

Governance, Risk and Best Value Committee

10.00am., Thursday, 23 April 2015

External Audit: Annual Audit Plan 2014/15

Item number	7.4
Report number	
Executive/routine	
Wards	

Executive summary

The external auditor is providing the Committee with the detailed Annual Audit Plan, in line with the “Code of Audit Practice”.

Links

Coalition pledges	P30
Council outcomes	C025
Single Outcome Agreement	All

External Audit: Annual Audit Plan 2014/15

Recommendations

- 1.1 To note the external auditor's annual audit plan; and
- 1.2 To note that progress against the plan will be reported to Committee.

Background

- 2.1 The Committee's remit includes the review of all matters relating to external audit, including planning documentation.
- 2.2 Audit Scotland will be represented at the Committee for consideration of this report.

Main report

- 3.1 The external auditor is providing the Committee with the detailed Annual Audit Plan, in line with the Code of Audit Practice. The Plan can be seen at Appendix 1.
- 3.2 The Annual Audit Plan includes a summary of planned audit activity, defines responsibilities, reviews risks and details fees and resources.
- 3.3 The Plan also includes within its appendices a timetable of planned outputs and an analysis of significant audit risks and associated sources of assurance.

Measures of success

- 4.1 The action plans within the external auditor's reports, when implemented, will demonstrate that the Council continues to strengthen its control framework and approach to risk management.

Financial impact

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

Risk, policy, compliance and governance impact

- 6.1 There is no direct additional impact resulting from the report. Following the raft of improvements put in place in recent years, however, overall governance, risk management and internal audit arrangements are assessed to be sound.

Equalities impact

- 7.1 There is no additional impact arising from the report's contents, although having due regard to value for money, equalities and sustainability is an integral part of securing best value.

Sustainability impact

- 8.1 There is no additional impact arising from the report's contents, although having due regard to value for money, equalities and sustainability is an integral part of securing best value.

Consultation and engagement

- 9.1 There is no direct relevance to the report's contents.

Background reading/external references

None.

Alastair D Maclean

Director of Corporate Governance

Director Corporate Governance

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Links

Coalition pledges	P30 – Continue to maintain a sound financial position including long-term financial planning
Council outcomes	CO25 – The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	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

Appendices

Appendix 1 – External Audit: Annual Audit Plan



City of Edinburgh Council

Annual Audit Plan 2014/15

Prepared for City of Edinburgh Council

March 2015



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 risks of material misstatement in City of Edinburgh Council's financial statements.
2. This report summarises the key challenges and risks facing City of Edinburgh Council (the council) and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
 - the risks and priorities facing City of Edinburgh Council
 - current national risks that are 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.
3. 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 of all registered charities where the local authority is the sole trustee. City of Edinburgh Council has eight trusts having charitable status with total

assets of £14.4 million. Accordingly, we will perform the audit of the council's charitable trusts in parallel with the audit of the council's financial statements.

Summary of planned audit activity

4. Our planned work in 2014/15 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of City of Edinburgh Council and its group as at 31 March 2015 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 2014/15 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 council is the sole trustee
 - reporting the findings of the shared risk assessment process in a Local Scrutiny Plan. This will summarise identified scrutiny risks and any changes to the Local Area Network's (LAN's) assessment since last year.
 - a review and assessment of City of Edinburgh Council's governance and performance arrangements in a number of key areas including: review of adequacy of internal audit, ICT

reviews, governance statement, Best Value follow up work and statutory performance indicators

- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts, Housing Benefit return, and Non-Domestic Rates return
- reporting of National Fraud Initiative arrangements and results.

Responsibilities

5. 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

6. 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.
7. 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

8. 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:
 - maintaining proper accounting records

- preparing financial statements which give a true and fair view of the state of affairs of City of Edinburgh Council and its group as at 31 March 2015 and its expenditure and income for the year then ended.

Format of the accounts

9. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice. City of Edinburgh 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

10. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of City of Edinburgh Council and its group. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:

- understanding the business of City of Edinburgh Council and its group 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 City of Edinburgh 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.

11. 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 2014/15 includes:

- comprehensive closedown procedures for the council and group 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 2014/15.

12. 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.

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13. 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:
- ICT application security for key financial systems
 - Continuous audit testing (key financial systems) – including accounts payable
 - Procurement card expenditure
 - CAPFM/ CAFM (accounts payable feeder system)
 - Education/ school unit visits (income)
14. 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:
- Welfare reform
 - BOLD project outcome delivery
 - Workforce planning – review of the realisation of workforce planning including benefits achieved through VR, efficiency and cost savings.

Materiality

15. 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.

16. Based on our knowledge and understanding of City of Edinburgh Council we have set our planning materiality at 1% of gross expenditure. For 2014/15 planning materiality is £17.2 million for the council and £18.7 million for the group.
17. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:
- extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.
18. For 2014/15 performance materiality has been set at £9.5 million for the council and £10.3 million for the group. We will report, to those charged with governance, all misstatements greater than £100,000.
19. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

20. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.
21. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period. This also applies to the unaudited accounts of the charitable trusts.
22. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
23. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The local authority is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.

24. An agreed timetable is included at Exhibit 1 below which takes account of submission requirements and planned Governance, Risk and Best Value/Finance and Resources committee dates:

Exhibit 1: Financial statements audit timetable

Key stage	Date (by)
Meetings with officers to clarify expectations of working papers and financial system reports	31 March 2015
Testing and review of internal control systems and transactions	30 June 2015
Planned council approval of unaudited financial statements	25 June 2015
Submission of unaudited council financial statements with working papers package	30 June 2015
Submission of unaudited charitable trust financial statements with working papers package	30 June 2015
Progress meetings with lead officers on emerging issues	Ongoing during audit process
Latest date for final clearance meeting with s.95 officer and other appropriate council officers	9 September 2015 (tbc)
Agreement of unsigned financial statements for committee agendas, and issue of combined ISA 260 report to those charged with governance and	Charities – 16 September 2015 (tbc)

Key stage	Date (by)
Annual Audit Report.	Council - 16 September 2015 (tbc)
Latest date for submission of adjusted whole of government accounts to external audit	21 September 2015 (tbc)
Planned council approval of audited financial statements	23 September 2015
Independent auditors reports signed (CEC and Charitable Trusts)	30 September 2015
Latest date for signing of WGA return	16 October 2015 (tbc)

25. 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.
26. 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. As part of streamlining our audit approach, this year the Annual Audit Report will be combined with the ISA 260 report. As a result, the Annual Audit Report will be issued by 30 September which is one month earlier than the target for previous years.

27. All annual audit reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).
28. Planned outputs for 2014/15 are summarised at Appendix I.

Quality control

29. 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 reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).
30. 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

31. Auditors appointed by the Accounts Commission 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.
32. 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 City of Edinburgh Council.

Audit issues and risks

Audit issues and risks

33. 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.
34. **Income:** Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. The council receives a significant amount of funding from the Scottish Government, however approximately £730 million is received from other sources, including service income, council tax and grants/contributions. The extent and complexity of income means there is an inherent risk that income could be materially misstated. We will undertake targeted substantive testing on the income streams included in the financial statements.
35. **Management override of controls:** ISA 240 also highlights the unique position of management to influence the financial statements by overriding controls that otherwise operate effectively. The ability to override these controls exists in all entities and therefore represents a financial statements risk due to fraud. We will undertake focused substantive testing of journal entries, accounting estimates and significant transactions outside the course of normal business.
36. **Tram project expenditure:** Work on the tram project was completed during 2014/15, with the system commencing passenger operations on 31 May 2014. Financial reports during the year indicate that the project remains within the revised budget of £776 million. The council incurred revenue costs of £1.1 million associated with the preparation for trams operation during 2014/15. The range of expenditure incurred during the closing stage of the project increases the risk of mis-classification of costs between capital and revenue. We will review the costs associated with the completion of the tram project. Additionally we will carry out substantive testing as part of our financial statements approach to ensure appropriate categorisation of costs in the financial statements.
37. **Trams valuation:** As noted above, the tram system commenced passenger operations on 31 May 2014. To date, tram vehicles have been accounted for as assets under construction, however they transferred to operational assets during 2014/15. The Code of Practice on Local Authority Accounting in the United Kingdom requires property plant and equipment to be measured at fair value less any subsequent accumulated depreciation and accumulated impairment. The council will need to determine an appropriate method of assessing the fair value of tram vehicles, and consider whether any impairment adjustment is required, for the 2014/15 financial statements. Although depreciation on the vehicles will not be charged until 2015/16, council will need to consider and disclose

the methodology to be used and the appropriate useful asset life within the 2014/15 financial statements. We will consider the appropriateness of the council's valuation of tram vehicles, and the disclosures on depreciation approach, as part of our financial statements work.

- 38. Statutory repairs:** The 2013/14 financial statements contained a total debtor balance of £30.6 million relating to statutory repair notices. The largest element of this balance, £19.1 million, was made up of work carried out but not yet billed. The financial statements included a bad debt provision of £12.6 million, with a further £3.9 million earmarked within reserves towards any further costs in respect of statutory repairs.
- 39.** Deloitte were commissioned to review legacy cases and have now completed their review of the more straightforward projects and concluded on the sums that can be billed by the council. The council expects to have completed billing these projects by August 2015, subject to any defect reparation work required. Work is still ongoing on a number of complex projects, where further work is required to arrive at a settlement amount. In addition, some of the billed projects are currently being considered as part of the council's settlement process.
- 40.** Although progress has been made in dealing with the unbilled work, the delays to date mean that the debt has aged further, increasing the risk of non-recovery. We will continue to monitor the situation through update reports to relevant committees and discussion with

council officers, and consider the adequacy the statutory repairs bad debt provision as part of our audit of the 2014/15 financial statements.

- 41. Group structure:** The council has a complex group structure which requires the preparation of group financial statements. In our report on the 2013/14 audit, we noted that no formal group boundary assessment was undertaken by the council to confirm which bodies should be included within the group financial statements. In addition, the 2014/15 Code has adopted new group accounts standards, which revise the previous definition of control for the purposes of group accounting. The council is considering the implications of the new standards as part of its review of the group boundary for 2014/15. We will review the financial statements of the council and its group to ensure that all appropriate entities have been included and are correctly classified.
- 42. Significant Trading Organisations (STOs):** In our 2013/14 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 2014. Whilst this was a failure to comply with the Local Government in Scotland Act 2003 (section 10), it did not impact on the fairness of, or affect our overall opinion on, the council's financial statements. However there is a risk that the action plan implemented by the council may not result in the STO consistently achieving the requirements of section 10 of the Local Government in Scotland Act 2003. We will review the outturn

position and achievement of the break even requirement as part of our audit of the 2014/15 financial statements.

43. **Valuations:** The financial statements of City of Edinburgh Council include significant assets and liabilities where the valuations are determined by professional judgement and take account of significant assumptions and estimates including non-current assets (£4,012 million) and provisions (£16.7 million). The degree of subjectivity in the measurement and valuation represents a risk of material misstatement. We will undertake focused substantive testing on these aspects of the financial statements.
44. **Finance restructuring:** An organisational review of finance services was completed during the financial year, resulting in a number of staff changes in key posts. The finance team need to be sufficiently resourced in terms of time, experience and knowledge to support the preparation of the financial statements and all requested underlying working papers within agreed timeframes as well as responding to audit queries throughout the course of the audit. We will continue to meet regularly with finance officers to discuss the audit and will issue a working paper checklist in April 2015.
45. **Managing financial pressures:** As part of our wider responsibilities under Audit Scotland's Code of Audit Practice, over and above the risks relating to the financial statements we are required to consider wider dimension audit issues and have identified the following risk.
46. The council continues to face a challenge in balancing the gap between its planned expenditure and the estimated level of income it

will receive through government grants, non-domestic rates and council tax. The December 2014 Best Value follow up audit of the council highlighted that the council's financial position has become significantly more challenging since the previous Best Value report in May 2013, with the council's financial plans showing that the additional savings it needs to find in 2017/18 had increased, from £17 million to £67 million.

47. The council continues to manage its in year finances, however additional pressures in areas such as health and social care have required drawdowns from the Priorities Fund to help address projected overspends. The recent Audit Scotland Best Value follow-up report noted the council projected a net savings requirement of £67 million by 2017/18. The most recent Revenue Budget Framework report to the council's Finance and Resources Committee in March 2015 underlined that the net savings requirement will increase in subsequent years, with the £67 million gap in 2017/18 rising to £107 million in 2019/20.
48. We will consider the council's performance in relation to managing its finances as part of our local audit work in 2014/15, supplemented by the planned Best Value follow up audit.

Summary assurance plan

49. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix II. 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 II. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Fees and resources

Audit fee

50. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.
51. 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 2015.
52. The agreed audit fee for the 2014/15 audit of City of Edinburgh Council is £690,500. This includes £47,660 in respect of the audit of Lothian Pension Funds, and £4,250 in respect of the audit of the council's Charitable Trusts. Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
 - your organisation's allocation of the cost of national performance audits and statutory reports by the Accounts Commission

- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

53. Where our audit cannot proceed as planned through, for example, late receipt of 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

54. 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 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 in Exhibit 2. The core team will call on other specialist and support staff as necessary.

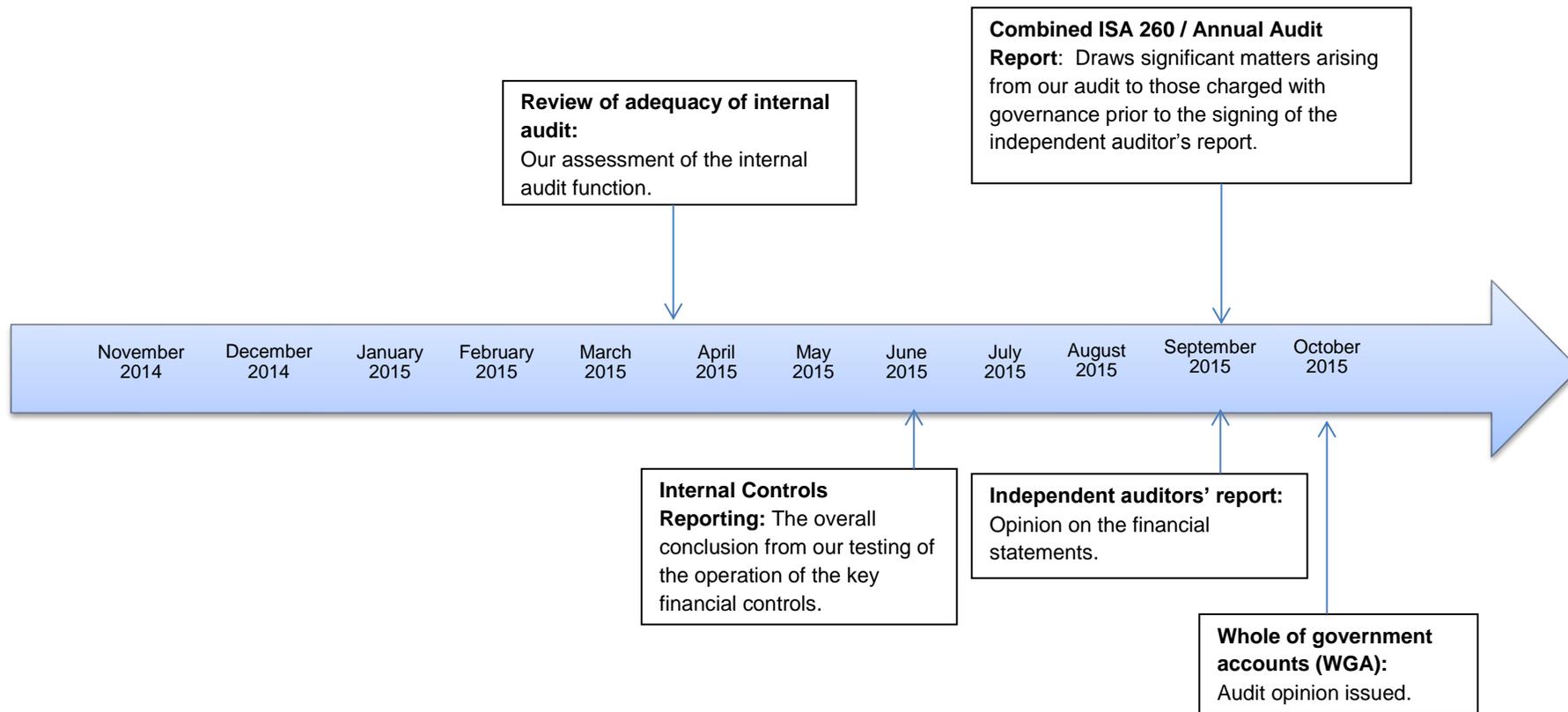
Exhibit 2: Audit team

Name	Experience
David McConnell MA CPFA Assistant Director (Certifying auditor)	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 NHS.
Stephen O'Hagan, CPFA Senior Audit Manager	Stephen has over 18 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.
Carol Foster, ACA Senior Auditor	Carol has over 9 years experience of public sector audit with Audit Scotland, covering local and central government. Previously Carol has worked in internal audit in a Scottish local authority and the private sector on a range of public and private sector audits.

Name	Experience
Daniel Melly, CPFA Auditor	Daniel joined Audit Scotland in May 2007 and qualified as a CPFA in January 2012. Daniel has over seven years' experience of audit, almost two years of which have been in local government audit.
Joan Dalgleish Auditor	Joan has over 12 years experience of public sector audit with Audit Scotland, covering local government, central government and health.

Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for City of Edinburgh Council in 2014/15.



Appendix II: Significant audit risks

We undertake a risk-based audit whereby we focus on those areas where we have identified a risk of material misstatement in the accounts. This section shows how our audit approach focuses on the risks we have identified through our planning procedures. ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* defines a significant risk as “an identified and assessed risk of material misstatement that, in the auditor’s judgement, requires special audit consideration.”

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 the 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.

Audit Risk	Source of assurance	Assurance procedure
<i>Audit risk of material misstatement in financial statements</i>		
<p>Income</p> <p>The council receives a significant amount of income in addition to SG funding.</p> <p>The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p>	<ul style="list-style-type: none"> • Robust income generation and cash handling processes, including separation of duties. • Independent monitoring of suspense codes – including bank reconciliations. • Budgetary control processes – reported monthly to Corporate Management Team (CMT) and departmental budget holders. • Authorisation processes for transactions within the ledger – e.g. journals & creditor requests. 	<ul style="list-style-type: none"> • Assessment of systems of internal control • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest risk.

Audit Risk	Source of assurance	Assurance procedure
<p>Management override of controls</p> <p>ISA240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Detailed testing of journal entries Review of accounting estimates for bias Evaluating significant transactions that are outside the normal course of business.
<p>Tram project expenditure</p> <p>The council incurred revenue costs during 2014/15 in relation to preparing for tram operations, giving rise to a risk of misclassification of expenditure between capital and revenue.</p>	<ul style="list-style-type: none"> Update reports to committees on tram project expenditure Internal budget monitoring reports 	<ul style="list-style-type: none"> Review of reports and papers on project expenditure Discussion with council officers Substantive testing of a sample of revenue costs
<p>Trams valuation</p> <p>Tram vehicles will transfer from assets under construction to operational assets in the 2014/15 financial statements.</p> <p>There is a risk that they may not be reflected at an appropriate fair value within the financial statements.</p>	<ul style="list-style-type: none"> Documentation of the council's considerations of valuation method and supporting evidence Update reports to committees on potential extension of tram network 	<ul style="list-style-type: none"> Discussion with council officers Review of committee papers and reports on potential extension of the tram network Review of papers and other appropriate evidence on valuation

Audit Risk	Source of assurance	Assurance procedure
<p>Statutory repairs</p> <p>Although progress has been made in dealing with unbilled work, the delays to date mean that the debt has aged further, increasing the risk of non-recovery.</p>	<ul style="list-style-type: none"> • Update reports to committees on progress of billing, collection (including bad debts) and complaints resolution • Complaints settlement process 	<ul style="list-style-type: none"> • Review of reports and papers on progress of billing and collections (including bad debts) and complaints resolution • Discussion with council officers • Review of statutory repairs balances and provision within the financial statements along with supporting evidence
<p>Group structure</p> <p>The council did not formally document its group boundary assessment after changes to the group structure in 2013/14 and there may be further changes to the group structure in 2014/15 as a result of new group accounting standards within the Code. There is a risk that the council's group accounts do not comply with new accounting standards.</p>	<ul style="list-style-type: none"> • 2014/15 group boundary review work, including consideration of revision to standards • Update reports to committees on review of group structure • Audited group company accounts 	<ul style="list-style-type: none"> • Review of reports and papers on progress of review of group structure • Discussion with officers • Liaison with external auditors of group companies

Audit Risk	Source of assurance	Assurance procedure
<p>Significant Trading Organisations (STOs)</p> <p>In our 2013/14 independent auditor's report we drew attention to the fact that the council's significant trading operation, Edinburgh Catering Services – Other Catering, failed to break even, on a cumulative basis, over the three year period ending 31 March 2014. There is a risk that the action plan implemented by the council may not result in the STO consistently achieving the requirements of section 10 of the Local Government in Scotland Act 2003.</p>	<ul style="list-style-type: none"> • Ongoing financial monitoring and reporting to committee • STO business plan 	<ul style="list-style-type: none"> • Monitor the ongoing financial position reported to committee • Review the outturn position and cumulative break even as part of financial statements audit • Substantive testing of income and expenditure streams as part of financial statements audit
<p>Valuations</p> <p>The financial statements of City of Edinburgh Council include valuations which rely on significant assumptions and estimates.</p> <p>The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.</p>	<ul style="list-style-type: none"> • Accounting assumptions such as provisions are based upon the most up to date and complete information with their inclusion being presented in accordance with required Accounting Codes of Practice, • Accounting assumptions based on the professional advice of qualified staff such as RICS or the Council's Legal Team. 	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' for the professional valuer. • Focused substantive testing of key areas.

Audit Risk	Source of assurance	Assurance procedure
<p>Finance restructuring</p> <p>An organisational review of finance services was completed during the financial year, resulting in a number of staff changes in key posts. There is a risk that these changes could impact on the delivery of the 2014/15 accounts timetable.</p>	<ul style="list-style-type: none"> • Procedure notes prepared covering key stages of the accounts preparation process • Accounts preparation timetable to enable delivery of unaudited accounts and working papers • Schedule of main and alternative contacts for queries on each audit area, including availability • Availability of senior Finance staff for unresolved audit queries 	<ul style="list-style-type: none"> • Monitoring developments • Scheduling of audit work to take account of timetable and availability of staff • Progress meetings with Principal Finance Manager and Senior Accountant
<p><i>Audit risk from wider responsibilities under Audit Scotland's Code of Audit Practice</i></p>		
<p>Managing financial pressures</p> <p>The council continues to face a challenge in balancing the gap between its planned expenditure and the estimated level of income it will receive through government grants, non-domestic rates and council tax. There is a risk that savings targets are not met and the ongoing need to deliver savings may have an impact on services and the delivery of strategic priorities.</p>	<ul style="list-style-type: none"> • Regular revenue reporting and monitoring at committee • Progress against savings target for 2014/15 reported as part of financial monitoring • BOLD project to identify efficiency and effectiveness savings • Further savings proposals under development • Action plan to address budget overspend in Health and Social Care and improve budget monitoring process 	<ul style="list-style-type: none"> • Local audit work supplemented by Best Value follow up audit work, including review of monitoring reports and delivery of savings programme