

# The City of Edinburgh Council Charitable Trusts and Funds

Proposed 2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Trustee of CECCT and CECCF and the Controller of Audit  
November 2024

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# Key messages

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## 2023/24 annual accounts

- 1 **Our proposed** audit opinions on the annual accounts are unmodified
- 2 Our audit work identified a number of significant findings, particularly around the valuation of the Charitable Trust's assets.

## Wider scope

- 3 More could be done to raise awareness and applicants for the Edinburgh Education Trust.
- 4 The project to wind up the charitable fund and use the funds to build an outdoor classroom has been delayed for eight years.

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# Introduction

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**1.** This report summarises the findings from the 2023/24 annual audit of the City of Edinburgh Council Charitable Trusts (CECCT) and the City of Edinburgh Council Charitable Funds (CECCF), collectively referred to as the Trusts. The scope of the audit was set out in an Annual Audit Plan presented to the 25 June 2024 meeting of the Finance and Resources Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of the CECCT and CECCF annual accounts
- conclusions on the Trusts' performance in meeting their Best Value duties
- for CECCF, conclusions on wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability
- for CECCT, conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.

**2.** This report is addressed to the Trustee of CECCT and CECCF and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment

**3.** The 2023/24 financial year was the second of our five-year appointment. Our appointment coincides with the new Code of Audit Practice which was introduced for financial years commencing on or after 1 April 2022. We would like to thank senior management and the finance team for their cooperation and assistance.

## Responsibilities and reporting

**4.** The Charities Accounts (Scotland) Regulations 2006 require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. The City of Edinburgh Council is the sole trustee for six trusts registered as Scottish charities. The preparation and audit of

financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

**5.** The Trustee has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Trustee is also responsible for compliance with legislation putting arrangements in place for governance and propriety.

**6.** The responsibilities as the independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the Code of Audit Practice and supplementary guidance and International Standards on Auditing in the UK.

**7.** The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues raised and to maintain adequate systems of control.

**8.** This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

## **Auditor Independence**

**9.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £9,540 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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# Part 1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship public funds.

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## Main judgements

**Our proposed** audit opinions on the annual accounts are unmodified

Our audit work identified a number of significant findings, particularly around the valuation of assets.

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## Audit opinions on the annual accounts are unmodified

**10.** The Committee approved the annual accounts for CECCT and CECCF for the year ended 31 March 2024 on **19 November 2024**. The financial statements have been prepared using the connected charities provision under The Charities Accounts (Scotland) Regulations 2006. The City of Edinburgh Council's Finance and Resources Committee acts as sole Trustee for these charitable trusts which are listed below:

- Miss Jean F. Watson Bequest (SC018971)
- Edinburgh Education Trust (SC042754)
- Nelson Halls Trust (SC018946)
- Lauriston Castle Trust (SC020737)
- The Royal Scots (The Royal Regiment) Monument Trust Fund (SC018945)

**11.** Our independent auditor's report to the trustee of The City of Edinburgh Council Charitable Trusts is unmodified.

**12.** We have drawn attention in our independent auditor's report to the fact that the City of Edinburgh Council Charitable Funds (Boyd Anderson) SC025067 financial statements, which have been prepared separately, have been prepared using a break-up basis of accounting as the council as trustee considers it is not a going concern. Our opinion is not modified in respect of this matter. We have no matters to report regarding the adoption of the going concern basis in respect of the five other charitable trusts.

## Overall materiality was assessed on receipt of the annual accounts as £350,000 for CECCT and £880 for CECCF

**13.** Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**14.** Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	CECC Trusts	CECC Fund
Overall materiality	£350,000	£880
Performance materiality	£230,000	£570
Reporting threshold	£18,000	£44

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**15.** The overall materiality threshold was set with reference to net assets, which was judged as the figure most relevant to the users of the financial statements.

**16.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65% of overall materiality, reflecting a history of a low number of errors or significant issues.

**17.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on making the correction lies with those charged with governance.

### Significant findings and key audit matters

**18.** Under ISA (UK) 260, we communicate significant findings from the audit to the trustee, including our view about the qualitative aspects of the body's accounting practices.

**19.** The Code of Audit Practice also requires us to highlight key audit matters, which are defined in ISA (UK) 701 as those matters judged to be of most significance. The significant findings, including key audit matters, are summarised in [Exhibit 2](#).

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## Exhibit 2

### Significant findings and key audit matters from the audit of the annual accounts

#### Issue

#### 1. Valuation of artworks and other artefacts

Included within the charitable trusts are two collections of artworks and other artefacts - the Jean F Watson Collection and the Lauriston Castle Collection.

The Jean F Watson collection disclosed in the unaudited accounts was based on an internal revaluation which was carried out in 2014/15, and an external revaluation of the Lauriston Collection which took place in 2020.

As a significant period of time has elapsed since the last full valuations, there is increased risk of material uncertainty over the accuracy of the value of these valuations. The accounting framework states that charitable trusts are not required to recognise heritage assets on the balance sheet if information on their cost or valuation is not available and such information cannot be obtained at a cost commensurate with the benefit to the charity.

Following discussion, management decided to adjust the accounts to not recognise these collections on the balance sheet, with the exception of additions to the Jean F Watson collection since 2014/15, when the last valuation was undertaken. These more recent purchases are included in the balance sheet at cost.

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#### 2. Valuation basis of land and buildings owned by the charitable funds

The Nelson Halls properties and the Lauriston Castle buildings and grounds had previously been disclosed at historic cost in prior year accounts. As recent valuations are available, this has been amended to a fair value basis. The result is that the balance sheet now recognises a total net increase of £19.239m in Heritage Assets.

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#### 3. Charitable Fund accounted for using a 'break-up' basis

In 2016, the monies available in the charitable fund were approved to be used to build a modular log cabin-type classroom at Lagganlia Outdoor Centre in the Cairngorms. This project has been delayed for several years, and the trustee reports that progress is now expected in the next 12 months.

This project is now at least eight years in development. We have sought assurances from management and have concluded there is reasonable expectation of progress in the near future.

The financial statements for the City of Edinburgh Council Charitable Funds have been prepared using a break-up basis of accounting as it is considered that it is not a going concern. This is because the Office of the Scottish Charities Regulator (OSCR) has granted consent to wind up the Trust, and the process is expected to be finalised after construction has been completed.

Our opinion was not modified in respect of this matter. Our independent auditor's report on this set of annual accounts includes an emphasis of matter paragraph to draw attention to this issue.

[Refer paragraph 27](#)

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#### 4. Governance and legal process concerning Lauriston Castle

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## Issue

On 20 June 2023, the Finance and Resources Committee considered a report on the Lauriston Castle Trust and options for reshaping governance arrangements. The committee approved, subject to onward ratification by Council subsequently received on 31 August 2023, to apply to the Court of Session to use the nobile officium to approve the winding up of the Lauriston Castle Trust and the transfer of assets to the council.

As the trust continues to have financial backing to utilise its assets and meet liabilities as they fall due, and particularly as the intention is to transfer ownership to the council, we have concluded that the going concern basis is appropriate.

## 5. Inclusion of operating costs

The draft accounts submitted for audit included £166,000 of running costs for Nelson Halls (and matching donated income). It was later identified by management that this expenditure specifically related to operating costs incurred by the council itself. The audited accounts have been adjusted to remove this additional expenditure and associated income.

## Audit work responded to the risks of material misstatement identified in the annual accounts

**20.** My team and I have obtained audit assurances over the identified significant risks of material misstatement to the annual reports and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in the 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

## Exhibit 3

### Identified significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls (CECCT and CECCF)</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting</li> </ul>	<p>From the work undertaken, we did not identify any instances of management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>2. Diverse nature of non-current asset portfolio (CECCT)</b></p> <p>CECCT has a diverse portfolio of non-current assets, including historic buildings, monuments, works of art and other artefacts. These assets are included in the accounts with a range of different valuation policies, categories, and disclosures.</p> <p>The measurement, valuation and disclosures of these material balances require significant accounting estimates and judgement.</p> <p>The variation in nature and inherent characteristics of these assets means there is scope for material misstatement in the annual accounts.</p>	<p>estimates compared to the prior year.</p> <ul style="list-style-type: none"> <li>• For all non-current assets, we will assess the appropriateness of accounting treatment, classification and the estimates and assumptions involved in their valuations.</li> <li>• We will assess the information provided to the valuer, obtain an understanding of management's involvement in the valuation process and evaluate the competence, capabilities, and objectivity of the valuer.</li> <li>• Review the accounting policy for all non-current assets and consider whether it is reasonable and consistent with other disclosures in the financial statements.</li> <li>• Testing to confirm the ownership and existence of non-current assets.</li> </ul>	<p>Refer Exhibit 2. Our audit work included verifying the accounting treatment, an assessment of valuations, classification, ownership and existence of non-current assets. We have concluded that the non-current assets recognised on the balance sheet are fairly stated.</p>
<p><b>3. Valuation of Miss Jean Fletcher Watson Bequest (CECCT)</b></p> <p>The value of the Jean F Watson collection disclosed in the accounts is based on an external revaluation which was carried out in 2014/15. As a long period of time has elapsed since the last full valuation, there is increased risk and uncertainty over the accuracy of the value of the collection disclosed in the accounts.</p>	<ul style="list-style-type: none"> <li>• Evaluate the approach taken to ensure that the valuation at 31 March 2024 is materially correct.</li> </ul>	<p>Refer Exhibit 2. The accounts do not recognise this collection on the balance sheet, with the exception of additions to the Jean F Watson collection since 2014/15, the date when the last valuation was undertaken. We have concluded that this treatment is appropriate.</p>

**21.** In addition, we identified “areas of audit focus” in our 2023/24 Annual Audit Plan where we considered there to be other risks of material misstatement to the financial statements. The areas of specific audit focus were around sufficiency of disclosures of the winding up of Lauriston Castle Trust (CECCT) and the Boyd Anderson Trust (CECCF). We have reported our findings on these matters in Exhibit 2.

### **The unaudited annual accounts were received in line with the agreed timetable**

**22.** The unaudited annual accounts were received in line with the agreed audit timetable on 28 June 2024.

### **Limited progress was made on prior year recommendations**

**23.** There has been limited progress in implementing the agreed prior year audit recommendation. This related to the lack of awards made by the Edinburgh Education Trust. A revised response and timescale has been agreed with management, and is set out in [Appendix 1](#).

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# Part 2. Wider Scope

Our wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer-term, and the arrangements for securing Best Value.

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## Conclusion

More could be done to raise awareness and applicants for the Edinburgh Education Trust

The project to wind up the charitable fund and use the funds to build an outdoor classroom has been delayed for eight years.

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## More could be done to raise awareness and applicants for the Edinburgh Education Trust

**24.** The Edinburgh Education Trust awards grants to schools and individuals through income received from its investments. In 2023/24, the trust funded £3,300 of school prizes and activities for looked-after children. The charity rolls forward any unused funds from the current year into the following year.

**25.** The total value of awards in year is low when compared to the funds it has at its disposal. The Edinburgh Education Trust has cash and investments totalling £1.368 million, and annual income is around £32,000. The awards of £3,300 in 2023/24 represents only around 10% of in-year income.

**26.** As the appointed auditors of the Section 106 charities administered by the council, we are required to consider whether the funds held within the trusts are being used for the purposes intended. This includes reporting any inappropriate use of funds or prolonged lack of activity - the 'public benefit' test. We continue to recommend, as we did in 2022/23, that the trustee takes steps to make the charity's existence more widely known and encourage awards to be made.

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## Recommendation 1

The council, as trustee of the Edinburgh Education Trust, should take steps to make the charity's existence more widely known, and applications more accessible. (Recommendation carried forward from 2022/23)

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## **The project to wind up the charitable fund and use the funds to build an outdoor classroom has been delayed for eight years**

**27.** The purpose of the City of Edinburgh Council Charitable Fund is to provide outdoor education and skiing opportunities. The fund has a total cash balance of £89,474 as at 31<sup>st</sup> March 2024.

**28.** The project to wind up the charitable fund and construct an outdoor classroom at Lagganlia was approved in 2016, but construction delays have lasted several years and the latest estimated date for completion and winding up of the Trust is during 2025/26, with the accounts being prepared on a break-up basis. The trustee should take action to ensure the project is appropriately progressed, managed and monitored.

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### **Recommendation 2**

There have been significant construction delays to the outdoor education project. The charitable fund still holds a sizeable cash balance eight years since the decision to disburse the remaining funds. Trustees should ensure this project is appropriately progressed, managed and monitored.

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# Appendix 1. Action plan 2023/24

## 2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Delays to winding up the charitable fund</b></p> <p>There have been significant construction delays to the outdoor education project. The charitable fund still holds a sizeable cash balance eight years since the decision to disburse the remaining funds.</p>	Trustees should ensure this project is appropriately progressed, managed and monitored.	<p><b>Accepted</b></p> <p>In light of significant contract inflation, the project was reviewed post-pandemic and a revised proposal has now been accepted by the Council's commissioning team.</p> <p>It is expected that the tender process to re-appoint a contractor will be completed by March 2025, after which the construction work at Lagganlia will commence. Updates will be included in the Business Bulletin as this work progresses.</p> <p><b>Responsible officer:</b> Wider Achievement &amp; Lifelong Learning Manager (Outdoor Learning)</p> <p><b>Target date for completion:</b> December 2025</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation and agreed action	Update
<p><b>2. The Edinburgh Education Trust</b></p> <p>In recent years the Edinburgh Education Trust has paid out</p>	<p><b>Recommendation:</b> The council, as trustee of the Edinburgh Education Trust, should take steps to make the charity's existence more</p>	<p><b>Not implemented</b></p> <p>Following review of the previous scheme, an updated process will be developed with a view to re-launching</p>

Issue/risk	Recommendation and agreed action	Update
a relatively low level of grants in comparison to funds held.	<p>widely known, and applications more accessible.</p> <p><b>Agreed action:</b> The recommendation is agreed and opportunities to publicise available funding and facilitate applications, consistent with the Trust's charitable purposes, will be progressed in the coming year.</p> <p><b>Responsible officer:</b> Principal Accountant (Corporate Accounts), Finance</p> <p><b>Agreed date:</b> March 2024</p>	<p>the fund in time for the beginning of the new academic year.</p> <p><b>Responsible officer:</b> Head of Wider Achievement and Lifelong Learning</p> <p><b>Target date for completion:</b> August 2025</p>

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# The City of Edinburgh Council Charitable Trusts and Funds

## Proposed

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)



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