



**Scott-Moncrieff**  
business advisers and accountants

# **The City of Edinburgh Council Charitable Trusts**

Audit management report for the year ended  
31 March 2018

**September 2018**

# Contents

- Introduction..... 1
- Financial statements ..... 3
- Appendix 1: Respective responsibilities of the trustees and the Auditor ..... 12
- Appendix 2: Audit differences..... 13
- Appendix 3: List of entities' key financials ..... 14
- Appendix 4: Accounting systems and internal control..... 18
- Appendix 5: Management representation letter..... 22

1

# Introduction

# Introduction

1. International Standards on Auditing (UK) 260, “Communication with those charged with governance” and 265 “Communicating deficiencies in internal control to those charged with governance” require Scott-Moncrieff to report the significant findings from our audit to those charged with governance.
2. This report aims to provide the trustees with constructive observations arising from the audit process. We set out in this report details of:
  - any expected modifications to our audit reports;
  - any unadjusted items in the financial statements (except any unadjusted items which are clearly trivial) including the effect of unadjusted items related to prior periods on the current period;
  - any material weaknesses in systems we have identified during the course of our audit work and our views about the quality of accounting practices and financial reporting procedures; and
  - any other relevant matters.
3. Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Our audit does not necessarily disclose every weakness and for this reason the matters referred to may not be the only shortcomings which exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We take this opportunity to remind you that:
  - This report has been prepared for the sole use of the trustees of The City of Edinburgh Council Charitable Trusts;
  - A copy of this report will be submitted to Audit Scotland; and
  - No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.
5. The report has been discussed and agreed with City of Edinburgh Council management.
6. We would like to thank council management and staff for their kind co-operation and assistance during our audit.

2

# Financial statements

# Financial statements

## Audit conclusion

7. In our opinion the financial statements of those charities listed below (collectively referred to as 'The City of Edinburgh Council Charitable Trusts') give a true and fair view and comply with the Charities Accounts (Scotland) Regulations 2006 (as amended), the Charities and Trustee Investment (Scotland) Act 2005, and all relevant accounting standards.

---

### The City of Edinburgh Council Charitable Trusts

- Jean F. Watson (SC018971)
- Edinburgh Education Trust (SC042754)
- Nelson Halls Trust (SC018946)
- City of Edinburgh Council Charitable Funds (Boyd Anderson) (SC025067)
- Usher Hall Conservation Trust (SC030180)
- Lauriston Castle Trust (SC020737)
- The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945)

- 
8. We are pleased to report that our independent auditor's report to the trustees of The City of Edinburgh Council Charitable Trusts is unqualified. We have, however, drawn attention in our independent auditor's report to the fact that the Usher Hall Conservation Trust and the City of Edinburgh Council Charitable Trusts (Boyd Anderson) have been prepared using a break-up basis of accounting as the trustees consider that they are not going concerns. Our opinion is not modified in respect of this matter.
9. Our audit opinion is based on approval of the financial statements and signing of the letter of representation, a draft of which has been included as an appendix to this report. Within the letter of representation, the trustees have confirmed that there are no subsequent events that require amendment to the financial statements.

## Basis of preparation

10. The financial statements have been prepared using the connected charities provisions under The Charities Accounts (Scotland) Regulations 2006. Regulation 7 (as amended in 2010) permits a single set of accounts for charities if they have common or related purposes, or shared management (i.e. connected charities). This would be the case where charities have common trustees. The City of Edinburgh Council's Finance and Resources Committee acts as sole Trustee for these charitable trusts.

## Our assessment of risks of material misstatement

11. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described in Exhibit 1 below.

# Exhibit 1: 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 have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.

**Noted in 2017/18 City of Edinburgh Council External Audit Plan**

- 12. We have not identified any indications of management override in the year. We have reviewed the charitable trusts' 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
- 13. During our prior year audit, we noted that there was a lack of segregation of duties in respect of the posting of journals. While journals continue to be prepared and posted without any secondary review or authorisation, we noted, during our current year audit, that an additional control has been designed and implemented whereby the draft financial statements are reviewed by senior members of the council's finance team. As part of this review process those individuals have access to the ledger system to review all journals posted. We were able to confirm during our audit that this review process had been carried out.

**Conclusion:** Satisfactory assurance has been gained in respect of the mitigation of this risk.

## 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 charitable trusts could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

**Noted in 2017/18 City of Edinburgh Council External Audit Plan**

- 14. While we did not suspect incidences of material fraud and error we have evaluated each type of income transaction and documented our conclusions. We have gained reasonable assurance over the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we considered the revenue recognition policy and carried out testing to ensure this is appropriate and has been applied consistently throughout the year.

**Conclusion:** We have gained satisfactory assurance in respect of the completeness and occurrence of revenue transactions in the year.


## Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 3. Lauriston Castle Trust external valuation

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

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

**Noted in 2017/18 City of Edinburgh Council External Audit Plan**

- 
15. The external revaluation of the collection has yet to be completed. The financial statements therefore reflect the valuation as at the previous reporting date (31 March 2017). The charitable trusts' accounting policy on heritable property states that such properties are included in the financial statements at a revalued amount where this is available. The notes to the financial statements detail that the previous valuation of Lauriston Castle was carried out in 1997.
  16. While we concluded that the financial statements have been prepared in accordance with the Charities SORP (FRS 102) in respect of this matter, we recommend that the external valuation of the collection should be concluded as soon as practicable to ensure incorporation in the 2018/19 financial statements.

**Action plan point 1**

**Conclusion:** Satisfactory assurance has been gained in respect of the mitigation of this risk.


### 4. Winding up of Trusts

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

In January 2018, a paper was presented to the Council's Finance and Resources Committee seeking approval for the formal winding up of the Boyd Anderson Charitable Trust and the transfer of the remaining assets to the Lagganlia Outdoor Learning Centre. Consent to wind up this charitable trust was received from the OSCR in December 2017.

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

**Noted in 2017/18 City of Edinburgh Council External Audit Plan**

- 
17. We have confirmed that the Usher Hall Conservation Trust was removed from the Charity Register on 23 March 2018.
  18. In respect of the City of Edinburgh Council Charitable Trust (Boyd Anderson), construction works have not yet been completed at Lagganlia, therefore these monies have not yet been transferred. OSCR has granted consent to wind up this Trust and this will be progressed once construction works have been completed.
  19. In respect of these two Trusts, note 1 in the financial statements explains a break-up basis of accounting has been applied as the trustees consider that they are not going concerns. We have disclosed this matter in our independent auditor's report. Our opinion is not modified in respect of this matter.

**Conclusion:** We have gained satisfactory assurance the appropriate disclosures have been made in the financial statements.



## Our application of materiality

20. 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 financial statements.
21. Our initial assessment of materiality for each charitable trust is set out in the following table. We revised our initial assessment, following receipt of the unaudited financial statements and they remained at these levels throughout our audit.
22. Our assessment of materiality is set with reference to gross assets. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance of each charitable trust.

	Initial materiality	Final materiality
Jean F. Watson	125,560	126,360
Edinburgh Education Trust	18,420	19,040
Nelson Halls	4,680	4,740
Boyd Anderson	2,360	2,320
Usher Hall Conservation	1,360	- <sup>1</sup>
Lauriston Castle	140,840	140,860
The Royal Scots Memorial	660	660

23. Performance materiality is the amount set by the auditor at less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceeds materiality

<sup>1</sup> We have tested 100% of transactions in respect of the Usher Hall Conservation Trust. This Trust was wound up and removed from the Charity Register on 23 March 2018.

for the financial statements as a whole.

24. We set a performance (testing) materiality for each area of work which was based on a risk 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:

	Weighting
High	50%
Medium	60%
Low	75%

25. We noted within our External Audit Plan that we would report to trustees all audit differences in excess of 2% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the financial statements.

## Audit differences

26. We did not identify any audit adjustments during our audit other than amendments to the disclosure notes which are reflected in the final set of financial statements.
27. Appendix 2 also details one audit difference we identified during the audit process which has not been adjusted for. We have agreed with council management that this amount is not material and therefore has not been incorporated into the financial statements.

## An overview of the scope of our audit

28. The scope of our audit was detailed in our City of Edinburgh Council External Audit Plan, which was presented to the council's 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 charitable trusts. 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.

29. 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.
30. Our standard audit approach is based on performing 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 management team. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

## Accounting systems and internal controls

31. During the course of our audit of the financial statements, we examined the principal internal controls which the trustees have established to enable them to ensure, as far as possible, the accuracy and reliability of each of the charitable trusts' accounting records and to safeguard the charitable trusts' assets.
32. It should be noted that our audit was planned and performed in order to allow us to provide an opinion on the financial statements and it should not be relied upon to reveal all errors and weaknesses that may exist.
33. Our work identified four areas for improvement during our final audit (one of which is referred to at paragraph 16). We outline the issues identified and our recommendations at Appendix 4.

### *Action plan points 2 to 4*

34. In addition we have followed up on progress in implementing actions raised in the prior year. Full details of our findings are included in Appendix 4.

## Fraud and irregularity

35. Responsibility for preventing and detecting fraud and other irregularities lies with the trustees of the charitable trusts'. We are not required to search specifically for such matters and our audit should not be relied upon to

disclose them. However, we planned and conducted our audit so as to give a reasonable expectation of detecting any material misstatements in the financial statements resulting from improprieties or breach of regulations.

36. We are pleased to report that we did not identify any issues of concern in relation to fraud and irregularity.

## Legality

37. We planned and performed our audit recognising that non-compliance with statute or regulations may materially affect the financial statements.
38. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.
39. Under Section 46 of the Charities and Trustee Investment (Scotland) Act 2005, auditors have a responsibility to report items of material significance to the Office of the Scottish Charity Regulator (OSCR).
40. We did not identify any areas of material significance during our audit that required reporting to OSCR.

## Going concern and subsequent events

41. We are required under International Standard on Auditing (UK) 570, "Going Concern" to consider the appropriateness of the trustees' use of the going concern assumption in the preparation of the financial statements, and to consider whether there are material uncertainties about each charitable trust's ability to continue as a going concern which needs to be disclosed in the financial statements.
42. The term "subsequent events" is used to refer to events occurring between the year-end date of the financial statements and the date of the auditor's report. International Standard on Auditing (UK) 560, "Subsequent events" requires us to assess all such matters before signing our audit report.

43. In order to gain assurance on these matters our work has included (where applicable):
  - reviewing bank facilities;

- enquiring of senior management and the charitable trusts' solicitors concerning litigation, claims and assessments; and
  - performing sample testing of post balance sheet transactions.
44. We confirm that there are no issues affecting five<sup>2</sup> of the seven charitable trusts' ability to continue as a going concern.
45. In respect of the Usher Hall Conservation Trust and City of Edinburgh Council Charitable Funds (Boyd Anderson), we draw attention to note 1 in the financial statements, which describes the basis of preparation. The trustees have prepared the financial statements for these two trusts using a break-up basis of accounting as they consider that they are not going concerns. Our opinion is not modified in respect of this matter.
46. No subsequent events were identified requiring amendment to or disclosure in the financial statements.

## Other matters identified during our audit

### The Local Authority Accounts (Scotland) Regulations 2014

47. As part of our audit, we reviewed the charitable trusts' compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulation 9<sup>3</sup> as it relates to the financial statements. Overall, we concluded that appropriate arrangements were in place to comply with these Regulations (as they apply to charities).

## Qualitative aspects of accounting practices and financial reporting

48. 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 financial statements. The following observations have been made:

---

<sup>2</sup> The five charitable trusts referred to are: Jean F. Watson, Edinburgh Education Trust, Nelson Halls Trust, Lauriston Castle Trust and The Royal Scots (The Royal Regiment) Monument Trust Fund

<sup>3</sup> Regulation 9 relates to the notice of public right to inspect and object to the accounts.

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the financial statements, and consider these to be appropriate to the charitable trusts.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing or the period in which transactions were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of accounting estimates and judgements used in the preparation of the financial statements. We did however note (paragraph 15) that the external revaluation of the Lauriston Castle Trust collection has yet to be completed and the financial statements therefore reflect the valuation as at the previous reporting date.
The appropriateness of the going concern assumption.	Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that five of the seven charitable trusts will continue to operate for at least 12 months from the signing date. In respect of the Usher Hall Conservation Trust and City of Edinburgh Council Charitable Funds (Boyd Anderson) we draw attention to note 1 in the financial statements, which describes the basis of preparation. The trustees have prepared the financial statements for these two trusts using a break-up basis of accounting as they consider that they are not going concerns. Our opinion is not modified in respect of this matter.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the financial statements.	There are no uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	From our testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	There are no misstatements or material inconsistencies between the annual report and the financial statements.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation.

Qualitative aspect considered	Audit conclusion
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

# 3

## Appendices

# Appendix 1: Respective responsibilities of the trustees and the Auditor

## Responsibility of the trustees

Under legislation relating to charities in Scotland, the trustees are required to prepare financial statements for each financial year which give a true and fair view of the state of the charity's affairs and of its incoming resources and application of resources, including its surplus or deficit for that year, and which have been properly prepared from and are in agreement with the accounting records of the charitable trusts and comply with relevant disclosure requirements.

In preparing those financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Trust will continue its activities.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the charitable trusts' financial position and enable them to ensure that the financial statements comply with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). The trustees also have general responsibility for taking such steps as are reasonably open to them to safeguard the charitable trusts' assets and to prevent and detect fraud and other irregularities.

## Responsibilities of the auditor

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 charitable trusts covered by this report fall within the scope of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

The audit includes the consideration of internal controls relevant to the preparation of the financial statements but we do not express an opinion on the effectiveness of internal control. We are also required to communicate any significant matters arising from the audit of the financial statements that are relevant to those charged with governance in overseeing the financial reporting process.

The matters being reported are limited to those deficiencies in control that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to those charged with governance.

International Standards on Auditing (UK) do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.

## 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.

We can confirm that we have complied with the Financial Reporting Council's Ethical Standards for Auditors. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

# Appendix 2: Audit differences

## Unadjusted audit difference

We identified the following adjustment during the audit. We have discussed this adjustment with council management and agreed that it would not be incorporated into the financial statements.

	Balance Sheet		Statement of Financial Activities		Recognised gains and losses per SOFA	
	Dr	Cr	Dr	Cr	Dr	Cr
	£	£	£	£	£	£
1 Investment income						
• Jean F Watson				711		
• Edinburgh Education Trust				599		
• Royal Scots Monument				24		
• Nelson Halls				159		
• Lauriston Castle				32		
Investments		1,525				

*Being understatement of investment income in 2017/18.*



## Appendix 3: List of entities' key financials

The list of entities on which we have reported, and which are covered by this report are included in the table below. All financial statements were prepared on an accruals basis.

	2017/18 £'000	2016/17 £'000	Commentary
<b>Jean F. Watson (SC018971)</b>			
Income	39	47	Only investment income in the current year. In the prior year funding was received to assist in the purchase of 'Moon' (£14,500).
Expenditure	(5)	(6)	
Net gains/(losses) on investments	3	56	
<b>Net income/(expenditure)</b>	<b>37</b>	<b>97</b>	
Unrestricted funds	1,017	983	
Endowment funds	917	914	
Revaluation reserve	4,377	4,377	
<b>Total funds</b>	<b>6,311</b>	<b>6,274</b>	
<b>Edinburgh Education Trust (SC042754)</b>			
Income	38	30	
Expenditure	(14)	(13)	The Trust funded £8,427 of activities for looked after children and £2,154 of school prizes. In comparison, in 2016/17 the Trust funded £7,569 of activities for looked after children and £1,316 of school prizes.
Net gains/(losses) on investments	5	50	
<b>Net income/(expenditure)</b>	<b>29</b>	<b>67</b>	
Unrestricted funds	68	43	
Endowment funds	880	876	
<b>Total funds</b>	<b>948</b>	<b>919</b>	

	2017/18 £'000	2016/17 £'000	Commentary
<b>Nelson Halls Trust (SC018946)</b>			
Income	9	7	
Expenditure	(9)	(7)	
Net gains/(losses) on investments	1	13	
<b>Net income/(expenditure)</b>	<b>1</b>	<b>13</b>	
Unrestricted funds	3	3	
Endowment funds	225	224	
<b>Total funds</b>	<b>228</b>	<b>227</b>	
<b>City of Edinburgh Council Charitable Funds (Boyd Anderson) (SC025067)</b>			
Income	-	1	
Expenditure	(4)	(6)	
Net gains/(losses) on investments	-	-	
<b>Net income/(expenditure)</b>	<b>(4)</b>	<b>(5)</b>	
Unrestricted funds	109	113	
<b>Total funds</b>	<b>109</b>	<b>113</b>	At the January 2016 Finance and Resources Committee, it was agreed that £64,000 would be used to build a modular log cabin type classroom and storage space at Lagganlia. Construction works have not yet been completed at Lagganlia, therefore these monies have not yet been transferred. A proposal to use the remaining funds for the same purpose was approved by Committee on 23 January 2018. OSCR have granted consent to wind up the Trust and this will be progressed once the log cabin and storage space have been completed.

	2017/18 £'000	2016/17 £'000	Commentary
<b>Usher Hall Conservation Trust (SC030180)</b>			
Income	-	-	
Expenditure	(65)	(3)	In February 2017, the Finance and Resources Committee agreed that the Trust would be wound up after all of its funds are transferred to the Usher Hall to contribute to the purchase of a new Steinway grand piano.
Net gains/(losses) on investments	-	-	
<b>Net income/(expenditure)</b>	(65)	(3)	
Unrestricted funds	-	65	
<b>Total funds</b>	-	<b>65</b>	Confirmation of removal from the Charity Register of Usher Hall Conservation Trust was received on 23 March 2018 from OSCR after the funds had been transferred in January 2018.
<b>Lauriston Castle Trust (SC020737)</b>			
Income	2	1	
Expenditure	(2)	(1)	
Net gains/(losses) on investments	-	2	
<b>Net income/(expenditure)</b>	-	2	
Unrestricted funds	(1)	-	
Endowment funds	41	40	
Revaluation reserve	7,001	7,001	
<b>Total funds</b>	<b>7,041</b>	<b>7,041</b>	

	2017/18 £'000	2016/17 £'000	Commentary
<b>The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945)</b>			
Income	1	1	
Expenditure	(1)	(1)	
Net gains/(losses) on investments	-	2	
<b>Net income/(expenditure)</b>	-	2	
Unrestricted funds	1	1	
Endowment funds	31	31	
<b>Total funds</b>	<b>32</b>	<b>32</b>	

# Appendix 4: Accounting systems and internal control

During the course of our audit of the financial statements, we examined the principal internal controls which the council has established to enable them to ensure, as far as possible, the accuracy and reliability of the charitable trusts' accounting records and to safeguard its assets.

It should be noted that our audit was planned and performed in order to allow us to provide an opinion on the financial statements and it should not be relied upon to reveal all errors and weaknesses that may exist.

## Action plan – audit recommendations

The weaknesses noted from our work are detailed in the action plan below.

Grade	Definition	Number of audit observations	
		Current year	Prior year
<b>Critical</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability.</li> </ul>	-	-
<b>High</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul>	-	-
<b>Medium</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>	4	2
<b>Low</b>	A finding that could have a: <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation's operational performance ; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation.</li> </ul>	-	-
<b>Advisory</b>	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.	-	-

## Current year (2017/18) recommendations

1.		Issue & Recommendation	Management Comments
<b>Valuation of Lauriston Castle collection</b>	<b>Medium</b>	<p><b>Issue</b></p> <p>The external valuation of Lauriston Castle collection commenced in 2016 but has yet to be completed. The financial statements therefore reflect the valuation as at the previous reporting date.</p> <p>The previous valuation of the collection was carried out in 1997.</p> <p><b>Recommendation</b></p> <p>The external valuation of the collection should be concluded as soon as practicable to ensure incorporation in the 2018/19 financial statements.</p>	<p>The Council will ensure that the valuation is completed for inclusion within the 2018/19 accounts.</p> <p><b>Responsible officer:</b> Service Manager, Cultural Venues (Museums &amp; Galleries), Place</p> <p><b>Completion date:</b> March 2019</p>
<b>Rating</b>			

2.		Issue & Recommendation	Management Comments
<b>Missing artwork</b>	<b>Medium</b>	<p><b>Issue</b></p> <p>During our audit testing we were unable to verify one item of artwork from the Jean F Watson collection. We understand that this item was identified as unaccounted for in 2015, following a full review of the collection. This item of artwork however remains on the valuation records which are used in the preparation of the financial statements. The value of this item is £2,500.</p> <p><b>Recommendation</b></p> <p>A full review of the Jean F Watson artwork should be carried out to ensure records are up to date and complete.</p>	<p>The Council will conduct a formal review of the Jean F. Watson collection ensuring that records are up to date and complete.</p> <p><b>Responsible officer:</b> Service Manager, Cultural Venues (Museums &amp; Galleries), Place</p> <p><b>Completion date:</b> March 2019</p>
<b>Rating</b>			

3.		Issue & Recommendation	Management Comments
<b>Artwork – asset tagging</b>	<b>Issue</b> We identified, through our sample testing, two items of artwork (from the Jean F Watson collection) that did not have labels (either title or ID number).	<b>Recommendation</b> A review of all artworks should be carried out to ensure they are appropriately tagged.	As part of the formal review of the Jean F. Watson collection undertaken for Action Point 2, the Council will ensure that all artwork has appropriate labels (either title or ID number).  <b>Responsible officer:</b> Service Manager, Cultural Venues (Museums & Galleries), Place  <b>Completion date:</b> March 2019
<b>Rating</b>			
<b>Medium</b>			

4.		Issue & Recommendation	Management Comments
<b>Declarations of interest</b>	<b>Issue</b> As part of our review of councillor declarations of interests for the City of Edinburgh Council we noted that not all councillors have recorded their interests as trustees.	<b>Recommendation</b> We recommend all councillors acting as Trustees to the City of Edinburgh Council charitable trusts review and update their registers of interest, if required, to reflect their role as Trustee on these Trusts.	As part of the equivalent action for the Council referenced in the 2017/18 annual report on the audit, we will continue to remind regularly councillors of their duties under the Act.  <b>Responsible officer:</b> Governance and Democratic Services Manager Councillors  <b>Completion date:</b> Ongoing
<b>Rating</b>			
<b>Medium</b>			

## Prior year recommendations

1.	Issue & Recommendation	Management Comments	2018 Update
<b>Authorisation of journals</b>	<p>Our review of the journals environment found that there was a lack of segregation of duties over the posting of journals. Journals are prepared and posted without any secondary review or authorisation. Journals can be used to override controls and create fraudulent errors therefore, it is essential appropriate controls are in place</p> <p>While our audit review in respect of the 2016/17 financial year did not identify any indications of management override we recommend that a review process is put in place for the preparation and posting of journals to the ledger.</p>	<p>While 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><b>Action owner:</b> Charitable Trust Accountant, Finance</p> <p><b>Due Date:</b> March 2018</p>	<p><b>Action complete</b></p> <p>We noted, during our current year audit, that an additional control has been designed and implemented whereby the draft financial statements are reviewed by senior members of the council's finance team. As part of this review process those individuals have access to the ledger system to review all journals posted. We were able to confirm during our audit that this review process had been carried out.</p>
<b>Rating</b>			
<b>Medium</b>			

2.	Issue & Recommendation	Management Comments	2018 Update
<b>Accounting for dividend income</b>	<p>During our audit testing we noted that dividend income has been accounted for on a cash basis instead of an accruals basis.</p> <p>Dividend income should be accounted for on an accruals basis.</p>	<p>The council will ensure that during preparation of the 2017/18 accounts, dividend income is accounted for on an accruals basis and will contact the Trusts' investment managers early in 2018 to ensure this information is available in a timely manner.</p> <p><b>Action owner:</b> Charitable Trust Accountant, Finance</p> <p><b>Due date:</b> March 2018</p>	<p><b>Action complete</b></p> <p>Dividend income has been accounted for on an accruals basis in the 2017/18 financial statements.</p>
<b>Rating</b>			
<b>Medium</b>			



# Appendix 5: Management representation letter

## LETTER OF REPRESENTATION: THE CITY OF EDINBURGH COUNCIL CHARITABLE TRUSTS

Dear Sirs

### The City of Edinburgh Council Charitable Trusts

This representation letter is provided in connection with your audit of the financial statements of The City of Edinburgh Council Charitable Trusts for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with UK Generally Accepted Accounting Practice.

On behalf of the trustee of the charities, I am directed to confirm to you, in respect of the financial statements of the charitable trusts for the year ended 31 March 2018, the following:-

### Financial statements and accounting records

1. We have fulfilled our responsibilities under the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 for preparing financial statements which give a true and fair view in accordance with UK Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and for making accurate representations to you.
2. We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
3. All transactions have been recorded in the accounting records and are reflected in the financial statements.
4. Except as disclosed in the financial statements, the results for the year were not materially affected by:
  - any change in accounting policies;
  - transactions of a type not usually undertaken by the charitable trusts;
  - circumstances of an exceptional or non-recurrent nature; or
  - charges or credits relating to prior periods.
5. All grants, donations and other incoming resources, the receipt of which is subject to specific terms and conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.
6. All income has been recorded, all restricted endowment funds have been properly applied and all constructive obligations have been recognised.
7. We have reviewed going concern considerations and are satisfied that it is appropriate for the financial statements of five of the seven charitable trusts to have been drawn up on the going concern basis. In reaching this opinion we have taken into account all relevant matters of which we are aware and have considered a future period of at least one year from the date on which the financial statements are to be approved.

8. The Usher Hall Conservation Trust and the City of Edinburgh Council Charitable Trusts (Boyd Anderson) have been prepared using a break-up basis of accounting as we consider that they are not going concerns.
9. We have considered the adequacy of the disclosures in the financial statements relating to going concern and are satisfied that sufficient disclosure has been made in the financial statements in order to give a true and fair view.
10. We confirm the financial statements are free of material misstatements, including omissions. We believe that the uncorrected audit difference identified during the audit is immaterial to the financial statements. This item is attached to this letter of representation, together with our reasons for not correcting for it.

#### **Fraud**

11. We acknowledge as trustees our responsibilities for the design and implementation of internal control in order to prevent and detect fraud and to prevent and detect error.
12. In our opinion, the risks that the financial statements may be materially misstated as a result of fraud are low for the following reason:
  - The Trust Accountant runs a general ledger transactions query report on an at-least monthly basis, promptly reviewing any unexpected items and instigating corrective action as appropriate. Given the relatively low level of transactions, these can be investigated on an individual basis.
13. We have disclosed to you all information in relation to fraud or suspected fraud of which we are aware and that affects the entity and involves:
  - management
  - employees who have significant roles in internal control
  - others where the fraud could have a material effect on the financial statements.
14. We are not aware of any allegations of fraud or suspected fraud with a potential effect on the financial statements which have been communicated to us by employees, former employees, regulators or other third parties.

#### **Compliance with laws and regulation, and contractual agreements**

15. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
16. The charitable trusts have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

#### **Accounting estimates**

17. In our opinion the significant assumptions used by us in making accounting estimates are reasonable.

#### **Related parties**

18. We have disclosed to you the identity of the charity's related parties and all related party relationships and transactions of which we are aware.
19. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of UK Generally Accepted Accounting Practice.
20. In particular, no trustee, shadow trustee, their connected persons or other officers had any indebtedness, agreement concerning indebtedness or disclosable interest in a transaction with the Trust at any time during the year.

#### **Assets and liabilities**

21. The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
  - agreements and options to buy back assets previously sold;
  - assets pledged as collateral.
22. We have disclosed to you all known actual or possible litigation or claims whose effects should be considered when preparing the financial statements and that they have been accounted for and disclosed in accordance with UK Generally Accepted Accounting Practice.
23. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
24. The Trust has satisfactory title to all assets and there are no liens or encumbrances on the charity's assets, other than as disclosed in the financial statements.
25. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and all guarantees that we have given to third parties.

**Subsequent events**

26. All events subsequent to the date of the financial statements and for which UK Generally Accepted Accounting Practice require adjustment or disclosure have been adjusted or disclosed. Should any material events occur which may necessitate revision of the figures included in the financial statements or inclusion in the notes thereto, we will advise you accordingly.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

.....

Signed on behalf of the trustees of the charities

On..... (date)

The above individual is signing this letter on behalf of the trustees of the charities confirming that:

- a) so far as each member of the Finance and Resources Committee is aware, there is no relevant audit information of which the charitable trusts is unaware; and
- b) each member of the Finance and Resources Committee has taken all the steps that ought to have been taken, including making appropriate enquiries of fellow members and of the charitable trusts for that purpose, in order to be aware of any information needed by the charitable trusts' auditor in connection with preparing their report and to establish that the charitable trusts' auditor is aware of that information.



**Scott-Moncrieff**  
business advisers and accountants