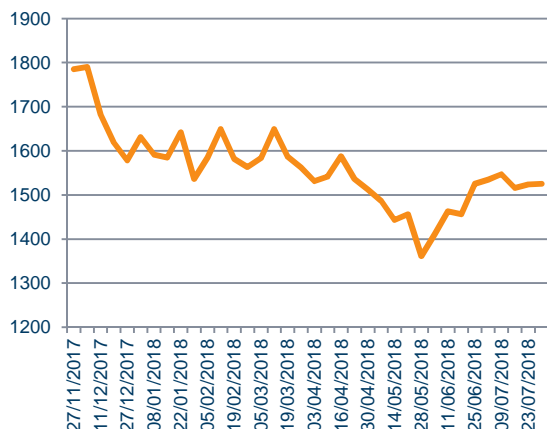
Exhibit 15: The Edinburgh Health and Social Care Partnership has not reached delayed discharge targets for 2017/18.



Source: Whole System Delays report to Edinburgh IJB

- 228.** Assessments on the current performance and improvement plans have been considered by the GRBV and a special meeting of the Corporate Policy and Strategy Committee in January 2018. *The Plan for Immediate Pressures and Long Term Sustainability* identified the backlog in people awaiting assessment in the community as an immediate priority for the Partnership.
- 229.** A specific investment was made to recruit a short-term team of assessors with the aim to clear all of the backlog assessments by the end of July 2018. Over 700 individuals were transferred to the team to conduct assessments. The team were able to clear the backlog waiting list within the planned timescale. As Exhibit 16 demonstrates, this reduced the waiting list, but improvements have not been sustained.

Exhibit 16: The Waiting List for Assessments fell during intense intervention but has begun to rise again



Source: Whole System Delay Reports to Edinburgh IJB

230. The Partnership has also had an improvement plan in place to respond to a very critical Joint Inspection of Older People's Services, which was published in May 2017. The actions and format of the improvement plan changed during 2017/18, partly as a result of significant changes in senior management. However, our review of progress against the improvement plan concluded that reporting and therefore governance of the plan lacked clarity and focus. As a result, the pace of change and level of improvement has not been good enough.

Action Plan Point 8

Service Improvement Plans

231. The council demonstrates good self-awareness around areas of poor performance, and we found that the performance reporting in 2017/18 was honest and robust. We noted during 2016/17 that the council created service improvement plans to address specific, persistent performance concerns in waste and road services.

232. Exhibit 17 outlines our analysis of performance against these areas. We found that while the waste improvement plan was substantially complete and leading to improved outcomes,

progress against the roads improvement plan was disappointing.

233. In August 2018, the GRBV received a report on an Improvement Plan for Building Standards, which had been referred from the Planning Committee. As a result of Ministerial concern about the performance of the service, the Scottish Government's Building Standards Division (BSD) visited the council in February 2017. The Scottish Government made recommendations which resulted in a one year appointment as local authority verifier of building warrants, and the threat that without improvement, the appointment would be withdrawn thereafter. The council was required to develop an improvement plan, which was reported to the Planning Committee.

234. In November 2017, the BSD carried out an audit of the service which examined progress made on the improvement plan since the last visit. The audit concluded that insufficient progress had been made. A refreshed improvement plan is now in place and the Council, in conjunction with Scottish Government has appointed an improvement team to assist with the delivery of this improvement plan.

235. The council has recently established a Change Management process to improve the quality, consistency and governance of all significant change projects. Service Improvement projects are one of five change types that will be tracked by the council's officer-led Change Board. Progress against the portfolio of projects will be reported to the Governance, Risk and Best Value Committee on a six-monthly basis. The first of the dashboard reports was presented to the GRBV in June 2018.

236. The GRBV must be confident that the dashboard reporting gives the committee sufficient understanding of progress, barriers and accountability for improvement. We will review the impact of the Change Strategy as part of our work in 2018-19.

Exhibit 17: Service Improvement Plans

Waste Improvement Plan - evidence of success

The Waste and Cleansing Improvement Plan was developed in response to concerns from Elected Members and members of the public over the poor quality of waste collection and street cleansing services. An improvement plan was approved by the Transport and Environment Committee in November 2016.

Good progress was made in implementing the plan, and a final update was provided to the Committee in March 2018, allowing the improvement plan to be closed. Of the 65 actions identified, 63 had been completed in full.

The service has identified significant improvements, including:

- Satisfaction rates with street cleaning, the refuse service and recycling have increased from 2014-16
- Individual missed bin complaints in November and December 2017 were the lowest they had been in any month since August 2014
- The cost of waste collection is lower than the Scottish average.

Roads Improvement Plan - further work needed

The roads improvement plan was put in place in April 2016 following significant resident dissatisfaction with services. The original improvement plan identified 32 actions. In March 2017 a further four actions were added.

As at March 2018, the majority of the actions remain open. Only 8 of the 36 actions (22%) have been achieved.

The Roads Service Identify 2 key measures of success; customer satisfaction (as measured using the Edinburgh People Survey) and the condition of Edinburgh's roads. Our analysis of performance information highlights that:

- Resident satisfaction with road maintenance fell slightly between the survey in 2012-14 and 2015-17, from 52% to 51%. Satisfaction with Pavement maintenance fell from 60% to 53%.
- The roads condition index improved and the percentage of roads considered for maintenance was better than the Scottish average
- The cost of road maintenance is significantly higher than the Scottish average (£19,905 per kilometre against the Scottish average of £10,456).

Source: Reporting to the Transport and Environment Committee, Edinburgh People Survey and LGBF data 2018

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Appendices

Appendix 1: Respective responsibilities of the council and the Auditor

Responsibility for the preparation of the annual accounts

The council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Head of Finance has been designated as that officer within City of Edinburgh Council.

The Head of Finance 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).

In preparing the annual accounts, the Head of Finance is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- complying with legislation; and
- complying with the Code.

The Head of Finance is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of the affairs of the body and its group as at 31 March 2018 and of its surplus for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- 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 (2016).

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

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.

Independence

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

Group non-audit services

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




Confirmation of independence

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

Appendix 2: Best Value Programme

In October 2016, Audit Scotland introduced a new approach to auditing Best Value in Scottish councils. The new approach continues to audit against the statutory duties but has an increased focus on the pace and depth of improvement at each council. Each council will be subject to a full Best Value Assurance report over a 5 year period.

Under the Code of Audit Practice (May 2016), and supplementary guidance issued by Audit Scotland, we are required to consider and make judgements on 8 Best Value themes over the course of our appointment. This work will build our assessment of the council's approach to demonstrate Best Value, which will help to risk assess and inform the coverage of the full Best Value Assurance Report. Audit Scotland has recently announced the councils that will be subject to full Best Value in Year 3 of the programme. We therefore anticipate that City of Edinburgh Council will fall within Year 4 or 5 of the programme. The table below outlines our coverage to date and plans for the remaining 3 years of our appointment.

Wider Scope Dimension	Year 1 2016-17	Year 2 2017/18	Year 3 2018-19	Year 4 2019-20	Year 5 2020-21
	Anticipated BVAR at CEC				
 Financial Management/Sustainability	Effective use of resources				Sustainability
	Financial governance Financial and service planning	Financial governance Resource management			
 Governance and transparency	Governance & accountability				
	Governance, decision making and scrutiny Member training and development	Governance, decision making and scrutiny	Managing risk effectively	Public performance reporting Member training and development	Governance, decision making and scrutiny
		Partnership and collaborative working	Community responsiveness	Vision and leadership	
			Fairness and equality		
 Value for money		Performance outcomes and improvement Improvement		Performance outcomes and improvement Performance and outcomes	

Appendix 3: Accounts Commission Strategic Priorities

Each year, the Accounts Commission sets out its plans and priorities to fulfil its oversight and scrutiny role, with the overriding aim to hold councils to account for the pace, depth and continuity of improvement facilitated by effective governance. We aim to support the Accounts Commission's work by using our annual audit work and Best Value assessments to assess how the City of Edinburgh Council is progressing against the Commission's priorities. The Strategic Plan for 2017-22 (<http://www.audit-scotland.gov.uk/report/accounts-commission-strategy-and-annual-action-plan-2017-22>) contains five Strategic Priorities.

Our assessment against the priorities is outlined below

2017/18 Strategic Priority	Our assessment
<p>Having clear priorities and better long term planning</p>	<p>Following the local government elections, the council quickly set out its Business Plan 2017-22, which refined the strategic priorities and linked them to the coalition commitments. A wider Strategic Planning Framework is in place, which includes the Health and Social Care Partnership Strategic Plan and the Economic Strategy. We found consistency and clarity of priorities across the strategies.</p> <p>The council also works well with partners, both in developing the City Vision 2050, and on the Edinburgh Partnership (the Community Planning Partnership/CPP). Work on the Community Plan for 2019 and beyond is underway, and expected to be considered by the CPP in Winter 2018.</p>
<p>Evaluating and implementing options for more significant changes in how they deliver services</p>	<p>During 2016/17 and 2017/18, we have found limited examples of the use of option appraisal, although options appraisal has been conducted to assist decision making in relation to ALEOs, particularly the decision to bring the EDI Group in house, and early decisions on Edinburgh Trams.</p> <p>We understand that under the revised Change Programme, each new Project requires a completed Business Case at the initiation stage which is informed by the Green Book 5 Case Model. The council's Corporate Leadership Team acts as the Change Board to scrutinise all change projects.</p>
<p>Ensuring members and officers have the right knowledge, skills and support to deliver effective services in the future</p>	<p>During May-August 2017, the council provided a comprehensive programme of induction and training sessions for the new and returning elected members. The programme included 31 sessions that were repeated to help attendance. Additional, tailored training sessions have been held for members of the GRBV.</p> <p>Throughout our appointment we have noted that the council's elected members are well-engaged and perform their scrutiny role well.</p>
<p>Involving citizens more in making decisions about local services and empowering local</p>	<p>In February 2018, the council held its first round of Locality Committee meetings. The Locality Committees are elected member led but involve representatives from a range of services including health and social care, and bridge the gap between Neighbourhood Partnerships and the Executive</p>

2017/18 Strategic Priority

communities to identify and help deliver services they need

Our assessment

Committees. The Committees have a Locality Improvement Plan in place which identifies local priorities, based on local engagement.

As part of the budget development process, the council uses Budget Engagement to identify and understand the potential impacts of proposals that have been considered by the Finance and Resources Committee. Areas of concern, solutions and opportunities emerging from the consultation are considered by the Committee before savings plans are finalised.

Reporting their performance in a way that enhances accountability to citizens and communities

We reviewed the Performance Management Framework and Corporate Performance Report for 2017/18 as part of our work on the council's arrangements to secure Value for Money. We found that the report was comprehensive and provided useful commentary on context, performance concerns and improvement actions. The report included an appendix on how the council compares to others within the Local Government Benchmarking Framework.

We do, however, note that the council has not yet reported on delivery of outcomes against the 2015-18 Community Plan.

The Accounts Commission Strategic Plan for 2018-23 was published in June 2018 (http://www.audit-scotland.gov.uk/uploads/docs/report/2018/ac_strategy_plan_18-23.pdf) and refines the five strategic priorities:

1. Having clear priorities with a focus on outcomes, supported by effective long term planning.
2. Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
3. Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
4. Empowering local communities and involving them in the design and delivery of local services and planning for their local area.
5. Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.

We will continue to monitor and report on the council's approach as part of our approach to the audit in 2018/19.

Appendix 4: Action plan

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

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual accounts 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.

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.

The rating structure is summarised as follows:

Finding rating	Assessment rationale
Critical	A finding that could have a: <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	A finding that could have a: <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	A finding that could have a: <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance ; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<ul style="list-style-type: none"> • 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

Action plan point	Issue, Risk & Recommendation	Management Comments
1. User access controls	<p>Issue</p> <p>We noted during our audit that any member of the council finance team with ledger access can post entries to organisations that the council provides financial ledger services to even though they may have no interaction with those organisations.</p> <p>Risk</p> <p>There is a risk that incorrect or fraudulent postings could be made to those organisations' financial ledgers.</p> <p>Recommendation</p> <p>We recommend that the council reviews user access controls to the financial ledger.</p>	<p>There is no existing system-based means of preventing staff from posting journal entries affecting other organisations. Initial indications are that the cost of introducing such controls would likely be prohibitive relative to the resulting benefits.</p> <p>As part of the detailed monitoring of these organisations' financial affairs, however, transaction lists for the Lothian Valuation Joint Board and SEStran are reviewed on a monthly basis and this identifies any of an unexpected nature. This check will be formally evidenced going forward.</p> <p>Responsible officer: Business Partnering Senior Manager, Finance</p> <p>Implementation date: October 2018</p>
Rating		
Low		
Paragraph ref		
20		

Action plan point	Issue, Risk & Recommendation	Management Comments
2. Property, plant and equipment	<p>Issue</p> <p>Valuation</p> <p>We noted the following through our review of the valuation process:</p> <ul style="list-style-type: none"> The instructions from the council to the internal valuer are not disseminated to individual valuers who carry out the valuations; A material adjustment was made to the annual accounts as differences were identified between the valuations provided by the valuer and those recorded in the council's asset register; and The results of the valuation exercise are not formally communicated to the council. <p>Impairment</p> <p>We noted that no assessment of impairment of the estates portfolio has been carried out in 2017/18; other than for those assets forming part of the 2017/18 valuation programme.</p> <p>Risk</p> <p>There is a risk that the valuations carried out are not consistently prepared, in line with the instructions issued by the council.</p> <p>There is also a risk that the results of the valuations or impairment reviews are not correctly disclosed and accounted for in the annual accounts.</p> <p>Recommendation</p> <p>We recommend:</p> <ul style="list-style-type: none"> The instructions are circulated to all those responsible for carrying out the valuations; Reconciliations are performed between the records held by the valuers and the council's asset register; An overarching valuation report is prepared; the content of which is in accordance with the RICS Red Book; and The council to formalise its procedures for assessing whether there has been an impairment of its estates portfolio. 	<p>For the 2018/19 process, both a handbook for valuers and a manager's checklist of all the steps involved in the asset valuations have been produced.</p> <p>The year-end instructions have been incorporated within the handbook and are being issued to all staff involved in the valuation process.</p> <p>A reconciliation between Logotech and AIS will be carried out to ensure the respective systems are in balance, with any differences investigated.</p> <p>An overarching valuation report, consistent with the requirements of the RICS Red Book, will be produced for 2018/19.</p> <p>A formal procedure will be put in place with regard to assessing whether an impairment has occurred and included within the handbook.</p> <p>Responsible officer: Operational Estate Manager, Resources</p> <p>Implementation date: April 2019</p>
Rating		
High		
Paragraph ref		
24 & 27		

Action plan point	Issue, Risk & Recommendation	Management Comments
3. Common good – income and expenditure transactions	<p>Issue</p> <p>The council's unaudited common good fund accounts did not disclose all transactions pertaining to the common good fund (value approximately £5.8million). These transactions were included within the council's accounting records. The accounts were subsequently updated.</p>	<p>To ensure the effective management of relevant assets and associated costs as part of the Council's wider property portfolio, income and expenditure of the Common Good will continue to be coded within the Council's accounts during the year. At the year end, an adjustment will be made between the respective funds to ensure that the income and expenditure are appropriately reflected in both accounts.</p>
Rating		
Medium	<p>Risk</p> <p>There is a risk that the accounts of the common good funds are not transparent and show the true position of the operation of those funds.</p>	<p>Property and Facilities Management will review the relationship between the Council and the Common Good Fund and consider proportionate improvements to arrangements for the use and maintenance of the latter's assets.</p>
Paragraph ref		
57		<p>Responsible officer: Principal Accountant (Corporate Accounts), Finance (working with relevant colleagues as appropriate)</p> <p>Implementation date: February 2019</p>
	<p>Recommendation</p> <p>We would encourage the council to review its relationship and use of the common good funds/assets and put in place documented arrangement for the use and maintenance of those assets.</p>	

Action plan point	Issue, Risk & Recommendation	Management Comments
4. Common good – asset register	<p>Issue</p> <p>The council is currently compiling a common good register to comply with the requirements of the Community Empowerment (Scotland) Act 2015. We noted during our audit that there are assets included on this register which are not currently accounted for as common good in the annual accounts. No adjustment was made to the 2017/18 annual accounts however it is anticipated that there will be an increase in value of common good assets in 2018/19.</p> <p>Risk</p> <p>There is a risk that the common good accounts are misstated.</p> <p>Recommendation</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>The consultation on the revised common good register is anticipated to begin on 27 September 2018. During this consultation and in advance of the 2018/19 year end, the respective assets of the Common Good Fund and the Council will continue to be assessed and any required reclassification undertaken.</p> <p>As part of this reclassification of assets, the Council will consider the appropriate valuation basis, paying due consideration to statutory mitigation, and ensure that the depreciation applied is consistent with the accounting policy and classification.</p> <p>Responsible officer: Principal Accountant (Corporate Accounts), Finance</p> <p>Implementation date: May 2019</p>
Rating		
High		
Paragraph ref 62		

Action plan point	Issue, Risk & Recommendation	Management Comments
5. Options appraisal – tram extension project	<p>Issue</p> <p>Reliance has been placed on the original options appraisal for transport modes which took place in support of the Parliamentary bill.</p> <p>The council has not validated this original appraisal.</p> <p>Risk</p> <p>There is a risk that findings of the original option appraisal are diluted given the passage of time.</p> <p>Recommendation</p> <p>A high-level options assessment should be carried out to validate the conclusions reached in the 2006 STAG 2 appraisal which formed the basis for the Edinburgh Tram (Line One) Act 2006. This work should include the assessment of viable modal options against assessment criteria and objectives derived from the original STAG appraisal in light of current policy. This work should conclude prior to any decision.</p>	<p>A high-level options assessment will be carried out and presented as part of the Final Business Case.</p> <p>Responsible officer: Project Senior Responsible Officer</p> <p>Implementation date: December 2018</p>
Rating		
High		
Paragraph ref		
130		

Action plan point	Issue, Risk & Recommendation	Management Comments
6. Financial sustainability – Health and Social Care	<p>Issue</p> <p>During 2017/18 it became clear that the services that the council deliver for Edinburgh Integration Joint Board would incur an overspend of over £7million. Planned savings of £6million were not delivered in 2017/18. As a result, and as in 2016-17, additional contributions were made to the IJB.</p> <p>The council has allocated an additional non-recurring contribution of £4million in 2018-19 to help support capacity challenges.</p> <p>Risk</p> <p>There is a risk that the budget for adult social care is insufficient to deliver the level of improvement required.</p> <p>Recommendation</p> <p>The council should work with the Edinburgh IJB and other partners to ensure that funding is sufficient to support transformation change.</p>	<p>The Health and Social Care Partnership has identified a broad programme of activity/ transformational changes to optimise delivery within the funding available from the two partner organisations, CEC and NHS Lothian.</p> <p>Responsible officer: Chief Officer, Edinburgh Health and Social Care Partnership</p> <p>Implementation date: March 2019</p>
Rating		
High		
Paragraph ref		
153		

Action plan point	Issue, Risk & Recommendation	Management Comments
7. Performance reporting	<p>Issue</p> <p>As a result of ongoing development work on the new Community Plan, the Edinburgh Partnership has not yet reported on the outcomes achieved against the Community Plan 2015-18.</p>	<p>The Council team supporting the Edinburgh Partnership (EP) is aware of the delay in the production of the annual performance report and is currently working on drafting this report. It should be noted that the Edinburgh Partnership will be focusing its attention on a review of governance arrangements and the new community plan currently in development, so discussion of the performance report will likely not happen until the end of 2018.</p>
Rating		
Medium	<p>Risk</p> <p>The council has not fully complied with the Accounts Commission's Statutory Performance Indicator Direction. Without regular reporting on the achievement of outcomes, it may be difficult to assess effectiveness of steps taken by the Partnership.</p>	<p>As part of the development of the new community plan, high-level performance indicators are being identified to support monitoring of progress going forward. Creating a performance framework around these indicators will be a key stage in the early days of the new plan.</p>
Paragraph ref		
217	<p>Recommendation</p> <p>The council should ensure that arrangements are in place to regularly report to the Edinburgh Partnership on the delivery of outcomes.</p>	<p>Finally, the EP has also started to shift the focus of its discussions onto thematic outcomes. This allows it to have more in-depth discussions on progress to date, covering joint working, existing barriers and impact for communities. At its last meeting in June, the discussion focused on partnership working to address causes of motorbike crime.</p>
		<p>Responsible officer: Policy and Insight Senior Manager</p> <p>Implementation date: December 2018</p>

Action plan point	Issue, Risk & Recommendation	Management Comments
8. Health and Social Care performance	<p>Issue</p> <p>Despite investment in interventions, some of the key performance measures for health and social care remain poor. Our review of progress against the improvement plan concluded that reporting and therefore governance of the plan lacked clarity and focus. As a result, the pace of change and level of improvement has not been good enough.</p>	<p>The transformational programme, which is still in the final stages of development, is intended to optimise the systems, processes and delivery within existing statutory expectations, as well as shift the strategic focus to prevention and early intervention in order to deliver best possible outcomes and constrain the growth of demand.</p>
Rating		
High		
Paragraph ref		
230	<p>Risk</p> <p>There is a risk that key indicators continue to decline. Delayed discharges mean that partnership resources are directed towards unnecessary acute care, rather than the preventative strategic priorities.</p> <p>Recommendation</p> <p>The council must ensure that effective scrutiny arrangements are in place to monitor and assess improvement.</p>	<p>Responsible officer: Chief Officer, Edinburgh Health and Social Care Partnership</p> <p>Implementation date: March 2019</p>

Follow up of prior year recommendations

Of the eight recommendations raised within our 2017/18 annual audit report, we note that five have now been implemented, two have been partially implemented and one has yet to be implemented. Details are given below.

1. Authorisation of journals		
Initial rating	Issue & recommendation	Management comments
Medium	<p>During our review of the financial controls processes we noted a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. While our audit work did not identify any indications of management override, we recommend that arrangements are put in place to review or authorise year-end journals.</p>	<p>While, as noted in the main report, a range of compensating controls mitigating any risk of monetary gain is already in place, arrangements to introduce proportionate additional independent review will be examined with a view to implementation as part of the 2017/18 accounts closure process.</p> <p>Responsible Officer: Corporate Finance Senior Manager</p> <p>Completion Date: March 2018</p>
Current status	Audit update	Management response
Complete	<p>Year-end procedures have been modified to introduce proportionate evidenced review of all journals posted as part of the 2017/18 accounts closure process.</p>	N/A

2. Register of interests

Initial rating	Issue & recommendation	Management comments
<p>Medium</p>	<p>The council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.</p> <p>The councillors' register of interests is one way that the Council can identify its related parties. On review of the councillors' register of interests we identified four additional interests which had not been declared. There is a risk, should the registers not be updated, that the Council does not identify and report all related party transactions in its annual accounts.</p> <p>It is the responsibility of a councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct. The Ethical Standards in Public Life, etc. (Scotland) Act 2000 does impose on Councils a duty to help their members to comply with the relevant code. Councillors should be reminded of the importance of ensuring the register of interests is updated regularly and completely</p>	<p>The council has robust arrangements to remind councillors of their duties under the Act.</p> <ul style="list-style-type: none"> • We regularly review Elected Member Register of Interests; • Remind Elected Members of their responsibilities in registering any changes/updates within a month of the change occurring; • Check individual registers for anomalies that we can identify and highlight these to relevant elected members to prompt updates; • Regularly review our process; • Provide appropriate guidance and prompts to Elected Members to support compliance. <p>For the new Council in May 2017:</p> <ul style="list-style-type: none"> • We explained the requirement for Elected Members to make their first Register of Interest within one month of election in their introduction letter/pack issued at the count, with a copy of the Code of Conduct and the relevant form; • We emphasised the importance of this requirement in the Code of Conduct training sessions that formed part of the Induction and Training Programme for Elected Members (May/June 2017). • We reminded Elected Members ahead of the deadline (31 May 2017) • We engaged with political Group Business Managers to secure their support in reminding their members ahead of the deadline; • We issued additional guidance on declaring property income under remuneration following a couple of queries on this topic and after seeking clarification from the Standards Commission; • We reminded all Elected Members that they would need to update their Register of Interests to reflect

2. Register of interests

Initial rating	Issue & recommendation	Management comments
<p style="background-color: yellow; color: black; text-align: center; font-weight: bold;">Partially complete</p>	<p>Despite actions been taken during 2017/18 to remind and support councillors in their responsibilities to maintain a register of interests, our review of the councillors' register of interests in 2017/18, identified eight councillors for which not all interests had been disclosed and a further six for which the registers had not been updated to reflect the fact that the interests had ceased.</p> <p>While it is the responsibility of a councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct, the Ethical Standards in Public Life, etc. (Scotland) Act 2000 do impose on councils a duty to help their members to comply with the relevant code. We would encourage the council to consider the following:</p> <ul style="list-style-type: none"> Request that councillors' review and update their register of interests on a formal basis at least twice a year; one of which should be done as at the 31 March 2018. Confirmation of no changes should also be obtained. Council staff should review the disclosures against, for example Companies House records, to ensure disclosures are complete and discuss with councillors any omissions identified with a view to updating the registers. 	<p>appointments made at Council in June 2017;</p> <ul style="list-style-type: none"> We reminded Elected Members of their responsibilities for updating their Register of Interests following further appointments at Council in August and to remind about registering gifts and hospitality. <p>We will continue to remind regularly councillors of their duties under the Act.</p> <p>Responsible Officers: Governance and Democratic Services Manager</p> <p>Councillors</p> <p>Completion Date: Ongoing</p>
Current status	Audit update	Management response
<p style="background-color: yellow; color: black; text-align: center; font-weight: bold;">Partially complete</p>	<p>Despite actions been taken during 2017/18 to remind and support councillors in their responsibilities to maintain a register of interests, our review of the councillors' register of interests in 2017/18, identified eight councillors for which not all interests had been disclosed and a further six for which the registers had not been updated to reflect the fact that the interests had ceased.</p> <p>While it is the responsibility of a councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct, the Ethical Standards in Public Life, etc. (Scotland) Act 2000 do impose on councils a duty to help their members to comply with the relevant code. We would encourage the council to consider the following:</p> <ul style="list-style-type: none"> Request that councillors' review and update their register of interests on a formal basis at least twice a year; one of which should be done as at the 31 March 2018. Confirmation of no changes should also be obtained. Council staff should review the disclosures against, for example Companies House records, to ensure disclosures are complete and discuss with councillors any omissions identified with a view to updating the registers. 	<p>The Council continues to have robust arrangements to support elected members in fulfilling their duties under the Councillors' Code of Conduct. This includes a twice-yearly reminder and additional reminders after appointments at Council meetings.</p> <p>Officers have concerns over reviewing disclosures to Companies House with elected members as the responsibility for complying with the Code is for each individual member and the Council should not put in place arrangements that could dilute that ownership and responsibility. However, as a means of continuing to improve the process, committee management software is being explored that would simplify the process for elected members in updating their register which currently is a paper-based exercise.</p> <p>Responsible officer: Democracy, Governance and Resilience Senior Manager</p> <p>Implementation date: On-going</p>

3. Budget monitoring reports

Initial rating	Issue & Recommendation	Management Comments
Medium	<p>The council's Finance and Resources Committee receive quarterly revenue and capital monitoring reports throughout the financial year. The reports include a risk rated assessment of the achievement of savings, information on key variances and areas of financial risk. The reports are referred to the Governance, Risk and Best Value Committee for scrutiny.</p> <p>In our view there is scope to improve the transparency within financial monitoring reports by ensuring that revenue monitoring reports include consistent outturn projections throughout the year.</p>	<p>Based on a best-practice review reporting elsewhere, opportunities to improve further the clarity and transparency of existing financial reporting will be actively considered with a view to a phased implementation of any resulting changes.</p> <p>Opportunities to improve reporting and scrutiny of some areas of transformational activity, particularly within Health and Social Care, will also be examined.</p> <p>Responsible Officers: Head of Finance</p> <p>Completion Date: February 2018</p>
Current status	Audit update	Management response
Complete	<p>In a report to GRBV in May 2018, management reported that "due to other pressures, a revised report format, drawing on an analysis of best practice adopted elsewhere, will be presented to the Finance and Resources Committee's meeting on 16 August 2018 as part of the first quarter's revenue monitoring report".</p> <p>We confirmed that the report presented to Finance and Resources Committee in August 2018 has been updated.</p>	N/A

4. People Plan

Initial rating	Issue & recommendation	Management comments
Medium	<p>The most recent People Strategy 2017-20 update (February 2017) sets a high level vision for the workforce.</p> <p>The more detailed People Plan requires to be finalised to support the Strategy. The Plan should set out how the council will manage the impact of any skills gaps.</p>	<p>People plans are an internal tool for senior business partners. These plans are currently being shared with Senior Management Teams for each of the main service areas. The plans will be finalised by end of September.</p> <p>Responsible Officer: Head of Human Resources</p> <p>Completion Date: September 2017</p>
Current status	Audit update	Management response
Complete	<p>People Plans are in place that chart a twelve-month outlook for each service area, detailing planned HR delivery and service initiatives which have a 'people' impact. Workforce dashboards are presented to the Finance and Resources Committee for scrutiny.</p>	N/A

5. Edinburgh IJB Annual Performance Report

Initial rating	Issue & recommendation	Management comments
Medium	<p>We note that the Edinburgh IJB Annual Performance Report (July 2017) has not yet been considered by a council committee. The Corporate Policy and Strategy Committee provides scrutiny of the services delegated to the Integration Joint Board. The council should continue to monitor the effectiveness of scrutiny arrangements for services delegated by the IJB to ensure that they remain fit for purpose.</p>	<p>The Edinburgh IJB Annual Performance Report will be presented to the Corporate Policy and Strategy Committee on 3 October 2017.</p> <p>Responsible Officer: Interim Chief Officer, Edinburgh Health and Social Care Partnership</p> <p>Completion Date: October 2017</p>
Current status	Audit update	Management response
Complete	<p>The report was considered by the Corporate Policy and Strategy Committee on 3 October 2017.</p>	N/A

6. Publication of the council's Corporate Governance framework self-assessment

Initial rating	Issue & Recommendation	Management Comments
Medium	<p>In April 2016, CIPFA published a revised Delivering Good Governance in Local Government: Framework (2016 Edition). The council has a Local Code of Corporate Governance in place, but the annual self-assessment against the Code had not been undertaken at the time of our report.</p> <p>We also noted that the Annual Governance Statement was not subject to separate scrutiny by a committee as part of the preparations for the annual accounts process.</p>	<p>The council revised its Corporate Governance Framework self-assessment template to reflect the revised CIPFA/SOLACE framework. The 2016/17 self-assessment exercise commenced on 4 September 2017 and is scheduled for scrutiny by the Governance, Risk and Best Value Committee on 28 November 2017.</p> <p>As in previous years, the Annual Governance Statement was considered by Council on 29 June 2017. Given the local government election in May 2017 and the introduction of revised political management arrangements it would have been difficult to provide for separate scrutiny ahead of Council consideration.</p> <p>Responsible Officer: Governance and Democratic Services Manager</p> <p>Completion Date: November 2017</p>
Current status	Audit update	Management response
Partially complete	<p>It is good practice for the Audit Committee (GRBV at the council) to review the Annual Governance Statement and Assurance Statements as part of preparations for the annual accounts. We noted during our review in 2017/18 (refer to paragraph 169) that the Annual Governance Statement had not been subject to separate scrutiny.</p>	<p>The process for completion of the annual assurance statements and the Corporate Governance Framework is being reviewed and the new timescales will allow for early scrutiny of the assurance statements and annual governance statement for 2018/19.</p> <p>Responsible officer: Democracy, Governance and Resilience Senior Manager</p> <p>Implementation date: December 2018</p>

7. Development of performance management framework

Initial rating	Issue & Recommendation	Management Comments
Medium	<p>Each council will report a range of information setting out:</p> <ul style="list-style-type: none"> • Its performance in improving local public services (including with partners) • Its performance in improving local outcomes (including with partners) • Its performance in engaging with communities and service users, and responding to their views and concerns • Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources. <p>The Annual Performance Overview 2017, which would complete the suite of public performance reports for 2016-17 has yet to be submitted to the council.</p>	<p>A new performance management framework for the Council is being developed. Monitoring of performance will follow this new framework and will include all relevant benchmarking as well as service performance. The Council's overview of performance is also published in an enhanced format with trend information as well as service improvements and benchmarking.</p> <p>Responsible Officers: Interim Strategy and Insight Senior Manager</p> <p>Completion Date: March 2018</p>
Current status	Audit update	Management response
Complete	<p>The Performance Management Framework was approved by Council on 23 November 2017.</p> <p>The Annual Performance Overview for 2017/18 was presented to the council and Corporate Policy and Strategy Committee in August 2018.</p>	N/A

8. Delayed discharges

Initial rating	Issue & recommendation	Management comments
<p style="text-align: center; color: white; font-weight: bold;">High</p>	<p>The council's performance in relation to delayed discharges has continued to worsen in the period to June 2017 despite a focus being given to the issue.</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>Performance is closely monitored at:</p> <ul style="list-style-type: none"> • A weekly Star Chamber meeting of key managers from the four localities and hospital sites – progress, challenges being faced (e.g. reductions in provider capacity) and improvement actions are identified and discussed. • The IJB, which receives a “Whole System Delays” report at each of its meetings. The report includes progress with key improvement workstreams, including reviewing the contract with care at home providers. <p>Responsible Officers: Interim Chief Officer, Edinburgh Health and Social Care Partnership NHS Director</p> <p>Completion Date: December 2017</p>
Current status	Audit update	Management response
<p style="text-align: center; color: white; font-weight: bold;">Incomplete</p>	<p>We note that while a range of interventions have been taken to improve performance, the level of delayed discharges continues to significantly exceed target levels.</p>	<p>There is a large-scale remedy programme being undertaken across the entire Discharge Pathway, including:</p> <ul style="list-style-type: none"> • Whole-systems Delayed Discharge Oversight Group established and chaired by CO • New dedicated Delayed Discharge Lead appointed • Whole-system analysis and impact undertaken and Action Plan formulated with stretch timescales • Realignment of delivery platform – including interface with acute services via the Hub – is in the process of being implemented <p>Responsible Officer: Chief Officer, Edinburgh Health and Social Care Partnership</p> <p>Completion Date: August 2019</p>



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