



**Scott-Moncrieff**  
business advisers and accountants

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

Audit management report for the year ended  
31 March 2017

**September 2017**

# Contents

- Introduction..... 1
- Financial statements ..... 3
- Appendix 1: Respective responsibilities of the trustees and the Auditor ..... 11
- Appendix 2: Audit differences..... 12
- Appendix 3: List of entities key financials ..... 13
- Appendix 4: Accounting systems and internal control..... 17
- Appendix 5: Management representation letter..... 19

**1**

# Introduction

# Introduction

1. International Standards on Auditing (UK & Ireland) 260, “Communication with those charged with governance” and 265 “Communicating deficiencies in internal control to those charged with governance” require Scott-Moncrieff to report to those charged with governance the significant findings from our audit.
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 and Ireland). 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 Trust Funds') 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.

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### The City of Edinburgh Council Charitable Trust Funds

- 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)

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8. We are pleased to report that our independent auditor's report to the trustees of The City of Edinburgh Council Charitable Trust Funds is unqualified. In our opinion, from information provided to us during the audit, no events or conditions appear to exist which cast doubt on the charitable trust funds' ability to continue as a going concern.
  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 acts as sole Trustee for these charitable trust funds.

## 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 each set of 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. Revenue recognition

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

*Noted in 2016/17 External Audit Plan*



12. 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 each charitable trust fund's revenue recognition policy is appropriate and has been applied reasonably. We have gained satisfactory assurance in respect of the completeness and occurrence of revenue transactions in the year.

### 2. 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 240.

*Noted in 2016/17 External Audit Plan*



13. We have not identified any indications of management override in the year. We have reviewed the charitable trust funds' accounting records, obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year-end.
14. During our review of the financial controls processes however, we did note 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 a review process is put in place over the preparation and posting of journals to the ledger.

*Action plan point 1*

# 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

In 2014/15 Audit Scotland noted that the Lauriston collection had not been revalued since 1997. The Trust planned an external revaluation of the Trust assets in 2015/16 the results of which would be incorporated into the 2015/16 accounts.

An external revaluation of the collection commenced in January 2016 but the final results of that revaluation were not finalised until after the certification of the accounts on 29 September 2016.

There is a risk that the result of this valuation are incorrectly accounted for in the 2016/17 financial statements.

*Noted in 2016/17 External Audit Plan*



- 15. An external revaluation of the collection commenced in 2016 but has yet to be completed. The financial statements therefore reflect the valuation as at the previous reporting date (31 March 2016). The unaudited accounts presented for audit included a provisional figure for the revaluation of the Lauriston collection (gain of £1.012million). As the final figures for the revaluation of the collection are unavailable this has been reversed out of the audited financial statements.

## Our application of materiality

- 16. 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.
- 17. Our initial assessment of materiality for each 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.
- 18. Our assessment of materiality is set with reference to a range of benchmarks (including incoming resources and any surplus/deficit on provision of services). We consider these to be the principal considerations for the users of the accounts when assessing the financial performance of the charitable trust funds.

	Initial materiality	Final materiality
Jean F. Watson	£108,670	£110,619
Edinburgh Education Trust	£15,140	£16,440
Nelson Halls Trust	£3,805	£3,988
Boyd Anderson	£2,125	£1,548
Usher Hall Conservation Trust	£1,255	£889
Lauriston Castle Trust	£123,210	£140,939
The Royal Scots Memorial Trust	£555	£564



19. 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:

Area risk assessment	Weighting
High	50%
Medium	60%
Low	75%

20. 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

21. We identified one audit adjustment; the details of which are disclosed in appendix 2 and referred to in paragraph 15 (Lauriston Castle Trust external valuation).
22. We identified some presentational adjustments during our audit which are reflected in the final sets of financial statements.
23. 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

24. 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 2017. 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 trust funds. 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.

25. 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.
26. Our standard audit approach is based on performing substantive tests and detailed analytical review. 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

27. 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 trust fund's accounting records and to safeguard the charitable trust fund's assets.
28. 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.
29. Our work identified two areas for improvement during our final audit (one of which is referred to at paragraph 14). We outline the issues identified and our recommendations at Appendix 4.

*Action plan point 1 and 2*

### Fraud and irregularity

30. Responsibility for preventing and detecting fraud and other irregularities lies with the trustees of the charitable trust funds. 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.

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

## Legality

32. We planned and performed our audit recognising that non-compliance with statute or regulations may materially affect the financial statements.
33. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

## Going concern and subsequent events

34. We are required under International Standard on Auditing (UK & Ireland) 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 fund's ability to continue as a going concern which need to be disclosed in the financial statements.
35. 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 & Ireland) 560, "Subsequent events" requires us to assess all such matters before signing our audit report.
36. In order to gain assurance on these matters our work has included (where applicable):
- reviewing bank facilities;
  - enquiring of senior management and the charitable trust fund's solicitors concerning litigation, claims and assessments; and
  - performing sample testing of post balance sheet transactions.
37. We confirm that there are no issues affecting each charitable trust fund's ability to continue as a going concern.
38. No subsequent events were identified requiring amendment to or disclosure in the financial statements.

39. In February 2017, the Finance and Resources Committee agreed that Usher Halls 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. This is expected to happen in 2017/18 and OSCR will be notified.
40. In January 2016, the Finance and Resources Committee agreed that £64,000 of the Boyd Anderson Funds would be used to build a modular log cabin type classroom and storage space at Lagganlia. Construction works have not yet been completed and the monies have not been transferred. A proposal for the remaining funds will be presented to committee in 2017/18. Once these funds have been utilised and permission granted from the Trustees and OSCR, the Trust will be wound up.
41. These two matters have been disclosed in the Trustee's annual report.

## Other matters identified during our audit

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

42. As part of our audit, we reviewed the charitable trust fund's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulation 9<sup>1</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).

### Allianz Investment Funds

43. On 1 April 2016, the council was notified that two funds managed by Allianz Investment Managers, accounting for £1.432million of investments, were to be wound up. These funds were liquidated on 30 June 2016 and paid out on 6 July 2016, at which point the monies received from Allianz were deposited in a trusts bank account (a total value of £1.487million including an in-year realised investment gain of £54,702). The Acting Executive Director of Resources recommended that the funds, along with an additional £100,000 from the Edinburgh Education Trust,

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<sup>1</sup> Regulation 9 relates to the notice of public right to inspect and object to the accounts.

were invested in the COIF Charities Investment Fund managed by CCLA.

## Qualitative aspects of accounting practices and financial reporting

44. 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:

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 trust funds.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The Trustees do not consider there to be any accounting judgements required in preparing the financial statements.
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.	We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the financial statements (beyond the existing disclosures made).
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 trustees' report or material inconsistencies with the financial statements.	There are no misstatement or material inconsistencies between the trustees' 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.
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 Trust 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 Trust's 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 Trust's 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 trust funds 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 and Ireland). 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 and Ireland) 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 & Ireland) 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

## Adjusted audit differences

We identified the following adjustment during the audit. We have discussed this adjustment with council management and agreed that it should be incorporated into the financial statements.

	Balance Sheet		Statement of Financial Activities		Recognised gains and losses per SOFA	
	Dr	Cr	Dr	Cr	Dr	Cr
	£'000	£'000	£'000	£'000	£'000	£'000
1 Gains on revaluation of fixed assets					1,012	
Heritable property		1,012				
<i>Being reversal of the revaluation of Lauriston Castle.</i>						
<i>Net impact on income/(expenditure) in year</i>						-
<i>Net impact on movement in funds in year</i>				(1,012)		
<i>Charity Funds per unaudited accounts</i>				15,683		
<i>Revised Charity Funds</i>				14,671		

## Unadjusted audit difference

We identified the following unadjusted audit difference during the audit. We agreed with council management that this amount is not material and therefore has not been 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						
• J F Watson				5,215		
• Nelson Halls Trust				1,170		
• Edinburgh Education Trust				4,400		
• Lauriston Castle Trust				233		
• The Royal Scots Memorial Trust				177		
Investments		11,195				

*Being overstatement of investment income (as accounted for a cash basis) in 2016/17. For noting amounts related to dividend income for 2015/16. The amounts to be accrued for 2016/17 have not been identified.*

## 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.

	2016/17 £'000	2015/16 £'000	Commentary
<b>Jean F. Watson (SC018971)</b>			
Income	47	27	To assist in the purchase of 'Moon', £9,500 was received from the National Fund for Acquisitions administered by the National Museums of Scotland and £5,000 was received from Friends of City Art Centre.
Expenditure	(6)	(3)	The prior year figure has been restated to reflect the purchase of 'Craggs at Dawn'. As a result, assets increased by £4,000 and expenditure decreased by the same amount.
Net gains/(losses) on investments	56	(45)	
<b>Net income/(expenditure)</b>	<b>97</b>	<b>(21)</b>	
Unrestricted funds	983	942	
Endowment funds	914	858	
Revaluation reserve	4,377	4,377	
<b>Total funds</b>	<b>6,274</b>	<b>6,177</b>	
<b>Edinburgh Education Trust (SC042754)</b>			
Income	30	21	Increase in dividend income received in comparison with the prior year.
Expenditure	(13)	(17)	The Trust funded £7,569 of activities for looked after children and £1,316 of school prizes. In comparison, in 2015/16 the Trust funded £11,021 of activities for looked after children and £1,688 of school prizes.
Net gains/(losses) on investments	50	(38)	
<b>Net income/(expenditure)</b>	<b>67</b>	<b>(34)</b>	



	2016/17 £'000	2015/16 £'000	Commentary
Unrestricted funds	43	126	During the year, £100,000 from the Edinburgh Education Trust, was invested in the COIF Charities Investment Fund managed by CCLA. £100,000 was transferred from unrestricted funds into the endowment funds.
Endowment funds	876	726	
<b>Total funds</b>	<b>919</b>	<b>852</b>	
<b>Nelson Halls Trust (SC018946)</b>			
Income	7	6	
Expenditure	(7)	(6)	
Net gains/(losses) on investments	13	(10)	
<b>Net income/(expenditure)</b>	<b>13</b>	<b>(10)</b>	
Unrestricted funds	3	2	
Endowment funds	224	212	
<b>Total funds</b>	<b>227</b>	<b>214</b>	
<b>City of Edinburgh Council Charitable Funds (Boyd Anderson) (SC025067)</b>			
Income	1	-	
Expenditure	(6)	(2)	
Net gains/(losses) on investments	-	-	
<b>Net income/(expenditure)</b>	<b>(5)</b>	<b>(2)</b>	

	2016/17 £'000	2015/16 £'000	Commentary
Unrestricted funds	113	118	In January 2016, the Finance and Resources Committee 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 and the monies have not been transferred. A proposal for the remaining funds will be presented to Committee in 2017/28. Once these funds have been utilised and permission granted from the Trustees and OSCR, the Trust will be wound up.
<b>Total funds</b>	<b>113</b>	<b>118</b>	
<b>Usher Hall Conservation Trust (SC030180)</b>			
Income	-	-	
Expenditure	(3)	(2)	
Net gains/(losses) on investments	-	-	
<b>Net income/(expenditure)</b>	<b>(3)</b>	<b>(2)</b>	
Unrestricted funds	65	68	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. This is expected to happen in 2017/18 and OSCR will be notified.
<b>Total funds</b>	<b>65</b>	<b>68</b>	
<b>Lauriston Castle Trust (SC020737)</b>			
Income	1	1	
Expenditure	(1)	(1)	
Net gains/(losses) on investments	2	(2)	
<b>Net income/(expenditure)</b>	<b>2</b>	<b>(2)</b>	

	2016/17 £'000	2015/16 £'000	Commentary
Unrestricted funds	-	-	
Endowment funds	40	38	
Revaluation reserve	7,001	7,001	
<b>Total funds</b>	<b>7,041</b>	<b>7,039</b>	
<b>The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945)</b>			
Income	1	1	
Expenditure	(1)	(2)	
Net gains/(losses) on investments	2	(2)	
<b>Net income/(expenditure)</b>	<b>2</b>	<b>(3)</b>	
Unrestricted funds	1	2	
Endowment funds	31	28	
<b>Total funds</b>	<b>32</b>	<b>30</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 trust fund's 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.

		Number of audit observations
Grade	Definition	
5	Very high risk exposure – Major concerns requiring immediate attention	-
4	High risk exposure – Absence/failure of significant key controls	-
3	Moderate risk exposure – Not all key control procedures are working effectively	2
2	Limited risk exposure – Minor control procedures are not in place/not working effectively	-
1	Efficiency/housekeeping point	-

## Recommendations from 2016/17

Action plan point	Issue & Recommendation	Management Comments
<b>1. Authorisation of journals</b>	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.	<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>
<b>Rating</b>	Journals can be used to override controls and create fraudulent errors therefore, it is essential appropriate controls are in place	
<b>Grade 3</b>	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.	
<b>Paragraph ref</b>		
<b>14</b>		

Action plan point	Issue & Recommendation	Management Comments
<b>2. Accounting for dividend income</b>	During our audit testing we noted that dividend income has been accounted for on a cash basis instead of an accruals basis.	<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 Trusts Accountant, Finance</p> <p><b>Due Date:</b> March 2018</p>
<b>Rating</b>	Dividend income should be accounted for on an accruals basis.	
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>29</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 2017 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 trust funds for the year ended 31 March 2017, 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 trust funds;
  - 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 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. We have also 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.
9. 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**

10. 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.
11. 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.
12. 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.
13. 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**

14. 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.
15. The charitable trust funds 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**

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

#### **Related parties**

17. 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.
18. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of UK Generally Accepted Accounting Practice.
19. 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**

20. 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.

21. 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.
22. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
23. 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.
24. 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**

25. 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 trustee of the charities

On..... (date)

The above individual is signing this letter on behalf of the trustee 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 trust funds 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 trust funds for that purpose, in order to be aware of any information needed by the charitable trust funds' auditor in connection with preparing their report and to establish that the charitable trust funds' auditor is aware of that information.





**Scott-Moncrieff**  
business advisers and accountants