



The City of Edinburgh Council Charitable Trusts

Audit findings report

Year ended 31 March 2021



Our ref: NIBE/CITYEC01/31 March 2021

City of Edinburgh Council (as sole Trustee for the City of Edinburgh Council Charitable Trusts)
City Chambers
High Street
Edinburgh
EH1 1YJ

18 November 2021

Dear Sirs

The City of Edinburgh Council Charitable Trusts
Audit findings for the year ended 31 March 2021

This Audit Findings Report highlights the significant findings arising from the audit for the benefit of those charged with governance. We appreciate that you may be aware of some of the matters contained in this report, however as required by International Standard on Auditing (UK) 260 we are communicating them to you formally.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) (ISAs (UK)), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by City of Edinburgh Council management with the oversight of those charged with governance. The audit of the charitable trusts' financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements. The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by your team during our audit. If we can be of any further assistance, please contact Nick Bennett.

Yours sincerely

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1. Executive summary

Audit overview

This table summarises the key findings from the external audit of The City of Edinburgh Council Charitable Trusts for the year ended 31 March 2021 for those charged with governance.

Audit opinions	<p>Our independent auditor's report to the trustee of The City of Edinburgh Council Charitable Trusts is unqualified. 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.</p> <ul style="list-style-type: none">• Jean Fletcher Watson (SC018971)• Edinburgh Education Trust (SC042754)• Nelson Halls Trust (SC018946)• Lauriston Castle Trust (SC020737)• The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945) <p>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 trustee. The City of Edinburgh Council's Finance and Resources Committee acts as sole Trustee for these charitable trusts.</p> <p>We have no matters to report regarding the adoption of the going concern basis or inadequate disclosures relating to material uncertainties in respect of the five charitable trusts which comprise The City of Edinburgh Council Charitable Trusts.</p> <p>A separate set of financial statements has been prepared for The City of Edinburgh Council Charitable Funds (Boyd Anderson). Our independent auditor's report on these financial statements is unqualified. We have, however, drawn attention in our independent auditor's report to the fact that the City of Edinburgh Council Charitable Funds (Boyd Anderson) have been prepared using a break-up basis of accounting as the trustees consider that it is not a going concern. Our opinion is not modified in respect of this matter.</p>
Key findings on audit risks and other matters	<p>We received an objection in relation to the City of Edinburgh Council Charitable Trusts financial statements. The objection related to Lauriston Castle Trust and contained elements that constituted a valid objection. One issue raised related to the City of Edinburgh Council's contribution towards meeting the costs of running Lauriston Castle not being included within the financial statements. We upheld this objection and the financial statements now reflect a contribution from the City of Edinburgh Council towards the operation and maintenance of this trust.</p> <p>The financial statements were also reviewed and updated to include support in kind from the Council towards Nelson Halls Trust and The Royal Scots (The Royal Regiment) Monument Trust Fund.</p> <p>The objection also raised issues over the governance of Lauriston Castle Trust. We understand that a report will be presented to the City of Edinburgh Council in the new year with a proposal to reshape Lauriston Castle Trust by appointing nominated councillors. Assuming this is approved, an application will subsequently be made to OSCR to implement a reorganisation scheme which will vary the terms of the Deed of Trust to include an express provision to assume additional charity trustees.</p> <p>The City of Edinburgh Council also intend to review the arrangements for the other trusts for which the Council is sole trustee with reference to the arrangements agreed for Lauriston Castle Trust.</p>

1. Executive summary (continued)

Key findings on audit risks and other matters	<p>The external valuation of the Lauriston Castle Trust collection was completed in November 2020. We carried out audit testing to ensure the results were correctly accounted for in the financial statements. An adjustment was made to the unaudited financial statements for differences between the underlying records provided by the valuer and those reported in the financial statements. This was identified by City of Edinburgh Council management. The adjustment was a £13,000 increase to the value of the collection.</p> <p>COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. We are pleased to report those risks did not materialise.</p>
Audit adjustments	<p>Audit adjustments are set out in section 7 (“Audit adjustments identified during the audit”). In summary adjustments were made for the following:</p> <ul style="list-style-type: none">• Separate financial statements prepared for The City of Edinburgh Council Charitable Funds (Boyd Anderson) and The City of Edinburgh Council Charitable Trusts to reflect the going concern basis of the trusts• Increase in value of the Lauriston Castle Trust collection (following the valuation exercise in 2020)• Recognition of income generated as it relates to Lauriston Castle Trust and Nelson Halls Trust• Recognition of support in kind from City of Edinburgh Council for Lauriston Castle Trust, Nelson Halls Trust and The Royal Scots (The Royal Regiment) Monument Trust Fund <p>All differences identified during the audit have been adjusted for in the audited financial statements. There were no audit adjustments to The City of Edinburgh Council Charitable Funds (Boyd Anderson) financial statements.</p> <p>Presentational adjustments were proposed and accepted by City of Edinburgh Council management.</p>
Accounting systems and internal controls	<p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the charitable trusts’ processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.</p>

2. Significant risk areas

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Key risk area	Audit Approach	Conclusions
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 financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> . Risk assessment: High	 In response to this risk, we reviewed the Trusts' accounting records and obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We also reviewed the key accounting estimates, judgements and decisions made by management.	 We have not identified any indications of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.
Revenue recognition Under ISA (UK) 240 - <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the 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. Risk assessment: High	 We evaluated each type of revenue transaction and reviewed the controls in place over revenue accounting. We considered the Trusts' key revenue transactions and streams and carried out testing to confirm that the Trusts' revenue recognition policy is appropriate and has been applied consistently throughout the year and accounted for correctly.	 Overall we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. Audit adjustments however were made to the financial statements for Lauriston Castle Trust and Nelson Halls Trust to reflect income generated but which had not been recognised in the unaudited financial statements. The Council utilises this income towards the cost of operating and maintaining the Trusts. The costs however are greater than the income generated by the Trusts and the Council meets the additional costs. A separate adjustment was made to reflect the 'support in kind' provided by the Council. Records are held on the income and expenditure incurred in running these Trusts. The Finance and Resources Committee however does not receive regular financial information on income generated / expenditure incurred. The Finance and Resources Committee should regularly receive this financial information to ensure the income is applied in accordance with the charitable objectives of the Trusts.

Action plan point 1

2. Significant risk areas (continued)

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Key risk area	Audit Approach	Conclusions
<p>Lauriston Castle Trust collection external valuation</p> <p>An external revaluation of the collection commenced in 2016 but, for the financial statements for the year ended 31 March 2020, had yet to be completed. The 2019/20 financial statements reflected the valuation of the collection as at the previous reporting date. 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 the Lauriston Castle collection was carried out in 1997.</p> <p>The valuation exercise has now been concluded. There is a risk that the results of this valuation are incorrectly accounted for in the 2020/21 financial statements.</p> <p>Risk assessment High</p>	<p>We reviewed the outcome of the valuation exercise to ensure the results had been correctly accounted for in the 2020/21 financial statements.</p> <p>We considered the competence, capability and objectiveness of the valuer in line with ISA (UK) 500 Audit Evidence. We reviewed the valuation report and considered the assumptions used by the external valuer against external sources of evidence. In addition we considered the scope of the external valuer's work and the information provided to the external valuer for completeness.</p>	<p>The external valuation of the Lauriston Castle Trust collection was completed in November 2020. We carried out audit testing to ensure the results were correctly accounted for in the financial statements. An adjustment was made to the unaudited financial statements for differences between the underlying records provided by the valuer and those reported in the financial statements. This was identified by City of Edinburgh Council management. The adjustment was a £13,000 increase to the value of the collection.</p> <p>Refer to section 4 of this report. Overall no issues were identified over the valuation methods applied.</p>

2. Significant risk areas (continued)

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Key risk area	Audit Approach	Conclusions
Winding up of trusts		
<p>In January 2018, a paper was presented to the Council's Finance and Resources Committee seeking approval for the formal winding up of the City of Edinburgh Council Charitable Funds (Boyd Anderson) 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.</p> <p>Due to the temporary closure of the centre as a result of the COVID-19 pandemic, construction works have not yet been completed and 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.</p> <p>In the 2019/20 financial statements, the Trustees prepared the financial statements for the City of Edinburgh Council Charitable Funds (Boyd Anderson) adopting a break-up basis of accounting as they considered that it was not a going concern. Our opinion was not modified in respect of this matter.</p> <p>There is a risk that this Fund is not accounted for and disclosed correctly in the financial statements.</p>	<p>We reviewed the disclosures and accounting transactions in the financial statements to ensure compliance with the Charities SORP (FRS 102) and applicable accounting standards.</p>	<p>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.</p> <p>Separate financial statements have been prepared for this Trust. Note 1 in the financial statements explains that a break-up basis of accounting has been applied as the trustees consider that it is not a going concern.</p> <p>We have disclosed this matter in our independent auditor's report. Our opinion is not modified in respect of this matter.</p>
Risk assessment: High		

3. Other risk factors / observations from the audit

Impact of COVID-19 on the financial statements

COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations. In response to the pandemic, we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion.

We reviewed the Trusts' consideration of the impact of COVID-19. In particular we reviewed whether year end balances and disclosures reflect the position at 31 March and any post balance sheet events. We also considered both management's (City of Edinburgh Council) and the trustee's (Finance and Resources Committee) consideration of the individual trusts' ability to continue as a going concern.

From our review, and understanding of the charitable trusts' operations, we are satisfied that the impact of COVID-19 does not present a material uncertainty to the going concern basis of preparation. The disclosures within the financial statements as they relate to COVID-19 are appropriate and in accordance with current guidance.

Local Authority Accounts (Scotland) Regulations 2014 – notice of public right to inspect and object to accounts

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: the notice of public right to inspect and object to accounts.

We received one submission in relation to the City of Edinburgh Council Charitable Trusts financial statements in 2020/21. The submission related to Lauriston Castle Charitable Trust and did contain elements that constituted a valid objection. One issue raised related to the City of Edinburgh Council's contribution towards meeting the costs of running Lauriston Castle not being included within the financial statements. We upheld this objection and the financial statements now reflect in 2020/21 a contribution of £202,000 representing expenditure met by the Council. The 2019/20 comparative figure has also been restated to reflect a contribution from the Council (£229,000).

The Council reviewed the other charitable trusts and the financial statements for Nelson Halls and Royal Scots Trust were updated to reflect a contribution from the Council towards the running of those trusts (£15,000 and £20,000 respectively). The 2019/20 comparative figures have also been restated (£49,000 and £19,000 respectively).

The submission also claimed that the Council is not the sole trustee of the Lauriston Castle Trust, and that magistrates are also perpetual trustees.

We understand that the Council has obtained legal advice confirming that the City of Edinburgh Council is the sole trustee of the Lauriston Castle Trust. The Council is currently conducting a review of its administration of trusts. At the Finance and Resources Committee meeting of 12 August 2021, details were provided of the principal findings of an external review of the effectiveness of current governance arrangements in discharging the Council's responsibilities under the Deed of Trust for Lauriston Castle Trust (LCT). In considering the report's recommendations, members agreed to receive a further report to full Council early in the new year including a routemap on a proposed way forward for the Trust, as well as reviewing the arrangements for the other trusts of which the Council is sole trustee with reference to the arrangements agreed for Lauriston Castle Trust.

4. Estimates and judgements

During the audit planning process we identified the following areas which require significant estimation or judgement. Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by Management are reasonable. We have summarised our assessment of this below, categorised between **Prudent**, **Balanced** and **Optimistic**.

Area	Assessment	Comment
Asset valuations	Balanced	<p>Heritage Assets are stated in the accounts at a revalued amount where this is available. The valuation base for such assets is values for insurance purposes. Where this information is not available, historic cost has been used. This is the case for the Lauriston Castle buildings and grounds, Nelson Halls and the Royal Scots Monument.</p> <p>The Lauriston Castle valuation of £7.6million includes £2million for the Lauriston Castle buildings and grounds based on historic cost and £5.6million based on full inventory valuation of the collection. An external revaluation of the collection was completed in November 2020 by Art & Antiques Appraisals.</p> <p>We evaluated the competence, objectivity and capability of management's expert in line with the requirements of ISA (UK) 500 and concluded that use of the expert was appropriate. Management adopted an expert to value the Lauriston Castle collection. The valuation issued and reported in the financial statements is based upon the value to insure each item in the collection. Given the unique historic / heritage nature of the collection we were not able to consider / benchmark the values against market conditions. The valuation method (i.e. based on insurance values) however is deemed appropriate and in line with the requirements of the Charites SORP (FRS 102).</p>
Recognition of Council support on the running and maintenance of the Trusts	Balanced	<p>The Statement of Financial Activities now includes the income from and expenditure of running and maintaining Lauriston Castle, Nelson Halls and The Royal Scots Monument (incorporated into the Royal Scots Trust). This includes the support funding from the City of Edinburgh Council towards the operating and maintenance costs of these assets. The key judgements and estimates applied are as follows:</p> <ul style="list-style-type: none"> Lauriston Castle Trust: time-based estimates of curatorial and management costs where relevant staff also have responsibility for other Council-operated venues. An estimate of gardening costs, comprising employee and associated materials expenditure, is also included. Nelson Halls: based on the total floorspace (in sqm) covered by the halls as a percentage of the entire floorspace of the libraries or community centres to which they are attached. The Royal Scots Monument: based on the estimated cost, as provided by Parks and Greenspace services, for maintaining the specific grounds the monument is situated. <p>We considered the judgements and estimates applied and consider these to be appropriate.</p>

5. Going Concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Management's assessment of going concern

The financial statements for the five trusts, excluding The City of Edinburgh Council Charitable Funds (Boyd Anderson), are prepared on the going concern basis. The City of Edinburgh Council support the ongoing operation and maintenance of the trusts; as is evidenced through the support in kind to Lauriston Castle Trust, Nelson Halls Trust and The Royal Scots (The Royal Regiment) Monument Trust Fund.

The assessment of going concern includes the expected impact of COVID-19 to the charitable trusts in the 12 months following the signing of the financial statements.

Forecasting is due to be carried out by City of Edinburgh Council finance staff in 2021/22 to ensure those charged with governance are aware of funds available in 2022/23 which will enable longer term planning.

Action plan point 2

In respect of the City of Edinburgh Council Charitable Trust Funds (Boyd Anderson); these have been prepared using a break-up basis of accounting as they are not considered to be a going concern.

Trustees assessment of going concern

The trustees are of the opinion the five trusts, excluding The City of Edinburgh Council Charitable Funds (Boyd Anderson), are a going concern from reviewing activities undertaken, based on expected expenditure and commitments in the coming year.

Audit work performed

ISA 570 (revised) specifies mandatory procedures that we are required to carry out on going concern.

In order to gain assurance on these matters our work has included:

- enquiring of Council senior management and the charitable trusts' solicitors concerning litigation, claims and assessments;
- Consideration of post balance sheet events; and
- consideration of the impact COVID-19 has had on the organisation.

Disclosures

We have reviewed the disclosures set out in the notes to the financial statements on going concern and consider these accounting policies to be appropriate.

Conclusion

Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that five of the six charitable trusts will continue to operate for at least 12 months from the signing date.

In respect of the 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 this trust using a break-up basis of accounting as they consider that it is not a going concern. Our opinion is not modified in respect of this matter.

6. Audit communication

Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Under ISA (UK) 260 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the business and the needs of the users.

Our initial assessment of materiality for the year ended 31 March 2021 was set out in our External Audit Annual Plan and is detailed in the table below ("Planning materiality"). On receipt of the draft financial statements, we reassessed materiality and set it at the levels outlined below. We consider that our updated assessment has remained appropriate throughout our audit.

	Planning materiality (£)	Final overall materiality for the financial statements (£)	Performance materiality (£)	Trivial threshold (£)	Explanation
Lauriston Castle	140,900	153,220	114,915	7,661	<p>Overall materiality: our assessment is based on approximately 2% of gross assets. We consider this benchmark to be the principal consideration for the users of the financial statements when assessing the performance of each charitable trust.</p> <p>Performance materiality: Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.</p> <p>Trivial threshold: 5% of overall materiality for the financial statements.</p>
Jean F. Watson	129,180	132,920	99,690	6,646	
Edinburgh Education Trust	20,380	23,940	17,955	1,197	
Nelson Halls	4,980	5,540	4,155	277	
City of Edinburgh Council Charitable Funds (Boyd Anderson)	2,120	2,000	1,500	100	
Royal Scots (The Royal Regiment) Monument Trust Fund	720	720	540	36	

6. Audit communication (continued)

Accounting policies, presentation and disclosures

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted.

The accounting policies, which are disclosed in the financial statements, are considered appropriate. The accounting policies were updated in the current year to reflect the support in kind provided by City of Edinburgh Council.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

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

Fraud and suspected fraud

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

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose. In the event that the directors wish to obtain enhanced assurance with regard to the effectiveness of internal control in preventing and detecting fraud we should be happy to provide additional services.

Written representations

We will present the final letter of representation to the Finance and Resources Committee to sign at the same time as the financial statements are approved.

Related parties

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

Confirmations from third parties

All requested third party confirmations have been received.

Non-compliance with laws and regulations

Trustees are responsible for preparing the financial statements in accordance with the Companies Act 2006, the Charities Accounts (Scotland) Regulations 2006 (as amended), the Charities and Trustee Investment (Scotland) Act 2005, and relevant accounting standards.

The financial statements are 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 trusts.

As The City of Edinburgh Council Charitable Funds (Boyd Anderson) have been prepared on a break-up basis of accounting, separate financial statements have been prepared.

We are not aware of any significant incidences of non-compliance.

7. Audit adjustments identified during the audit

Audit adjustments

The reconciliation of the unaudited statutory financial statements to the audited statutory financial statements is as follows:

2020/21 Financial Statements (current year)		£'000
Total funds as per unaudited financial statements: The City of Edinburgh Charitable Trusts		15,891
<i>Audit adjustments</i>		
Separate financial statements prepared for The City of Edinburgh Council Charitable Funds (Boyd Anderson): prepared on break up basis of accounting		(96)
Revision to Lauriston Castle Trust Revaluation		13
Recognition of income generated in year (Lauriston Castle Trust £36,000 and Nelson Halls Trust £14,000) offset against expenditure in year by City of Edinburgh Council on behalf of the Trusts		0
Recognition of City of Edinburgh Council support in kind (net impact nil; £237,000 increase to income and expenditure; relates to Lauriston Castle Trust £202,000, Nelson Halls Trust £15,000 and Royal Scots Trust £20,000)		0
Total funds as per audited financial statements: The City of Edinburgh Charitable Trusts		15,808

Notes: There were no audit adjustments to the Boyd Anderson Trust financial statements

2019/20 Financial Statements (prior year)		£'000
Total funds as per 2019/20 audited financial statements: The City of Edinburgh Charitable Trusts		14,875
<i>Audit adjustments</i>		
Separate financial statements prepared for The City of Edinburgh Council Charitable Trusts (Boyd Anderson): prepared on break up basis of accounting		(101)
Recognition of income generated in year (Lauriston Castle Trust £19,000 and Nelson Halls Trust £11,000) offset against expenditure in year by City of Edinburgh Council on behalf of the Trusts		0
Recognition of City of Edinburgh Council services in kind (net impact nil; £297,000 increase to income and expenditure; relates to Lauriston Castle Trust £229,000, Nelson Halls Trust £49,000 and Royal Scots Trust £19,000)		0
Total funds as per audited financial statements: The City of Edinburgh Charitable Trusts		14,774

Notes: There were no prior year audit adjustments to the Boyd Anderson Trust financial statements

Disclosure amendments

No	Detail
1	Separate accounts prepared for the City of Edinburgh Council Charitable Funds (Boyd Anderson) and update to disclosures in City of Edinburgh Council Charitable Trusts financial statements
2	Update on disclosures in respect of the audit adjustments (as they relate to income recognition and support in kind from City of Edinburgh Council)
3	Accounting policies inserted over support in kind from City of Edinburgh Council, including revision to the critical judgements and estimates applied.

8. Internal controls

Control environment

The purpose of an audit is to express an opinion on the financial statements. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included recommendations as set out in the action plan on the next page. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Area	Assessment	Comment
Control and process environment	Satisfactory	We consider the control environment to be satisfactory although there is scope for improvement. We have noted suggestions on possible process improvements as documented in the action plan.
Quality of supporting schedules	Satisfactory	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	Satisfactory	Management's responses to our audit queries were appropriate and received on a timely basis.

8. Internal controls (continued)

Control environment

Control points arising from our current year work and our recommendations are summarised below. The recommendations are categorised into three risk ratings as shown in the key.

Key: 1. Significant deficiency 2. Other deficiency 3. Other observations

Area	Observation	Implication	Recommendation	Management Response
Regular financial reporting 3	<p>The Finance and Resources Committee does not receive regular financial information on income generated / expenditure incurred on the Charitable Trusts. As the Trustee of the trusts the Council should receive regular financial information to ensure that income generated is applied in accordance with the charitable objectives of the Trusts.</p>	<p>There is a risk that income is not spent in accordance with the charitable objectives of the Trusts.</p>	<p>Regular financial information should be presented to enable the Council to fulfil its role as Trustee to these Trusts.</p>	<p>Six-monthly financial updates to elected members will be introduced, aligned to the revised governance arrangements expected to be approved early in the new year.</p> <p>Responsible officer: Principal Accountant (Corporate Accounts)</p> <p>Completion date: June 2022</p>
Financial forecasts 3	<p>Forecasting is due to be carried out by City of Edinburgh Council finance staff in 2021/22 to ensure those charged with governance are aware of funds available in 2022/23 which will enable longer term planning.</p>	<p>There is a risk that those charged with governance do not have sufficient / up to date information to base decisions on over the longer term financial position of the trusts.</p>	<p>Once prepared; the financial forecasts should be presented to enable the Council to take decisions over the longer term financial position of the Trusts.</p>	<p>Members of the Committee on the Jean F Watson Bequest already receive regular financial updates to inform decisions on the allocation of available funds. While four of the other five trusts are either in receipt of a net funding contribution from the Council or are being wound up, opportunities to improve financial planning will nonetheless be considered and reported as part of the updates mentioned in the recommendation above.</p> <p>Responsible officer: Principal Accountant (Corporate Accounts)</p> <p>Completion date: June 2022</p>

8. Internal controls (continued)

Follow up of prior year/s recommendations

As part of our audit process, we have specifically followed up on the recommendations either raised in last year's report or carried forward from prior reports. We are pleased to report that all prior year recommendations have now been actioned and are reported as closed.

Key: 1. Significant deficiency 2. Other deficiency 3. Other observations

Area	Observation	Implication	Recommendation	2019/20 management response
Valuation of Lauriston Castle Collection 1	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. The previous valuation of the collection was carried out in 1997.	The valuation of the collection in the financial statements is materially misstated.	The external valuation of the collection should be concluded as soon as practicable to ensure incorporation in the financial statements.	While the majority of required details have been received, given continuing delays in the completion of the valuation, contingency arrangements have been put in place should the outstanding elements not be received from the contracted valuer within the recently-agreed timescale. Responsible officer: Service Manager, Cultural Venues (Museums & Galleries), Place Completion date: May 2021
Current status	Update			
Closed	The valuation of the collection was completed in November 2020 and accounted for in the 2020/21 financial statements. Responsible officer: n/a Completion date: n/a			

8. Internal controls (continued)

Follow up of prior year/s recommendations (continued)

Key: **1. Significant deficiency** **2. Other deficiency** **3. Other observations**

Area	Observation	Implication	Recommendation	2019/20 management response
Declaration of interests 3	<p>We noted the following during our 2018/19 audit:</p> <ul style="list-style-type: none"> The Council's website details those councillors who are members of the Finance and Resources Committee and the Jean F. Watson Committee. The website does not explicitly note that where councillors are members of the Finance and Resources Committee they are trustees of the City of Edinburgh Council Charitable Trusts. Individual councillor registers of interests do not make reference to the City of Edinburgh Council Charitable Trusts. 	<p>Openness and transparency – there is a risk over the openness of disclosures made by the City of Edinburgh Council as Trustee of the charitable trusts. These records inform related party disclosures and potential conflicts of interests when considering the business of both the Council and the Trusts.</p>	<p>We recommend that any councillors who may in future be appointed to act 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.</p>	<p>Both issues identified have been progressed and reminders will be issued going forward upon any change of Committee membership to ensure registers of interest remain current in this respect.</p> <p>Responsible officer: Principal Accountant (Corporate Accounts), Finance Completion date: November 2020</p>
Current status	Update			
Ongoing	<p>If revised governance arrangements to be presented to Council early in the new year are approved and implemented, any individual councillor trustees will be asked to ensure that their respective registers of interest are updated</p> <p>Responsible officer: Head of Democracy, Governance and Resilience Completion date: On-going</p>			

9. Independence and ethics

Independence and Ethics

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

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

Audit and non-audit services

The following services were provided in the year to 31 March 2021 and to 31 March 2020.

Audit services	Fees 2021 £	Fees 2020 £
Audit of the financial statements	8,240	8,000

No non-audit services were provided in either year.

AZETS