

# Governance, Risk and Best Value Committee

10.00am, Thursday, 21 April 2016

## External Audit: Annual Audit Plan 2015/16

Item number	7.1
Report number	
Executive/routine	
Wards	

### Executive summary

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

### Links

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Coalition pledges	<a href="#">P30</a>
Council outcomes	<a href="#">CO25</a>
Single Outcome Agreement	<a href="#">All</a>

## External Audit: Annual Audit Plan 2015/16

### Recommendations

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- 1.1 Members of the Governance, Risk and Best Value Committee are asked to:
  - 1.1.1 note the external auditor's annual audit plan; and
  - 1.1.2 note that progress against the plan will be reported to Committee.

### Background

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- 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

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- 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

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- 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

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

## Risk, policy, compliance and governance impact

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- 6.1 There is no direct additional impact resulting from the report. Overall governance, risk management and internal audit arrangements are assessed to be sound, as outlined in the Best Value Audit Report 2016 reported to Council on 10 March 2016.

## Equalities impact

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

## Sustainability impact

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

## Consultation and engagement

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

## Background reading/external references

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[Best Value Audit Report 2016](#). – City of Edinburgh Council, 10 March 2016

## Hugh Dunn

Acting Executive Director of Resources

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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 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

**Appendices**

SO4 – Edinburgh’s communities are safer and have improved physical and social fabric

Appendix 1 – External Audit: Annual Audit Plan



# City of Edinburgh Council

Annual Audit Plan  
2015/16

Prepared for Members of the City of Edinburgh  
Council

March 2016



## Key contacts

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies ([www.audit-scotland.gov.uk/about/ac/](http://www.audit-scotland.gov.uk/about/ac/)). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

The Accounts Commission has appointed David McConnell, Assistant Director, as the external auditor of City of Edinburgh Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of City of Edinburgh Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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# Summary

## Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in the City of Edinburgh Council's financial statements.
2. This report summarises the key challenges and risks facing the City of Edinburgh Council (the Council) and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
  - the risks and priorities facing the 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 specify 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 £14.6 million. Accordingly, we will perform the audit of the

Council's charitable trusts in parallel with the audit of the Council's financial statements.

4. The Edinburgh Integration Joint Board (IJB) was established in June 2015. The IJB is subject to a separate audit in 2015/16. David McConnell, Assistant Director, Audit Services is the appointed auditor and an annual audit plan will be issued in due course.

## Summary of planned audit activity

5. Our planned work in 2015/16 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 the Council and its group as at 31 March 2016 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 2015/16 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/or any changes to the Local Area Network's (LAN's) assessment since last year

- a review and assessment of the Council's governance and performance arrangements in a number of key areas including: internal controls, adequacy of internal audit and targeted performance audit work following up action taken on the recommendations included in Audit Scotland's 2013 National report on Scotland's Public Sector Workforce
- carrying out best value follow up work to examine progress by the Council on areas requiring improvement. The Accounts Commission has asked the Controller of Audit to monitor progress through the local audit in 2015/16
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- reporting of National Fraud Initiative (NFI) arrangements and results
- collection of relevant financial and performance information to inform Audit Scotland's national reports.

# Responsibilities

6. 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

7. 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.
8. 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

9. 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 the City of Edinburgh Council and its

group as at 31 March 2016 and its expenditure and income for the year then ended.

## Format of the accounts

10. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice.
11. 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

12. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the 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 the 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 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.
13. 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. Planned management action being relied on for 2015/16 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 2015/16.
14. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit services are provided on a co-sourced basis between PricewaterhouseCoopers (PwC) and the Council. 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 to determine whether it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

15. 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:
- payroll (aspects of key controls)
  - CAFM (accounts payable feeder system).
16. 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:
- procurement arrangements (Council wide)
  - arm's length entities
  - Health and Social Care integration (integration/IT readiness)
  - corporate property (shared repairs and maintenance/property maintenance).
17. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, 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.
18. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.
19. Based on our knowledge and understanding of the Council we have set our planning materiality at £17.039 million for the Council and £18.744 million for the group (1% of gross expenditure).
20. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. 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.
21. For 2015/16 performance materiality has been set at £9.371 million for the Council and £10.309 million for the group. We will report, to those charged with governance, all misstatements identified which are greater than £100,000.

## Materiality

## Reporting arrangements

22. 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.

23. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.
24. 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.
25. 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.
26. An agreed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1. This takes account of submission requirements and planned committee dates.

**Exhibit 1: Financial statements audit timetable**

Key stage	Date
Meetings with officers to clarify expectations of working papers and financial system reports	31 March 2016
Testing and review of internal control systems and transactions	30 June 2016
Consideration of unaudited financial statements by full Council	30 June 2016
Latest submission date of unaudited Council financial statements with complete working papers package	30 June 2016
Latest submission date of unaudited charitable trust financial statements with complete working papers package	30 June 2016
Progress meetings with lead officers on emerging issues	Ongoing during audit process
Latest date for final clearance meeting with s95 officer and other appropriate Council officers	12 Sept 2016 (tbc)
Agreement of audited unsigned financial statements, and issue of Annual Audit Report which includes the ISA 260 report to those charged with governance	Charities – 19 Sept 2016 Council – 19 Sept 2016

Key stage	Date
Latest date for submission of adjusted whole of government accounts to external audit	19 September 2016 (tbc)
Planned committee consideration and approval of audited financial statements	GRBV - 26 Sept 2016
	F&R - 29 Sept 2016
Independent auditor's report signed (CEC and Charitable Trusts)	30 September 2016
Latest date for signing of WGA return	30 September 2016 (tbc)

- 27. 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, Executive Director of Resources, Head of Finance, relevant senior managers, Chief Internal Auditor, and Audit Scotland's Performance Audit and Best Value Group.
- 28. 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. The combined ISA 260 and Annual Audit Report will be issued by 30 September.

- 29. All annual audit reports produced are published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 30. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

## Quality control

- 31. 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. This is to provide reasonable assurance that those 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).
- 32. 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

33. 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 Financial Reporting Council (FRC) 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.
34. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. In significant cases we would change the audit team, however where there are potential issues that are not fundamental to the delivery of the audit, we advise the senior finance officer of the circumstances and of the steps we have taken to manage this. We are not aware of any such relationships pertaining to the audit of the City of Edinburgh Council.

# Audit issues and risks

## Audit issues and risks

35. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the City of Edinburgh Council. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in [Appendix 2](#).

## Financial statement issues and risks

36. **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 £650 million is received from other sources, including service income, council tax and grants/contributions. The 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.
37. **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. We will undertake focused substantive testing of journal entries, accounting estimates and significant transactions outside the course of normal business.

38. **Estimation and judgement:** 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 (£4,038 million) and provisions (£18 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.
39. **Significant trading organisations (STOs):** In our 2014/15 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 2015. 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.
40. The Council has taken a number of measures to address the deficit position, including reduced opening hours and menu rationalisation. It is also currently designing a new facilities management service delivery model as part of a wider asset management strategy. 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 2015/16 financial statements.

41. **Statutory repairs:** During 2015/16 the Council has made progress in addressing the historical statutory repairs related debtors. Legacy case reviews were completed by Deloitte and invoices issued for all unbilled projects, totalling £17.7 million. Alongside this, the Council has been progressing the resolution of complaints. By January 2016, the settlement process for complainants was largely complete.
42. The Council entered in to an arrangement with Morton Fraser in April 2015 where they took on responsibility for statutory notice debt recovery. As at January 2016, £10.6 million of the £17.7 million invoiced expenditure has been recovered, and a further £1.3m has been secured in agreed payment plans.
43. Although the billing process is now largely complete, the delays to date mean that the debt has aged further, increasing the risk of non-recovery of the outstanding debt. We will continue to monitor the situation through update reports to relevant committees and discussion with Council officers, and consider the adequacy of the statutory repairs bad debt provision at the financial year end as part of our audit of the 2015/16 financial statements.
44. **Integration Joint Board:** The Edinburgh Integration Joint Board (IJB) was established in June 2015 and will become operational from 1 April 2016. The IJB is required to prepare its own financial

statements from 2015/16. The Council will need to make appropriate disclosures in its own single entity accounts in relation to the IJB, including related party disclosures, and assess whether the IJB requires consolidating into the group accounts.

45. We will review the disclosures in relation to the IJB in the annual accounts as part of our financial statements audit.

## Wider dimension issues and risks

46. **Financial Position:** In common with other public sector bodies, the Council faces continuing financial pressures and uncertainty, alongside growing demands on its services. In 2014/15, although the Council reported an overall underspend of £0.7 million it incurred an overspend of £5.9 million on its health and social care budget as a result of demand pressures.
47. The Council is addressing these financial pressures through its transformation programme, which pulls together a range of improvement projects throughout the Council. In January 2016 it approved a four year financial framework and business plan. This framework sets out how it proposes to deliver balanced budgets for 2016/17 through to 2018/19, and identifies a future funding gap of £15.3 million in 2019/20.
48. Delivery of the required savings will be dependent on a number of factors, including the successful implementation of the transformation programme, and the robustness of the underlying assumptions within the financial framework. We will continue to

monitor the Council's progress in delivering its transformation programme and savings plans as part of our ongoing audit work.

49. **Workforce Planning**– In Audit Scotland's Best Value follow up report on City of Edinburgh Council published in February 2016, we noted that the Council now has a workforce strategy, supported by more detailed plans setting out the size and shape of its future workforce needs, and that it is starting to achieve the reductions set out in these plans. By the end of January 2016, 9 of the 28 planned transformation reviews had commenced, with 232 staff departures agreed.
50. However, whilst the Council has made progress, there remain risks around the delivery of the planned reductions and associated financial savings, alongside the related impact on service delivery and the achievement of the Council's objectives. We will review the Council's progress in this area and undertake local follow-up work based on the recommendations in Audit Scotland's 2013 report on *Scotland's Public Sector Workforce*.
51. **Transition to new IT provider** – The Council procured a new ICT contract with CGI in August 2015 which is projected to deliver savings of at least £45 million over the next seven years. The contract with CGI is due to commence in April 2016, with significant changes to key financial systems including financial ledger, accounts payable, payroll and accounts receivable, due to be implemented from October 2016. We will monitor the Council's preparedness for this transition, including the effectiveness of governance and risk management arrangements.

52. **Highways network asset:** From 2016/17, the Code requires the highways network asset to be included in the Council's financial statements at depreciated replacement cost instead of historical cost. Guidance issued by CIPFA/LASAAC has confirmed that the new accounting policies will be applied from 1 April 2016, with no requirement to restate the information in the financial year ending 31 March 2016. However, for 2015/16 we will review and report on the Council's preparation for this significant change.

## National performance audit studies

53. 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, we will carry out work to collect relevant financial and performance information to inform Audit Scotland's national reports.

# Fees and resources

## Audit fee

54. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.
55. In determining the audit fee we have taken account of the risk exposure of the City of Edinburgh Council, the planned 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 2016.
56. The proposed audit fee for the 2015/16 audit of the 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 studies and statutory reports
  - 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.

57. 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

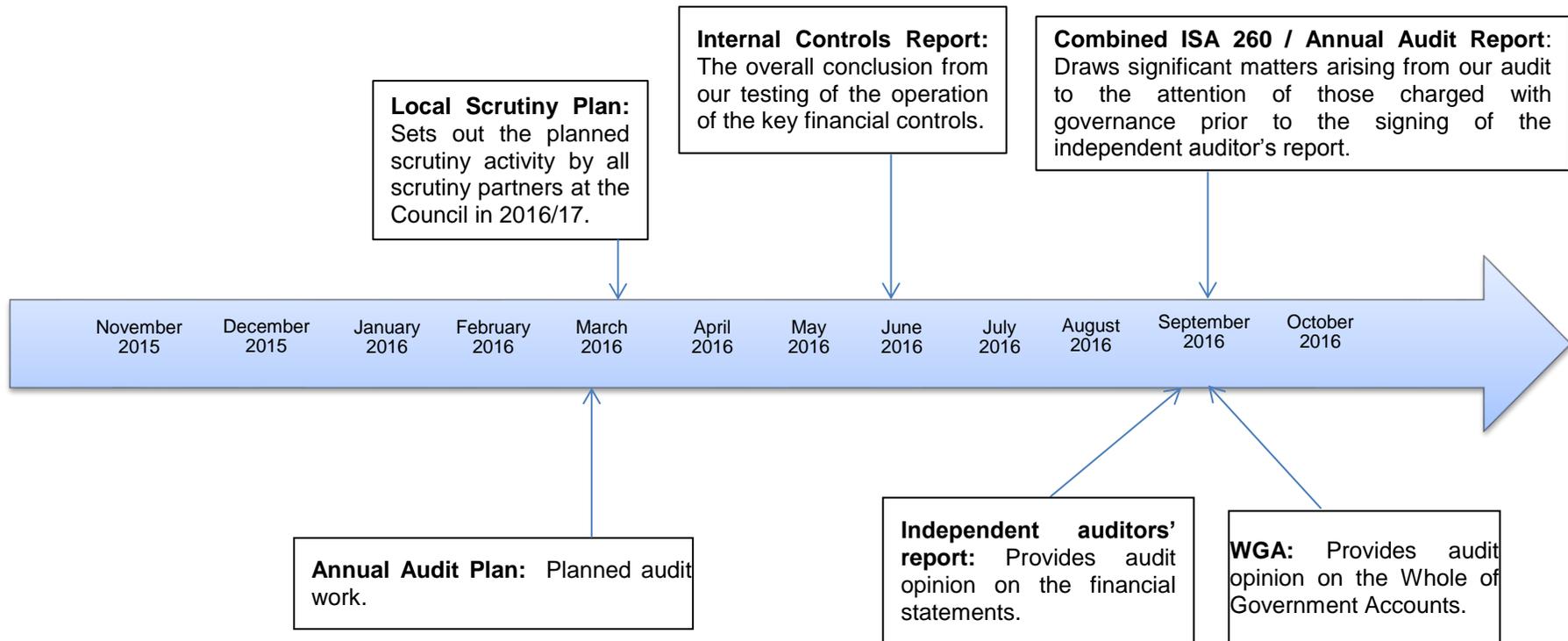
58. David McConnell, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Stephen O'Hagan who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

**Exhibit 2: Audit team**

Name	Experience
David McConnell CPFA Assistant Director (and 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 19 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 10 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.
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 15 years experience of public sector audit with Audit Scotland, covering local government, central government and health.
Marta Kuzma Professional Trainee	Marta joined Audit Scotland as a professional trainee auditor in October 2015. Marta has 2 years of accounting experience in both the public and private sectors.

# Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for City of Edinburgh Council in 2015/16.



## Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Source of assurance	Audit assurance procedure
<b>Financial statement issues and risks</b>			
1	<p><b>Income</b></p> <p>The Council receives a significant amount of income in addition to Scottish Government 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"> <li>• Robust income generation and cash handling processes, including separation of duties</li> <li>• Independent monitoring of suspense codes - including bank reconciliations</li> <li>• Budgetary control processes - reported monthly to Corporate Leadership Team (CLT) and departmental budget holders</li> <li>• Authorisation processes for transactions within the ledger - e.g. journals &amp; creditor requests</li> </ul>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk</li> </ul>
2	<p><b>Management override of controls</b></p> <p>ISA 240 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>	N/A	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates</li> <li>• Focused testing of accruals and prepayments</li> <li>• Evaluation of any significant transactions that are outside the normal course of business</li> </ul>

#	Audit Risk	Source of assurance	Audit assurance procedure
3	<p><b>Estimation and judgement</b></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"> <li>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</li> <li>Accounting assumptions based on the professional advice of qualified staff such as RICS or the Council's Legal Team</li> </ul>	<ul style="list-style-type: none"> <li>Completion of review of the work of an expert for the professional valuer</li> <li>Focused substantive testing of key areas</li> </ul>
4	<p><b>Significant trading organisations (STOs)</b></p> <p>In our 2014/15 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 2015. 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"> <li>Implementation of revised facilities management delivery model approved by Council in November 2015</li> <li>Ongoing financial monitoring and reporting to committee</li> <li>STO business plan</li> </ul>	<ul style="list-style-type: none"> <li>Monitor the ongoing financial position reported to committee</li> <li>Review the outturn position and cumulative break even as part of financial statements audit</li> <li>Substantive testing of income and expenditure streams as part of financial statements audit</li> </ul>

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5	<p><b>Statutory repairs</b></p> <p>Although the billing process is now largely complete, the delays to date mean that the debt has aged further, increasing the risk of non-recovery.</p>	<ul style="list-style-type: none"> <li>Update reports to committees on progress of billing, collection (including bad debts) and complaints resolution</li> </ul>	<ul style="list-style-type: none"> <li>Review of reports and papers on progress of billing and collections (including bad debts) and complaints resolution</li> <li>Discussion with Council officers</li> <li>Review of statutory repairs balances and provision within the financial statements along with supporting evidence</li> </ul>
6	<p><b>Integration Joint Board (IJB)</b></p> <p>The Edinburgh IJB was established in June 2015 and will be operational from 1 April 2016. There is a risk that the Council does not include appropriate disclosures in relation to the IJB within the Council's 2015/16 single entity and group financial statements.</p>	<ul style="list-style-type: none"> <li>The Council will ensure that the IJB is appropriately disclosed in the single entity and group accounts in line with the 2015/16 Code.</li> <li>Available guidance from CIPFA and Audit Scotland will be considered prior to finalising the disclosures.</li> </ul>	<ul style="list-style-type: none"> <li>Review the IJB disclosures during the audit of the Council's 2015/16 financial statements.</li> </ul>
<b>Wider dimension issues and risks</b>			
7	<p><b>Financial position</b></p> <p>The Council has approved a four year financial framework and business plan, with a balanced budget for the first 3 financial years. However there are a number of risks to delivery of this balanced budget, including the underlying assumptions within the framework and the achievement of</p>	<ul style="list-style-type: none"> <li>Bi-monthly reporting of progress on the transformation programme to Finance and Resources Committee, incorporating progress reports on actual savings delivered for each workstream</li> <li>The Long Term Financial Plan assumptions are subject to quarterly review and reporting to the Corporate Leadership Team and</li> </ul>	<ul style="list-style-type: none"> <li>Monitor the Council's financial position via revenue budget monitoring reports presented to committee and meetings with officers.</li> <li>Ongoing review of transformation programme progress reports to committee, and comment in annual audit report</li> </ul>

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	anticipated savings through the transformation programme.	elected members.	
8	<p><b>Workforce Planning</b></p> <p>While the Council is making progress in delivering the workforce reductions set out in its strategy and plans, there remain risks around the delivery of the planned reductions and associated financial savings, and the related impact on service delivery and the achievement of the Council's objectives.</p>	<ul style="list-style-type: none"> <li>• Bi-monthly reporting on transformation programme progress to the Finance and Resources Committee, incorporating the workforce workstream</li> <li>• Service performance monitoring is reported on a monthly basis to the Corporate Leadership Team, which serves as an early warning on performance issues.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of disclosures relating to staff departures in the 2015/16 financial statements</li> <li>• Review of workforce monitoring reports to committee and comment in annual audit report</li> <li>• Completion local follow up work on the recommendations in the 2013 Scotland's Public Sector Workforce report</li> </ul>