

**REPORT TO:** SCRUTINY COMMITTEE – 18 APRIL 2018

**REPORT ON:** DUNDEE CITY COUNCIL – AUDIT SCOTLAND ANNUAL AUDIT PLAN 2017/18

**REPORT BY:** EXECUTIVE DIRECTOR OF CORPORATE SERVICES

**REPORT ON:** 116-2018

**1 PURPOSE OF REPORT**

To submit to elected members the above report that describes how Audit Scotland will deliver the audit of Dundee City Council for the year ending 31 March 2018.

**2 RECOMMENDATIONS**

It is recommended that elected members note the information included in the attached report.

**3 FINANCIAL IMPLICATIONS**

The proposed external audit fee for 2017/18 is £342,570 which is an increase of £1,370 from 2016/17. Provision for the proposed external audit fee has already been made in the Corporate Services 2017/18 revenue budget. There is also an additional audit fee of £4,600 for the audit of the Council's charitable trusts. There are no further direct financial implications arising from this report.

**4 MAIN TEXT**

4.1 Following Audit Scotland's appointment as external auditor for Dundee City Council for five years from 2016/17, they have produced the above report outlining the planned approach to the audit of Dundee City Council for the year ending 31 March 2018. The document sets out the statutory and professional responsibilities in terms of the Code of Audit Practice and also outlines their key audit objectives.

4.2 The report is divided into the following sections:-

Audit Risks and Planned Work (pages 4-9)

- Audit Risks (pages 4-8)
- Reporting Arrangements (page 8)
- Responsibilities and Fees (page 9)

Audit Scope and Timing (pages 10-15)

- Financial Statements, Materiality and Timetable (pages 10-12)
- Internal Audit – Assessment, Adequacy and Reliance (pages 12-13)
- Audit Dimensions (pages 13-14)
- Best Value (page 15)
- Independence, Objectivity & Quality Control (page 15-16)

**5 POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality and Risk Management. There are no major issues.

**6 CONSULTATION**

The Council Management Team has been consulted in the preparation of this report and agreed with its contents.

**7 BACKGROUND PAPERS**

None

G COLGAN  
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

21 MARCH 2018

# Dundee City Council

Annual Audit Plan 2017/18



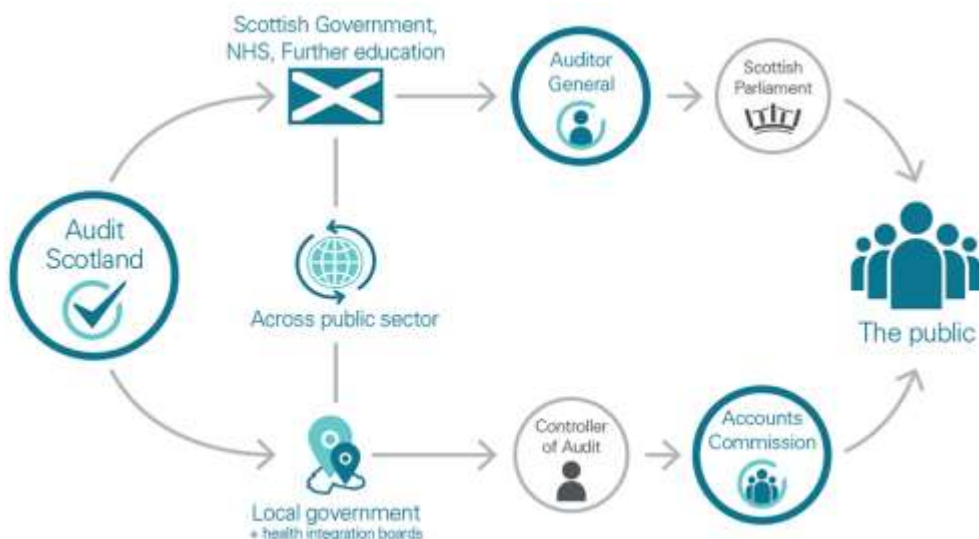
 AUDIT SCOTLAND

Prepared for Dundee City Council  
March 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This audit plan provides an overview of the planned scope and timing of our audit of Dundee City Council for 2017/18. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland and endorsed by the Accounts Commission.

2. The plan sets out the audit work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit. The wider scope of public audit includes assessing arrangements for financial sustainability, governance and transparency, and value for money. We make a public report of conclusions on these matters in our Annual Audit Report to members and the Controller of Audit.

## Audit risks

3. 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 Dundee City Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out at [Exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

| Audit Risk   | Source of assurance   | Planned audit work  |
|--|---|---|
| <b>Financial statement issues and risks</b>  |   |   |
| <p><b>1 Risk of 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.</p> | <ul style="list-style-type: none"> <li>In view of the nature of this risk, assurances from management are not appropriate.</li> </ul>   | <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 significant transactions that are outside the normal course of business.</li> </ul> |
| <p><b>2 Risk of fraud over income and expenditure</b></p> <p>ISA 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> includes certain requirements relating to the auditor's consideration of fraud.</p>                           | <ul style="list-style-type: none"> <li>Regular budget monitoring and reporting.</li> <li>Local code of corporate governance outlining the governance framework.</li> <li>Participation in the National Fraud Initiative.</li> <li>Internal controls in financial</li> </ul> | <ul style="list-style-type: none"> <li>Analytical procedures on income/expenditure.</li> <li>Testing of key internal financial controls.</li> <li>Detailed testing of transactions focusing on the areas of greatest risk.</li> <li>Review the council's actions</li> </ul>           |

| Audit Risk  | Source of assurance  | Planned audit work  |
|---|--|---|
| <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant.</p> <p>The council receives a significant amount of funding from the Scottish Government, however income is received from other sources, including council tax, housing rents etc.</p> <p>Additionally, the Code of Audit Practice requires consideration of the risk of fraud over expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p> | <p>systems to mitigate risks of error or manipulation.</p> <ul style="list-style-type: none"> <li>Internal audit's review of BACS and user access levels covering key financial systems.</li> </ul>  | <p>to mitigate the risk of fraud. This will include review of the progress of the Corporate Integrity Group in strengthening controls following the significant fraud reported in 2016/17.</p> <ul style="list-style-type: none"> <li>Review the council's involvement in the National Fraud Initiative.</li> <li>The Controller of Audit is to report on the fraud to the Accounts Commission under section 102(1) of the Local Government (Scotland) Act 1973 in March 2018.</li> </ul> |
| <p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>   | <ul style="list-style-type: none"> <li>Valuations and impairment review of non-current assets by professional valuer in line with 5 year rolling programme.</li> <li>Actuarial valuation to provide pension figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable.</li> <li>Confirmation from legal services of all potential cases together with an assessment of potential liability and likelihood of settlement.</li> </ul> | <ul style="list-style-type: none"> <li>Review of the work of an expert in accordance with ISA 620. This will apply to the work of the actuary and the property valuer.</li> <li>Focused testing of non-current assets, pensions and provisions.</li> </ul>  |
| <p><b>4 Group entities consolidation</b></p> <p>The council's group accounts bring together the council's interests in entities which would be regarded as subsidiaries, associates and joint ventures. The council's relationships with organisations need to be reviewed annually to identify the group boundary for the accounts. These include the subsidiary Dundee Energy Recycling Ltd (DERL) which was sold in November 2017.</p>   | <ul style="list-style-type: none"> <li>Review of group boundary to assess what should be consolidated within the group accounts for 2017/18..</li> <li>Consider the accounting entries for DERL to ensure compliance with requirements.</li> </ul>   | <ul style="list-style-type: none"> <li>Review of the council's consideration of related parties to ensure all group entities are appropriately recognised</li> <li>Review of component auditors and of findings in relation to group entities</li> <li>Review of accounting basis for preparation of the group accounts.</li> </ul>   |
| <p><b>5 Management Commentary and Annual Governance Statement</b></p> <p>A number of disclosures required by extant guidance and Regulations had not been</p>   | <ul style="list-style-type: none"> <li>The Final Accounts Working Group is reviewing its process for 2017/18 to ensure disclosures in line with</li> </ul>   | <ul style="list-style-type: none"> <li>Review of Management Commentary and Annual Governance Statement to ensure statements comply with regulations and</li> </ul>  |

| Audit Risk  | Source of assurance  | Planned audit work  |
|---|--|---|
| presented appropriately in the 2016/17 annual accounts. There is a risk that the accounts may not comply with current guidance and Regulations.   | requirements.<br><ul style="list-style-type: none"> <li>Officers will liaise with external audit to ensure requirements are met.</li> </ul>  | guidance.   |
| <b>6 Related parties</b><br>The council maintain a register of interest for members. However there is no process in place to ensure that these registers are reviewed to ensure all related party disclosures are identified and disclosed in the financial statements. There is a risk that the related parties disclosures are incomplete.  | <ul style="list-style-type: none"> <li>The Final Accounts Working Group is reviewing its process for 2017/18 to ensure disclosures are in line with requirements.</li> </ul>   | <ul style="list-style-type: none"> <li>Review of related party disclosure to ensure all appropriate areas are considered and reported where necessary.</li> </ul>   |
| <b>7 Service concession assets</b><br>A service concession arrangement is an arrangement whereby the council contracts with a private operator to develop, operate and maintain an asset. A significant service concession arrangement in relation to Baldragon Academy will require a service concession asset to be recognised in the financial statements in 2017/18. There is a risk that this arrangement is not appropriately recognised in the financial statements. | <ul style="list-style-type: none"> <li>The Final Accounts Working Group is considering the accounting treatment of this project and will liaise with external audit.</li> <li>Recognition of assets and liabilities in financial statements supported by service concession model breaking down payments into constituent parts.</li> </ul>  | <ul style="list-style-type: none"> <li>Review of service concession model and disclosures in the accounts including asset valuation and liability.</li> </ul>   |
| <b>Wider dimension risks</b>  |  |   |
| <b>8 Financial sustainability</b><br>The council is facing the prospect of having to make significant budget savings. The council has a relatively low level of usable reserves in comparison with other authorities and continues to face increasing demands (e.g. residential placements and foster care). There is a risk that the council is unable to deliver the efficiencies required to balance its budget whilst meetings its strategic priorities.                | <ul style="list-style-type: none"> <li>In February 2018 the council considered the projected savings and efficiencies required over the next three years to be between £30.7 million and £47.6 million (with £7.3 million of this required in 2018/19).</li> <li>New Changing for the Future transformation programme of reviews to be agreed.</li> <li>Three year revenue budget considered by members in February 2018.</li> <li>The council is developing a process to evidence a clearer link between the</li> </ul> | <ul style="list-style-type: none"> <li>Review the council's process for monitoring the transformation programme progress.</li> <li>Review financial monitoring reports and the financial position.</li> </ul> |



| Audit Risk  | Source of assurance   | Planned audit work  |
|---|---|---|
|   | <p>budgets set and the council's strategic priorities.</p> <ul style="list-style-type: none"> <li>Regular financial monitoring reports presented to members.</li> </ul>   |   |
| <p><b>9 Performance management</b></p> <p>The council's performance management framework is going through significant changes. The latest in year performance monitoring report considered by members was in December 2016.</p> <p>Our 2016/17 Annual Audit Report highlighted that much of the performance information on the council website was outdated.</p> <p>With a lack of up to date performance information, there is a risk that the members cannot effectively scrutinise and take informed decisions on the allocation of resources and the prioritisation of improvement actions in services.</p> | <ul style="list-style-type: none"> <li>Training has been developed and is to be provided for staff involved in performance information collation.</li> <li>Quarterly performance monitoring reports to the Scrutiny Committee to be reintroduced.</li> <li>Performance training to be provided to members.</li> <li>Website performance information is being updated.</li> <li>Internal audit review of public performance reporting, covalent and data integrity.</li> </ul> | <ul style="list-style-type: none"> <li>Undertake specific work on performance, outcomes and improvement. This will include assessing the council's performance management arrangements.</li> <li>Review of the work of internal audit on public performance reporting, covalent and data integrity.</li> </ul>      |
| <p><b>10 Risk management</b></p> <p>The corporate risk register has not been considered by members since June 2014. An internal audit report on <i>Risk Management</i> was considered by the Scrutiny Committee in February 2018 highlighting several areas where improvements are required in the risk management processes. There is a risk that the council is not mitigating risks to an acceptable level.</p>  | <ul style="list-style-type: none"> <li>Implementation of internal audit recommendations in its <i>Risk management</i> report.</li> <li>Appointment of a risk management co-ordinator.</li> <li>Updated corporate risk register to be considered by members in April 2018.</li> </ul>  | <ul style="list-style-type: none"> <li>Monitor the progress in updating the corporate risk register and implementing the improvements to the risk management arrangements as recommended by internal audit.</li> <li>Review the content of the Annual Governance Statement in regard to risk management.</li> </ul> |
| <p><b>11 Internal audit</b></p> <p>Progress against the 2017/18 internal audit plan is not regularly reported to the Scrutiny Committee. Several reports in relation to previous year's audits are still to be reported. This presents a risk to obtaining the necessary assurances management and members require for the Annual</p>   | <ul style="list-style-type: none"> <li>Delivery of internal audit reports in line with the 2017/18 plan.</li> <li>Internal audit's annual internal audit report assessing the assurances obtained during 2017/18 to inform the Annual Governance Statement.</li> <li>External quality assessment of internal audit is currently being</li> </ul>  | <ul style="list-style-type: none"> <li>Review of internal audit's external quality assessment and review of progress against plans to ensure this is appropriately reflected in the assurances provided in the Annual Governance Statement</li> </ul>   |

| Audit Risk            | Source of assurance  | Planned audit work |
|-----------------------|--|--------------------|
| Governance Statement. | undertaken. A self-assessment against the Public Sector Internal Audit Standards (PSIAS) has been completed. |                    |

## Audit of charities administered by Dundee City Council

4. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. In 2016/17, the council administered trusts having charitable status, with total assets of almost £6.0 million. A reorganisation of the trusts in 2017/18 has resulted in an additional trust with charitable status being created and this will require to be audited. We will perform the audit in parallel with the audit of the council's financial statements and provide an independent auditor's reports for the charitable trusts.

## Reporting arrangements

5. This Annual Audit Plan, the outputs set out in [Exhibit 2](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to the members of Dundee City Council and the Accounts Commission setting out our opinion on the financial statements and other matters upon which we are required to provide an opinion. We will provide members and the Controller of Audit with an Annual Audit Report, containing observations and recommendations on significant matters which have arisen during the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

| Audit Output                 | Target date       | Scrutiny Committee Date |
|------------------------------|-------------------|-------------------------|
| Annual Audit Plan            | 28 March 2018     | 18 April 2018           |
| Interim management report    | 6 June 2018       | 27 June 2018            |
| Annual Audit Report *        | 19 September 2018 | 26 September 2018       |
| Independent Auditor's Report | 26 September 2018 | 26 September 2018       |

\* This date is the date the proposed Annual Audit Report will be presented for those charged with governance. To allow for potential subsequent post balance sheet events, the formal Annual Audit Report cannot be presented until after the date of certification of the annual accounts on 26 September.

## Audit fee

8. The agreed audit fee for the 2017/18 audit of Dundee City Council is £342,570 (£341,200 in 2016/17). In determining the audit fee we have taken account of the

risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 30 June 2018.

**9.** We have also agreed an audit fee for the audit of the three registered charities of £4,600 (£4,000 for the two charities in place in 2016/17).

**10.** The combined fee represents a small increase of £1,970 (0.57% over that charged in 2016/17).

**11.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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.

## Responsibilities

### Scrutiny Committee and Executive Director of Corporate Services

**12.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**13.** The audit of the financial statements does not relieve management or the Scrutiny Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**14.** 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.

**15.** Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**16.** The statutory financial statements audit will be the foundation and source for much of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing local government and the wider public sector. Our audit approach includes:

- understanding the business of Dundee City Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Dundee City Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**17.** We will give an opinion on:

- Whether the financial statements give a true and fair view of the state of affairs of the council and its group and the income and expenditure for the year
- Whether the annual accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom
- whether the annual accounts have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003 and other relevant legislation.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Materiality

**18.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**19.** We calculate materiality at different levels as described below. The calculated materiality values for the council are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality levels

| Materiality level  | Amount       |
|--|--------------|
| <b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 (based on the most recent audited accounts).  | £6.8 million |
| <b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of planning materiality. | £4.1 million |
| <b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of a predetermined reporting threshold. This has been calculated at 2% of planning materiality.  | £0.1 million |

Source: Audit Scotland

20. We set separate materiality levels for the audits of the charities accounts, as detailed in [Exhibit 4](#) and [Exhibit 5](#) (a new trust introduced in 2017/18) below.

## Exhibit 4

### Trust materiality levels

| Trust                                 | Planning materiality | Performance materiality * | Lower performance materiality ** | Reporting threshold |
|---------------------------------------|----------------------|---------------------------|----------------------------------|---------------------|
| Dundee City Council Charitable Trusts | £58,934              | £53,040                   | £505                             | £100                |
| Lord Provost Charity Fund             | £1,106               | £996                      | £209                             | £55                 |

\* higher performance materiality based on the 2016/17 audited net asset value

\*\* lower performance materiality based on the 2016/17 gross revenue expenditure.

## Exhibit 5

### Trust materiality levels (new trust)

| Trust        | Planning materiality | Performance materiality * | Reporting threshold |
|--------------|----------------------|---------------------------|---------------------|
| Dundee Trust | £760                 | £630                      | £35                 |

\* performance materiality based on planned 2017/18 gross expenditure

**21.** Items can be material by nature, rather than value; for example, a failure to comply with legislation. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issue identified will be reported to the Scrutiny Committee.



### Timetable

**22.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 6](#) which takes account of submission requirements and planned Scrutiny Committee dates::

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## Exhibit 6

### Financial statements timetable

|  Key stage     |  Date |
|---|--|
| Consideration of unaudited financial statements by those charged with governance                | 27 June  |
| Latest submission date of unaudited annual accounts with complete working papers package        | 30 June  |
| Latest date for final clearance meeting with officers   | 7 September  |
| Issue of letter of representation and proposed independent auditor's report                     | 12 September   |
| Agreement of audited unsigned annual accounts   | 14 September   |
| Issue of proposed Annual Audit Report including ISA 260 report to those charged with governance | 19 September   |
| Independent auditor's report signed   | 26 September   |
| Latest date for signing of whole of government accounts return                                  | 28 September   |

### Internal audit

**23.** 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 assessment of the internal audit function at audited bodies.

**24.** Dundee City Council's internal audit function is delivered utilising a mix of in-house and external resources, overseen by the council's Senior Manager - Internal Audit. The external resources are provided by KPMG who were approved as the council's co-sourcing partner for the delivery of internal audit services with effect from November 2017 (PwC having previously been the co-source partner)..

**25.** Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and that it generally complies with the main requirements of the PSIAS. An external quality assessment is currently being undertaken. A self-assessment against the PSIAS has been completed.

**26.** Several reports in relation to the previous year's audits are still to be reported and there is a risk that this could impact on the 2017/18 internal audit plan. We also note that progress with the internal audit plan is not regularly reported to the Scrutiny Committee which presents a risk to obtaining the necessary assurances management and members require for the Annual Governance Statement.

### Areas of Internal Audit reliance

**27.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- user access levels
- Bank Automated Clearance System (BACS)

**28.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Risk management
- Dundee Health and Social Care Partnership
- Covalent
- Service governance arrangements
- Data security
- Public performance reporting
- Data integrity

### Audit dimensions

**29.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements, [exhibit 7](#). Our conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

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## Exhibit 7

### Audit dimensions



Source: Code of Audit Practice

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### Financial sustainability

**30.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit of the financial statements. We also



comment on the council's financial sustainability in the medium and longer term. We will carry out work and conclude on the following in 2017/18:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term; including the potential impact of the end of the public sector pay cap, new financial powers and EU withdrawal.
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

**31.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively including:

- the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- whether financial capacity and skills are adequate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

### Governance and transparency

**32.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information. We will assess:

- whether governance arrangements are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)..
- whether there is effective scrutiny, challenge and transparency of decision making (including for services delivered by (or in partnership with) other bodies such as the integration joint board)
- the quality and timeliness of financial/performance reporting.

### Value for money

**33.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the council can provide evidence that it is delivering value for money in its use of resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

### Impact reports

**34.** As part of our 2017/18 audit activity we will be carrying out some limited work to assess the local impact of recent national audit reports including:

- Changing models of health and social care (published March 2016)
- Roads maintenance follow-up (published August 2016)
- Social work in Scotland (published September 2016)



## Best Value

**35.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report
- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission setting out findings from across all 32 Scottish councils
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

**36.** The six councils on which a BVAR will be published during the second year of the new approach are listed at [Exhibit 7](#). Reports will be considered by the Accounts Commission between April 2018 and November 2018.

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## Exhibit 7

### 2017/18 Best Value Assurance Reports

|                               |                             |
|-------------------------------|-----------------------------|
| East Ayrshire Council         | Glasgow City Council        |
| Dumfries and Galloway Council | West Dunbartonshire Council |
| East Lothian Council          | Fife Council                |

Source: Audit Scotland

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**37.** The work planned in Dundee City Council this year will focus on the arrangements for demonstrating Best Value in delivering performance outcomes and continuous improvement. The work will be integrated into the audit approach and will be reported in the Annual Audit Report.

## Independence and objectivity

**38.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**39.** The engagement lead for Dundee City Council is Fiona Mitchell-Knight, Assistant Director. The engagement lead for the charitable trusts is Bruce Crosbie, Senior Audit Manager. 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 Dundee City Council or the charities.

## Quality control

**40.** 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.

**41.** 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 Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal and external quality reviews. External quality reviews are conducted by the Institute of Chartered Accountants of Scotland.

**42.** 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 welcome feedback at any time and this may be directed to the engagement lead.

## Adding Value

**43.** Through our audit work we aim to add value to the council. We will do this by providing a summary of our audit activity in an Annual Audit Report. We will provide clear judgements and conclusions on how well the council has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where appropriate we will recommend actions that support continuous improvement and highlight any areas of good practice identified from our audit work.

# Dundee City Council

## Annual Audit Plan 2017/18

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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