

# Governance, Risk and Best Value Committee

10am, Tuesday, 26 September 2017

## City of Edinburgh Council – 2016/17 Annual Audit Report to the Council and the Controller of Audit

Item number	7.6
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive Summary

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The report summarises the principal findings arising from the Council's 2016/17 external audit. While primarily focused on the review of the financial statements, the wider scope aspects of the audit include consideration of the Council's financial management, financial stability, governance and transparency and arrangements to secure and demonstrate value for money.

The proposed audit certificate provides an unqualified audit opinion on the financial statements and other prescribed matters but the accompanying report notes the failure of one of the Council's Significant Trading Operations (STOs) to break even over a rolling three-year period.

The report concludes that the Council has a strong track record of maintaining expenditure within budgeted levels, effective financial management and a well-developed financial strategy. It additionally notes that the Council is open and transparent in the way it conducts its business and demonstrates strong self-awareness of areas of poor performance. A number of opportunities for further improvement have, however, been identified and progress against these will be tracked and reported to the Committee over the coming months.

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### 1. Recommendations

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- 1.1 Members are asked to:
- 1.1.1 note that, following the audit process, it is anticipated that an unqualified audit opinion will be issued on the Council's Annual Accounts for 2016/17;
  - 1.1.2 refer the audited Annual Accounts for 2016/17 to the Finance and Resources Committee for approval and thereafter to Council for noting;
  - 1.1.3 note that, following approval by the Finance and Resources Committee, the audited Annual Accounts will be signed and submitted to the external auditor; and
  - 1.1.4 note the areas of strength identified within the wider scope audit work and that progress in the delivery of the remaining improvement actions set out in the action plan in Appendix 2 of the auditor's report will be reported to the Committee during the year.

### 2. Background

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- 2.1 The Council submitted its unaudited Annual Accounts to the external auditor by the required date of 30 June.
- 2.2 The review of all matters relating to external audit forms part of the remit of the Governance, Risk and Best Value Committee and is an important aspect of the overall governance arrangements of the Council. The external auditor will attend the Governance, Risk and Best Value Committee meeting to provide an overview of the accompanying report and respond to specific queries members may have on its content. Given the Committee's scrutiny function, however, approval of the annual accounts will be secured by onward referral to the Finance and Resources Committee meeting taking place on 28 September. The external auditor will also attend the Finance and Resources Committee meeting.

- 2.3 In discharging its work, the external auditor is required to comply with Audit Scotland's revised Code of Audit Practice and ISA260: Communications with those charged with governance. As part of the standard, the auditor is required to highlight:
- Relationships that may bear on the independence, integrity and objectivity of the appointed auditor and audit staff;
  - The overall scope and approach to the audit, including any expected limitations, or additional requirements;
  - Expected modifications to the audit report;
  - Management representations requested by him/her;
  - Unadjusted misstatements other than those that are clearly trivial;
  - Material weaknesses in internal control identified during the audit;
  - Qualitative aspects of accounting practice and financial reporting, including accounting policies; and
  - Matters specifically required by auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.

### 3. Main report

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- 3.1 There are no qualifications to the proposed audit certificate. As in previous years, however, the audit opinion includes an explanatory paragraph in respect of the Council's significant trading organisations (STOs). The Edinburgh Catering Services – Other Catering STO failed, over the three-year rolling period to 2016/17, to meet the statutory requirement to break even.
- 3.2 A number of potential adjustments which are not considered material, either individually or in aggregate, have been discussed and agreed with Council officers and been incorporated in the audited accounts. These adjustments have no impact on the Council's reported outturn for the year. Given that, as of the time of writing, the accounts remain to be finalised, members will be advised of any further material changes at the Committee's meeting.
- 3.3 One such matter relates to the Council's depreciation policy, which it is recommended be revised to provide for depreciation in the year of an asset's purchase or creation. Council officers have agreed to review the current policy with a view to implementing the changes in preparing the financial statements for 2017/18.

3.4 As was noted in the External Audit Plan considered by the Governance, Risk and Best Value Committee on 9 March 2017, the 2016/17 audit reflects a revised approach to best value agreed by the Accounts Commission in June 2016. This “wider scope” audit comprises four elements:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- Value for money.

3.5 The key messages from the audit are presented on page 1 of the Scott-Moncrieff report, with a number of action points for the Council to address in the coming months also noted. These, together with the responses provided by the Council, are shown on pages 44 to 48.

#### **Financial statements (pages 6 to 14)**

3.6 Scott-Moncrieff has provided an unqualified opinion on the financial statements and other prescribed matters, albeit it has noted that one Significant Trading Operation, Edinburgh Catering Services – Other Catering, failed to meet the statutory requirement to break even over a rolling three-year period. The in-year deficit for 2016/17 was £191,000, forming part of a cumulative three-year deficit of £498,000, reflecting the impact of a continuing downturn across both in-house catering and external hospitality.

3.7 The Council has on-going plans for investment in this area, with a dedicated Catering Manager now in post with a view to re-designing the service to deliver improvements in performance.

3.8 The auditor’s report intimates that there were no material adjustments to the unaudited accounts, confirming the in-year underspend of £1.058m previously transferred to the Council Priorities Fund.

#### **Financial management (pages 16 to 20)**

3.9 The report notes that the Council has a strong record of delivering against budget, with overall revenue expenditure maintained within approved levels for ten successive years and levels of capital expenditure slippage comparing favourably in both absolute terms and with other councils. Financial management arrangements are also assessed to be effective, with the majority of approved savings then delivered and no significant weaknesses identified within the internal control framework. The report does, however, identify opportunities for improvement in the transparency of in-year financial reporting and potential changes in this area will be examined with a view to implementing these during the year.

### **Financial sustainability (pages 22 to 27)**

- 3.10 The report notes that the Council has a well-developed financial strategy, informed by a clear understanding of future pressures and their impact on its medium-term financial position, forming part of a wider set of interlinked and complementary strategies. The Council's reserves management arrangements are also assessed to be effective.

### **Governance and transparency (pages 29 to 34)**

- 3.11 The report notes that, once the new political administration was formed, the Council quickly developed a medium-term business plan, informed by a clear understanding of the issues affecting it and its wider operating environment. Council business is assessed to be undertaken in an effective, open and transparent way and governance arrangements for arm's length organisations have been strengthened through the creation of the Governance Hub.
- 3.12 Recognising the extent of change in the make-up of Council following the May 2017 elections, the report notes the comprehensive training programme put in place for new and returning members and the good attendance levels achieved.
- 3.13 The report comments favourably on the effectiveness of the Council's response to the PPP1 school emergency and, following publication of the subsequent Cole Inquiry report, prompt actioning of the recommendations.
- 3.14 The Council's risk management arrangements and framework to prevent, or identify, fraud and irregularity are also assessed to be effective.

### **Value for money (pages 36 to 39)**

- 3.15 The report notes that the Council can demonstrate improvement in performance against its priorities, with 60% of comparable performance indicators within the top two quartiles of Scotland's local authorities. In some areas where performance is less strong, including Health and Social Care, although action plans have been developed, these have not yet resulted in demonstrable improvements in performance.

## **4. Measures of success**

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- 4.1 The Council receives an unqualified audit certificate from the external auditor by 30 September 2017.
- 4.2 Agreed measures are implemented to address any actions identified within the Annual Audit Report in accordance with the timescales indicated.

## **5. Financial impact**

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- 5.1 There is no direct additional impact arising from the report's contents, although the on-going effectiveness of the Council's current financial management and planning arrangements has been noted.

## 6. Risk, policy, compliance and governance impact

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- 6.1 The Committee's remit includes the review of all matters relating to external audit, including reports and action plans to monitor implementation of external audit recommendations.
- 6.2 The Council's arrangements for risk management, fraud prevention and internal control, as well as its wider governance framework, have been assessed to operate effectively.

## 7. Equalities impact

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- 7.1 There is no direct relevance of equalities and rights issues to the report's contents.

## 8. Sustainability impact

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- 8.1 There are no impacts on carbon, adaptation to climate change and sustainable development arising directly from this report.

## 9. Consultation and engagement

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- 9.1 The financial statements were made available for public inspection in July for a period of 15 working days in accordance with the provisions of Part VII of the Local Government (Scotland) Act 1973 and the Local Authority Accounts (Scotland) Regulations 2014. The Council received one request for further information under these Regulations during this period. Additionally, an individual lodged an objection with Audit Scotland, with a hearing convened.

## 10. Background reading/external references

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[Unaudited Annual Accounts, 2016/17](#), City of Edinburgh Council, 29 June 2017

[City of Edinburgh Council External Audit Plan, 2016/17](#), Governance, Risk and Best Value Committee, 9 March 2017

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## 11. Appendices

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Appendix 1 – 2016/17 Annual Audit Report to the Council and the Controller of Audit

Appendix 2 – 2016/17 Audited Annual Accounts