

# Governance, Risk and Best Value Committee

10.00a.m, Thursday, 3 April 2014

## External Audit: Annual Audit Plan

Item number	8.1
Report number	
Wards	All

### Links

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Coalition pledges	<a href="#">P30</a>
Council outcomes	<a href="#">C025</a>
Single Outcome Agreement	<a href="#">All</a>

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# Executive summary

## External Audit: Annual Audit Plan

### Summary

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The Committee's remit include the review of all matters relating to external audit, including planning documentation.

The external auditor has provided the Committee with their detailed Annual Audit Plan, in line with their "Code of Practice". The Plan is attached at Appendix 1.

The Annual Audit Plan includes a summary of planned audit activity, defines responsibilities, reviews risks and details fees and resources.

The Plan also includes within its appendices a timetable, summary assurance plan and audit team details.

Audit Scotland will be represented at the Committee for this agenda.

### Recommendations

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1. To note the external auditor's plan; and
2. To note that progress against the plan will be reported to Committee.

### Measures of success

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The Action Plans of these reports, when implemented, will demonstrate that the Council continues to strengthen its control framework and approach to risk management.

### Financial impact

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The costs of the audit fee are provided for, and can be contained, within the Corporate Governance approved budget.

### Equalities impact

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There is no equalities impact arising from this report.

### Sustainability impact

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There is no adverse environmental impact arising from this report.

## Consultation and engagement

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Not applicable.

## Background reading / external references

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## Links

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<b>Coalition pledges</b>	P30 - Continue to maintain a sound financial position including long-term financial planning
<b>Council outcomes</b>	CO25 – The Council has efficient and effective services that deliver on agreed objectives
<b>Single Outcome Agreement</b>	SO1 – Edinburgh’s economy delivers increased investment, jobs and opportunities for all SO2 – Edinburgh’s citizens experience improved health and wellbeing, with reduced inequalities in health SO3 – Edinburgh’s children and young people enjoy their childhood and fulfil their potential SO4 – Edinburgh’s communities are safer and have improved physical and social fabric
<b>Appendices</b>	1. External Audit: Annual Audit Plan

# City of Edinburgh Council

## Annual Audit Plan 2013/14



Prepared for Members of City of Edinburgh Council  
March 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Summary

## Introduction

1. Our audit is focused on the identification and assessment of the risk of material misstatement in City of Edinburgh Council's financial statements. This report summarises our assessment of the key challenges and risks facing City of Edinburgh Council (the council) and sets out the audit work that we propose to undertake in 2013/14. Our plan reflects:
  - the risks and priorities facing the council
  - current national risks relevant to local circumstances
  - the impact of changing international auditing and accounting standards
  - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
  - issues brought forward from previous audit reports.
2. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee. The council has eight trusts having charitable status with total assets of £4.2 million. The Assistant Auditor General wrote to local government directors of finance in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of its relevant charitable trusts. Accordingly, we will perform the audit of the council's charitable trusts in parallel with the audit of the council's financial statements and provide audit opinions as necessary.

## Summary of planned audit activity

### 3. Our planned work in 2013/14 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view of the financial position of the council as at 31 March 2014 and its income and expenditure for the year then ended
  - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2013 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- an audit of the financial statements and provision of an opinion for the charitable trusts where the local authority is the sole trustee
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This will consist of the Local Area Network (LAN) examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period 2014/15 to 2016/17 for the council
- follow up work on the May 2013 Best Value audit of the council, as requested by the Accounts Commission
- a review and assessment of the council's governance and performance arrangements in a number of key areas including: review of adequacy of internal audit, ICT reviews, governance statement, national study follow up work, statutory performance indicators and other performance and governance work
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative arrangements
- review of local impact of national studies.

# Responsibilities

4. The audit of the financial statements does not relieve management or the Governance, Risk and Best Value Committee, as the body charged with governance, of their responsibilities.

## Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

## Responsibility of the Head of Finance

7. It is the responsibility of the Head of Finance, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
  - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
  - maintaining proper accounting records
  - preparing financial statements timeously which give a true and fair view of the financial position of the City of Edinburgh council as at 31 March 2014 and its expenditure and income for the year then ended.

## Format of the accounts

8. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice. The council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

# Audit Approach

## Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the council. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
  - understanding the business of the council and the risk exposure which could impact on the financial statements
  - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
  - identifying major transaction streams, balances and areas of estimation and understanding how the council will include these in the financial statements
  - assessing and addressing the risk of material misstatement in the financial statements
  - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2013/14 includes:
  - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
  - clear responsibilities for preparation of financial statements and the provision of supporting working papers
  - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
  - completion of the internal audit programme for 2013/14.
11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided on a co-sourced basis between PricewaterhouseCoopers (PwC) and the council. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
12. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:

- HR /payroll
  - Treasury (corporate borrowing)
  - Cash management
  - Continuous audit testing (financial risks) – including council tax benefits, housing benefits, accounts payable and accounts receivable
  - ICT data security
  - SWIFT / ORACLE
  - Annual Governance Statement.
13. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
- ICT procurement
  - Welfare reform
  - Procurement savings
  - Property conservation – shared repairs
  - National Fraud Initiative

## Materiality

14. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
15. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement and experience and internal guidelines from peers. An item may be judged material for reasons other than its monetary value. An inaccuracy, which would not normally be regarded as material, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, or an item contrary to law). Such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

## Reporting arrangements

16. The Local Government (Scotland) Act 1973 requires that unaudited financial statements are presented to the council and Controller of Audit within three months of the end of the financial year. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year. The statutory deadline for the audit opinion we provide on the City of Edinburgh Council's Charitable Trusts Account is 31 December 2014. A high level timetable is included at Appendix A of this plan, which takes account of submission

requirements, planned Governance, Risk and Best Value (GRBV) committee dates. A more detailed timetable will be agreed with the Head of Finance in due course.

17. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Director of Corporate Governance, Head of Finance (s.95 officer), relevant senior managers, internal audit and Audit Scotland's Performance Audit and Best Value Group.
18. We will provide an independent auditor's report to the City of Edinburgh Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. After completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit. All annual reports produced are published on Audit Scotland's website: ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).
19. Planned outputs for 2013/14 are summarised at Exhibit 1.

#### Exhibit 1: Planned outputs

Planned outputs	Final report issued by
<b>Governance</b>	
Annual Audit Plan (including review of adequacy of internal audit)	31 March 2014
Assurance and Improvement Plan Update (jointly prepared with other local scrutiny bodies)	12 May 2014
Governance and internal controls management letter	30 June 2014
<b>Performance</b>	
Arms length organisations: are you getting it right - follow up	30 May 2014
Major capital investment in councils - follow up	30 June 2014
<b>Financial statements</b>	
Report to the Governance, Risk and Best Value (GRBV) Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	24 September 2014
Independent auditor's report on the financial statements	30 September 2014
Audit opinion on Charitable Trusts Account	30 September 2014 (TBC)
Audit opinion on Whole of Government Accounts	24 October 2014

Planned outputs	Final report issued by
	(TBC)
Annual report to Members and the Controller of Audit	31 October 2014
<b>Grants</b>	
Certification of a number of grant claims and statements of expenditure:	
Central Scotland Safety Camera Partnership grant claim	31 July 2014
Education Maintenance Allowance claim	31 July 2014
Criminal Justice in Social Work claim	30 September 2014
Housing Benefit subsidy claim	30 November 2014
Non Domestic Rates Income return	03 February 2015

## Quality control

20. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer review, internal quality reviews and has engaged the Institute of Chartered Accountants of Scotland (ICAS) to conduct a programme of external review.
21. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, David McConnell.

## Independence and objectivity

22. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

23. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the council.

# Audit issues and risks

## Financial Statements Audit

24. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.
25. **Tram project timetable and expenditure:** The tram project is scheduled for completion in summer 2014. The council is continuing to monitor the project closely through the testing and commissioning phase to identify and mitigate potential issues that could impact on the planned delivery timescale.
26. The council's latest financial reports indicate that the project is expected to be completed within the budget of £776 million. However the council recognises that risks remain to the overall forecast, such as the settlement of final accounts with contractors and potential claims against the council. Additionally the council has started to incur revenue costs associated with the preparation for operation, including a further £4 million in 2013/14. The timing and range of expenditure in the closing stages of the project increases the risk of mis-classification of costs between accounting periods, and also between capital and revenue.
27. We will monitor the progress of the tram project, and the associated costs, by reviewing progress reports to elected members and appropriate supporting documentation, and discussion with officers. Additionally we will carry out substantive testing as part of our financial statements approach to ensure appropriate categorisation of costs in the financial statements.
28. **Trams classification and valuation:** As noted above, the tram project is scheduled for completion within several months after the 31 March 2014 balance sheet date. To date, tram vehicles have been accounted for as assets under construction however depending on whether the assets are available for use it may be necessary to treat these assets as operational assets at the balance sheet date. The council will need to assess whether the trams are available for use at the balance sheet date and ensure that they are accounted for correctly.
29. The Code requires authorities to assess at the end of each reporting period whether there is any indication that an asset may be impaired, and to recognise an impairment loss where the recoverable amount of an asset is lower than its carrying amount. The council will need to assess whether any impairment is required in respect of any tram vehicles that may be surplus to its requirements.
30. We will consider the council's assessment of tram vehicle requirements and the accounting impact by reviewing progress reports to elected members and appropriate supporting documentation, and discussion with officers. We will consider the appropriateness of the classification and valuation of tram vehicles as part of our testing of non current assets within the financial statements.

31. **Statutory repairs:** The 2012/13 financial statements contained a total debtor balance of £32.5 million relating to statutory notices. The largest element of this balance, £22 million was made up of work carried out but not yet billed. The council has a statutory notices bad debt provision of £10.4 million, which equates to 32% of the total debtor relating to statutory notices.
32. Deloitte LLP was appointed in March 2013 to help conclude projects and move to a situation where bills could be issued. Deloitte is providing a full review of the available information and presenting the council with an assessment of the sums which it is appropriate to recover in each case. Billing and recovery is to be carried out by council staff. It was noted at the Finance and Budget Property Sub-committee in May 2013 that the council planned to achieve billing of 80% of the outstanding amounts by autumn of 2013. By the end of 2013 no billing had taken place. Part of the time slippage in billing has been the introduction of third party verification of all projects prior to billing to owners. This has been introduced to provide reassurance to owners that the sums billed are accurate. The council has billed approximately £1 million from January 2014 to mid March 2014, with an expectation that billing will accelerate going forward. Council officers believe the majority of bills for completed projects will be finalised and issued by May 2014.
33. Although progress has been made in dealing with the unbilled work of £22 million, the delays mean that the unbilled debt has aged further, arguably increasing the risk of successful recovery. We will continue to monitor the situation through update reports to appropriate committees and discussions with council officers as well as conducting a review of statutory repairs balances as a part of our audit of the 2013/14 financial statements.
34. **Group Structure:** The council has a complex group structure which requires the preparation of group financial statements. During 2013/14 the council has been reviewing its group company structure which is expected to result in the creation of new transport companies and the merger or cessation of other group companies. We will monitor any changes to the group structure and their impact on the 2013/14 financial statements and we will continue to liaise with the external auditors of the group bodies to gain assurances for the audit of the group financial statements.
35. **Significant Trading Organisations (STOs):** The council operates 8 significant trading organisations under the terms of the Local Government in Scotland Act 2003. It is currently reviewing the number of activities classified as STOs following the issue of guidance in 2013 by LASAAC (Local Authority Scotland Accounts Advisory Committee). As an interim measure the council will report those operations which trade externally, in line with LASAAC guidance. We will review the council's assessment and application of the LASAAC guidance as part of our planned financial statements audit work.
36. In our 2012/13 independent auditor's report, we drew attention to the fact that the council's significant trading operation, Edinburgh Catering Services - Other Catering, had failed to break even, on a cumulative basis, over the three year period ending 31 March 2013. Whilst this was a failure to comply with the Local Government in Scotland Act 2003 (section 10), it

did not impact on the fairness or affect our overall opinion on the council's financial statements.

37. Although a surplus was achieved in each of the last two financial years, the rolling three year break even requirement was not met in 2012/13 due to a deficit incurred in 2010/11, in the main due to single status costs. As these exceptional costs will not be included in the three year calculation for 2013/14, there is less of a risk that the statutory requirement will not be met in the current year. We will review the outturn position and achievement of the break even requirement as part of our financial statements audit.
38. **Finance restructuring:** An organisational review of finance services is currently ongoing, which is expected to result in fewer posts within the finance function. Staff changes in key posts and the effect on the day to day operation of services could impact on the 2013/14 accounts preparation process. The council will need to ensure that appropriate arrangements are in place to produce all relevant working papers and relevant staff are available to deal with audit queries.

## Wider issues and risks

39. **Managing financial pressures:** The Scottish Government's funding of local government will continue to reduce in real terms through 2013/14 and 2014/15. These reductions coincide with on-going cost pressures and increasing service demand, so that the council continues to face considerable pressure on its budget. The May 2013 Best Value audit of the council recognised the financial planning work being undertaken by the council to address financial pressures, but noted it was too early to assess the effectiveness of these plans.
40. The council has forecast a funding gap of £120 million for the four year period 2014-2018, as reported in the Revenue and Capital Budget Framework presented to the Finance and Resources committee in September 2013. It has identified efficiency plans, including further service reforms and procurement savings, to address a substantial element of this shortfall, however further savings are still required. In February 2014 the council agreed a balanced budget for 2014/15 which included £36 million of savings. The need to secure further efficiencies without impacting on services and with reduced staffing levels will be demanding.
41. The council's latest (month 9) budget monitoring reports forecast a balanced outturn, with all services projecting a balanced position. However cost pressures have been identified across all services and a range of cost management measures have been implemented to mitigate these. A shortfall in procurement savings of £4 million and additional revenue costs relating to the tram project of £4 million (see para.26) have been offset by reductions in the Non Domestic Rates liability of £3 million and loan charges of £5 million. We will consider the council's performance in relation to managing its finances as part of our local audit work 2013/14, supplemented by the planned Best Value follow up audit.
42. **Benefits performance:** In the 2012/13 Annual Audit Report, we noted that the council had not fully addressed all the issues raised in a previous benefits performance audit. The council has subsequently provided information on measures being taken to improve its performance,

including planned implementation of risk based verification, lean process reviews and the continuation of external processing capacity from an external provider until April 2014, along with the recruitment of an additional 15 permanent staff.

43. We will review the impact of these changes on performance upon receipt of the speed of processing results for quarters three and four of 2013/14 in April 2014 and consider whether any further audit action is required.
44. **Welfare reform:** The implementation of welfare reform will continue for several years to come, including the national roll out of Universal Credit, and will have an impact on all councils to a greater or lesser degree. Universal Credit will replace a range of existing means-tested benefits and tax credits for people of working age including housing benefit. The timing of the roll out of Universal Credit in Edinburgh is currently unknown. There are financial implications for both citizens and the council arising from the implementation of the reforms. In addition there are likely to be workforce implications from the implementation of Universal Credit as the council will no longer process Housing Benefit. Aspects of this are still being developed by the DWP and should continue to be closely managed through the various work streams of the corporate Welfare Reform Working Group.

## Summary assurance plan

45. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix B. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix B. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

## National performance audit studies - impact and follow up

46. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits we will review the impact of the following studies:
  - Health inequalities in Scotland - impact report
  - Arms Length External Organisations: Are you getting it right? - follow up report
  - Major capital investment in councils - follow up report

# Fees and resources

## Audit fee

47. In determining the audit fee we have taken account of the risk exposure of the council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2014.
48. The agreed audit fee for the 2013/14 audit of the council is £683,706 as summarised in Exhibit 2. This includes £47,190 in respect of the audit of Lothian Pension Funds and £4,200 in respect of the audit of the council's charitable trusts. Our fee covers:
- all of the work and outputs described in this plan
  - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
  - attendance at Governance, Risk and Best Value committee meetings, as appropriate
  - access to advice and information on relevant audit issues
  - access to workshops/seminars on topical issues
  - travel and subsistence costs.

### Exhibit 2: Audit fee

Description	Audit fee 2010/11	Audit fee 2011/12	Audit fee 2012/13	Audit fee 2013/14
Total audit fee	761,200	711,100	683,706	683,706
% cash reduction on prior year	0.2%	6.6%	3.9%	0.0%

49. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Audit team

50. David McConnell, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Stephen O'Hagan who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

# Appendix A - Financial statements audit timetable

Key stage	Date (by)
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2014
Testing and review of internal control systems and transactions	30 June 2014
Planned committee approval of unaudited financial statements	30 June 2014
Submission of unaudited council financial statements with working papers package	30 June 2014
Progress meetings with lead officers on emerging issues	ongoing during audit process
Submission of unaudited charitable trust financial statements with working papers package	31 July 2014 (TBC)
Latest date for submission of unaudited whole of government accounts to external audit	5 September 2014 (TBC)
Latest date for final clearance meeting with s.95 officer and other appropriate council officers	17 September 2014
Agreement of unsigned financial statements for Governance, Risk and Best Value committee agenda, and issue of report to the Audit Committee on the audit of financial statements (ISA 260)	19 September 2014
Governance, Risk and Best Value committee date	24 September 2014
Independent auditors report signed (CEC Account)	30 September 2014
Independent auditors report signed (Charitable Trusts Account)	30 September 2014 (TBC)
Latest date for signing of WGA return	24 October 2014 (TBC)
Annual report to Members and the Controller of Audit	31 October 2014

# Appendix B - Summary assurance plan

In this section we identify a range of risks facing City of Edinburgh Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of City of Edinburgh Council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
<p><b>Tram project expenditure</b></p> <p>The Tram project is scheduled for completion in summer 2014 and within the revised budget of £776 million. <i>There remain risks that the project may not be completed on schedule and/ or budget. Also, as the council is now incurring significant revenue costs in relation to preparation for operations, there is a risk of misclassification of expenditure between capital and revenue.</i></p>	<ul style="list-style-type: none"> <li>• Update reports to committees on tram project progress</li> <li>• Corporate Programmes Office (CPO) monitoring reports</li> <li>• Internal budget monitoring reports</li> <li>• Report produced by PWC for Governance Risk and Best Value committee on Assessment of Key Models, Associated Process Controls and Committee Reporting Format in relation to the tram project Trams Project</li> </ul>	<ul style="list-style-type: none"> <li>• Review of reports and papers on project progress and expenditure</li> <li>• Discussion with council officers</li> <li>• Substantive testing of a sample of revenue costs</li> </ul>
<p><b>Tram classification and valuation</b></p> <p>To date, Tram vehicles have been accounted for as assets under construction however if they are available for use at the balance sheet date it may be necessary to treat them as operational assets. Also, it may be necessary to recognise an impairment if the recoverable amount is lower than the carrying amount of any surplus trams.</p> <p><i>There is a risk that tram vehicles could be classified incorrectly or not</i></p>	<ul style="list-style-type: none"> <li>• Update reports to committees on tram project progress</li> <li>• Corporate Programmes Office (CPO) monitoring reports</li> </ul>	<ul style="list-style-type: none"> <li>• Review of reports and papers on project progress</li> <li>• Discussion with council officers</li> <li>• Review of papers and other appropriate evidence on valuation</li> </ul>

Risk	Source of assurance	Planned audit action
<p><i>reflected at an appropriate value in the financial statements.</i></p>		
<p><b>Statutory repairs</b></p> <p>The council acknowledges that the billing and debt recovery process is going to take a significant amount of time especially as the billing process continues and those projects that have been difficult to finalise due to age, complexity or lack of staff, contractor continuity or supporting information are processed.</p> <p><i>There is a risk that the amounts that have been or have yet to be billed to owners will not be fully recoverable.</i></p>	<ul style="list-style-type: none"> <li>• Update reports to committees on progress of billing, collection (including bad debts) and complaints resolution</li> <li>• Complaints clearance process</li> <li>• Service re-design progress reports to committee</li> </ul>	<ul style="list-style-type: none"> <li>• Review of reports and papers on progress of billing and collection (including bad debts) and complaints resolution</li> <li>• Discussion with council officers</li> <li>• Review all statutory repair balances within financial statements</li> <li>• Monitoring of progress on service redesign</li> </ul>
<p><b>Group Structure</b></p> <p>During 2013/14 the council has been reviewing its group company structure which is expected to result in the creation of new transport companies and the merger or cessation of other group companies.</p> <p><i>There is a risk that the revised group structure may not be reflected within the group financial statements.</i></p>	<ul style="list-style-type: none"> <li>• Update reports to committees on progress of review of group structure</li> <li>• Audited group company accounts</li> </ul>	<ul style="list-style-type: none"> <li>• Review of reports and papers on progress of review of group structure</li> <li>• Discussion with council officers</li> <li>• Liaison with external auditors of group companies</li> </ul>
<p><b>Significant Trading Operations (STOs)</b></p> <p>The council is currently reviewing the use of STOs as a service delivery model.</p> <p><i>There is a risk that revised arrangements may not properly reflect LASAAC's guidance on the definition and operation of STOs.</i></p>	<ul style="list-style-type: none"> <li>• A review group has been established to consider and report on the review of STOs</li> </ul>	<ul style="list-style-type: none"> <li>• Review of relevant committee reports and decisions</li> <li>• Coverage as part of our financial statements audit</li> <li>• Comment in the auditors opinion / annual report, as appropriate</li> </ul>

Risk	Source of assurance	Planned audit action
<p><b>Finance restructuring</b></p> <p>An organisational review of finance services is currently ongoing.</p> <p><i>There is a risk that staff changes in key posts and the effect on the day to day operation of services could impact on the 2013/14 accounts preparation process.</i></p>	<ul style="list-style-type: none"> <li>• Accounts preparation timetable to enable delivery of unaudited accounts and working papers</li> <li>• Schedule of main and alternative contacts for queries on each audit area, including availability</li> <li>• Availability of Finance staff for unresolved audit queries</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring developments</li> <li>• Scheduling of audit work to take account of timetable and availability of finance staff</li> </ul>
<p><b>Managing financial pressures</b></p> <p>The latest (month 9) budget monitoring reports forecast a balanced outturn, with all services projecting a balanced position. Cost pressures have been identified across all services and a range of cost management measures have been implemented to mitigate these.</p> <p><i>There is a risk that some of the projected underspends and overspends will vary resulting in the council not achieving its projected break even position at 31 March 2014</i></p>	<ul style="list-style-type: none"> <li>• Regular revenue reporting and monitoring at committee</li> <li>• Progress against savings target for 2013/14 is reported as part of revenue monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Local audit work supplemented by Best Value audit - follow up work, including review of monitoring reports and delivery of savings programme</li> </ul>
<p><b>Benefits performance</b></p> <p>In the 2012/13 Annual Audit Report, we noted that the council had not fully addressed all the issues raised in a previous benefits performance audit. The council has subsequently provided information on measures being taken to improve its performance.</p> <p><i>There is a risk that the council has not fully addressed the issues raised in the previous benefits performance audit.</i></p>	<ul style="list-style-type: none"> <li>• Monthly monitoring of benefits performance information by management</li> <li>• Quarterly progress reports to committee</li> </ul>	<ul style="list-style-type: none"> <li>• Review speed of processing results for quarters three and four of 2013/14 in April 2014</li> </ul>

Risk	Source of assurance	Planned audit action
<p><b>Welfare Reform:</b> The full range of changes emanating from the 2012 Welfare Reform Act is considerable and will have significant implications for council services, service users and staff.</p> <p><i>There is a risk that the council has not fully anticipated all of the issues which may arise, and may fail to provide support and assistance to those service users who are most affected.</i></p>	<ul style="list-style-type: none"> <li>• The Corporate Service Reform Working Group will continue to monitor the implementation and impact of benefit changes and consider measures to support tenants</li> <li>• The Welfare Reform Strategic Planning Group will continue to provide advice and guidance in response to the changes required.</li> </ul>	<ul style="list-style-type: none"> <li>• We will continue to monitor the arrangements made by the council to address the significant changes introduced by welfare reform</li> <li>• Comment in annual audit report as appropriate</li> </ul>

# Appendix C - Audit team

A summarised curriculum vitae for each core team member is set out below:

**David McConnell, CPFA**  
**Assistant Director of Audit**

David has worked in public sector audit since 1981, firstly with the National Audit Office and, since 1985, with the Accounts Commission/Audit Scotland. He therefore has extensive experience of audit in Central Government, Local Government and the health sector. David is currently Audit Scotland's lead on workforce planning and financial management issues.

**Stephen O'Hagan, CPFA**  
**Senior Audit Manager**

Stephen has over 17 years experience of public sector audit with Audit Scotland, covering local government, central government, health and the education sector. Prior to joining Audit Scotland, Stephen worked in local government finance for 5 years.

**Brian Battison, CA**  
**Senior Auditor**

Brian has worked with Audit Scotland for over 13 years. He has audited a variety of organisations across central government and associated agencies, local government (including LGPS) and health. Previously Brian worked in the National Audit Office and the private sector on a wide range of public sector audits.

**Carol Foster, ACA**  
**Senior Auditor**

Carol has worked in the public sector for 16 years, including eight years in local government internal audit. Since joining Audit Scotland in 2005, she has been lead auditor on various central government audits. She previously worked in the private sector on a range of public and private sector audits.

**Joan Dalglish**  
**Auditor**

Joan has worked with Audit Scotland for 11 years. She has worked in a cross section of sectors including central government and health. Recently Joan has worked within a variety of local authorities audits.

**Ross McDonald**  
**Auditor**

Ross joined Audit Scotland's health team in October 2011 and embarked on the ICAS training programme in September 2012.