

**REPORT TO: SCRUTINY COMMITTEE – 20 APRIL 2016**

**REPORT ON: DUNDEE CITY COUNCIL - KPMG EXTERNAL AUDIT STRATEGY REVIEW AND PLAN FOR THE YEAR ENDED 31 MARCH 2016**

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

**REPORT NO: 151-2016**

**1 PURPOSE OF REPORT**

To submit to elected members the above report that describes how KPMG will deliver the audit of Dundee City Council for the year ending 31 March 2016. This includes the opinions on the financial statements in accordance with relevant legal and accounting requirements.

**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 2015/16 is £386,060 which is unchanged from 2014/15. Provision for the proposed external audit fee has already been made in the Corporate Services 2016/17 revenue budget. There are no further direct financial implications arising from this report.

**4 MAIN TEXT**

4.1 The Accounts Commission for Scotland has appointed KPMG LLP as auditors of Dundee City Council under the Local Government (Scotland) Act 1973. The period of appointment is 2011-12 to 2015-16, inclusive. This strategy review and plan details their responsibilities as external auditors for the year ended 31 March 2016 and specifies the objectives of their audit.

4.2 The report is divided into the following sections:

1. 2015/16 Audit Strategy on a Page (page 2)
2. Scoping and Purpose (pages 3 to 5)
3. Significant Risks and Other Focus Areas (pages 6 to 10)
4. Audit Approach (pages 11 to 16)
5. Timeline and Reporting (pages 17 to 18)
6. Appendices (pages 20 to 26)

4.3 The outcome of the 2015/16 audit will be reported to the Scrutiny Committee on 28 September 2016 and thereafter to the Policy & Resources Committee on 31 October 2016.

**5 POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

6      **CONSULTATION**

The Chief Executive and Head of Democratic and Legal Services.

7      **BACKGROUND PAPERS**

None.

**MARJORY M STEWART**  
**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**08 APRIL 2016**



*cutting through complexity*

# Dundee City Council

Audit strategy review and plan

Year ending 31 March 2016

11 March 2016

For scrutiny committee consideration on 20 April 2016

# Contents



1. 2015-16 AUDIT STRATEGY ON A PAGE



2. SCOPING AND PURPOSE



3. SIGNIFICANT RISKS AND OTHER FOCUS AREAS



4. AUDIT APPROACH



5. TIMELINE AND REPORTING



APPENDICES

## About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Dundee City Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

## Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Hugh Harvie, who is the engagement leader for our services to the Council, telephone 0131 527 6682 email: [hugh.harvie@kpmg.co.uk](mailto:hugh.harvie@kpmg.co.uk) who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to [alex.sanderson@kpmg.co.uk](mailto:alex.sanderson@kpmg.co.uk). We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4<sup>th</sup> Floor, 102 West Port, Edinburgh, EH3 9DN.

## SIGNIFICANT RISKS AND OTHER MATTERS

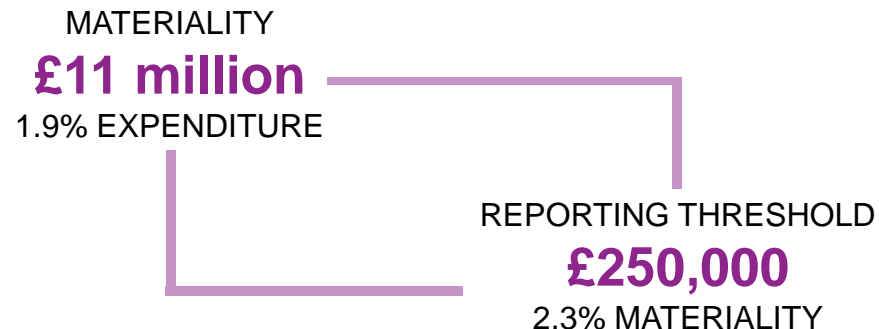


From discussions with management, our knowledge of the Council and review of risk registers, we have considered areas of risk and audit focus. We have identified significant risks as:

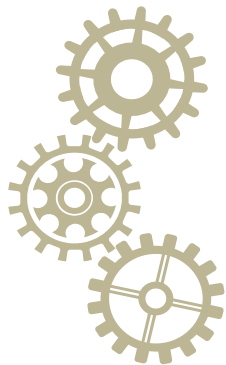
- management override of controls;
- fraudulent revenue recognition; and
- financial position.

Other audit focus areas are transport infrastructure assets, provisions and retirement benefits.

## MATERIALITY



## WIDER SCOPE REQUIREMENTS



The audit will consider other areas:

- Audit Scotland's Code of Audit Practice ("the Code") and the audit dimensions set out in the 2016 code (in consultation).
- National Fraud Initiative.
- Code of Practice on Local Authority Accounting in the United Kingdom disclosures.
- Best Value.
- Targeted follow up.

## KPMG TEAM



The team continues to benefit from strong continuity at all levels:

- Hugh Harvie – engagement partner;
- Michael Wilkie – engagement manager;
- Natalie Dyce – audit in-charge.

We will harness the expertise of our pension and valuation specialists to support our audit work where necessary.

### Scope definition

The Accounts Commission has appointed KPMG LLP as auditor of Dundee City Council (“the Council”) under the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2011-12 to 2015-16, inclusive. For the 2015-16 audit our appointment includes the audit of the Dundee Health and Social Care Integration Joint Board.

### Purpose

This document summarises our responsibilities as external auditor for the year ending 31 March 2016 and our intended approach to issues impacting the Council’s activities in the year.

Auditors and audited bodies’ responsibilities are set out in the Code. This Code states the responsibilities in relation to:

- the financial statements;
- corporate governance and systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- arrangements for preparing and publishing statutory performance information;
- financial position; and
- Best Value, uses of resources and performance.

These responsibilities are outlined in appendix four.

### KPMG’s planned audit work in 2015-16 will include:

- an audit of the financial statements and provision of an opinion on whether the financial statements:
  - give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom (“the 2015-16 Code”) of the state of the affairs of the group and of the local authority as at 31 March 2016 and of the income and expenditure of the group and the authority for the year then ended;
  - have been prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2015-16 Code, the requirements of the Local Government (Scotland) act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government Scotland Act 2003.
- a review and assessment of the Council’s governance arrangements including: a review of the adequacy of internal audit and review of the governance statement;
- a review of National Fraud Initiative arrangements; and
- a review of arrangements for preparing and publishing statutory performance information.

Risk assessment	Financial position	Key developments
<p>The shared risk assessment process forms a local scrutiny plan for councils each year. The local scrutiny plan for 2015-16 outlines a range of scrutiny activities, including:</p> <ul style="list-style-type: none"> <li>■ monitoring of the Council's progress with the development of a medium term financial strategy;</li> <li>■ monitoring of the progress with, and outcomes of the McClelland Review of V&amp;A museum;</li> <li>■ joint inspection of services for children and young people led by the Care Inspectorate;</li> <li>■ Scottish Housing Regulator planned programme of thematic inquiries into housing services; and</li> <li>■ validated self-evaluation of educational psychology services with Education Scotland over a two-year period beginning in 2015-16.</li> </ul>	<p>In an environment of public sector reform and continued financial pressures, councils are faced with real term funding decreases combined with increasing demand for services.</p> <p>The 2015-16 budget was approved in February 2015. The total approved budget was £340 million, funded from general grant funding, non-domestic rates income and council tax income, with no budgeted use of reserves.</p> <p>The revenue monitoring report presented to the policy and resources committee on 11 January 2016, forecast an underspend of £4 million against the budget. This is the result of various underspends in corporate and service budgets, the most significant of which are: capital financing costs (£1.5 million); social work (£1.2 million); and education (£0.8 million).</p> <p>The capital monitoring report presented to the policy and resources committee on 7 December 2015 shows a forecast outturn for 2015-16 of £97 million against the original budget of £107 million. Budget adjustments of £9 million have been made throughout the year as a result of less than anticipated expenditure and timing differences in 2015-16.</p>	<p>Key developments to be considered during the 2015-16 audit and included within our annual audit report include:</p> <ul style="list-style-type: none"> <li>■ the establishment of the Dundee Health and Social Care Integration Joint Board;</li> <li>■ progress against efficiency savings;</li> <li>■ Audit Scotland's new best value approach for 2015-16 onwards;</li> <li>■ progress against the Council plan; and</li> <li>■ the impact of the results of the Scottish Parliamentary elections in May 2016.</li> </ul>

**Audit dimensions** – as they develop we will consider the wider scope Audit Dimensions as set out in the Code of Audit Practice 2016 (in consultation). The audit dimensions put Best Value at the core.

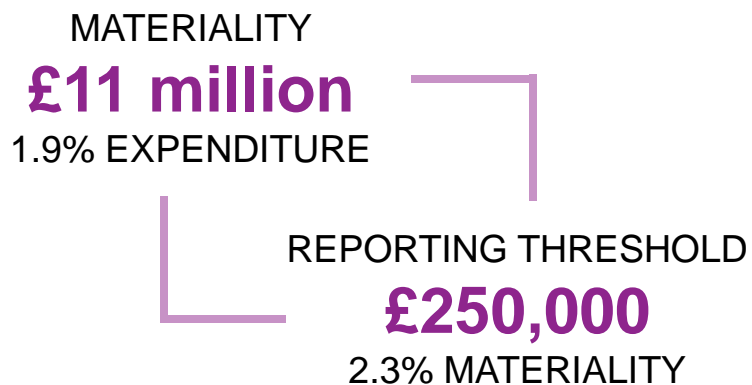
Financial sustainability	Financial management	Governance and transparency	Value for money
Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	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.	Value for money is concerned with using resources effectively and continually improving services.

We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.

Audit differences will be presented to the scrutiny committee if they are material in size or material in nature. For 2015-16 we consider individual or aggregated financial statement errors of over £11 million (2014-15: £11 million) to be material.

To the extent that we identify misstatements above £250,000 (2014-15: £250,000) we report them to the scrutiny committee and assess whether the misstatement is indicative of a significantly deficient or materially weak control environment.

We recognise that matters can be important because of their nature regardless of their size, for example misstatements to key disclosures such as remuneration and related parties, and we will also report these to the scrutiny committee.



### DETERMINING MATERIALITY

We consider materiality by reference to the Council's total cost of services expenditure which was £569.4 million in 2014-15.

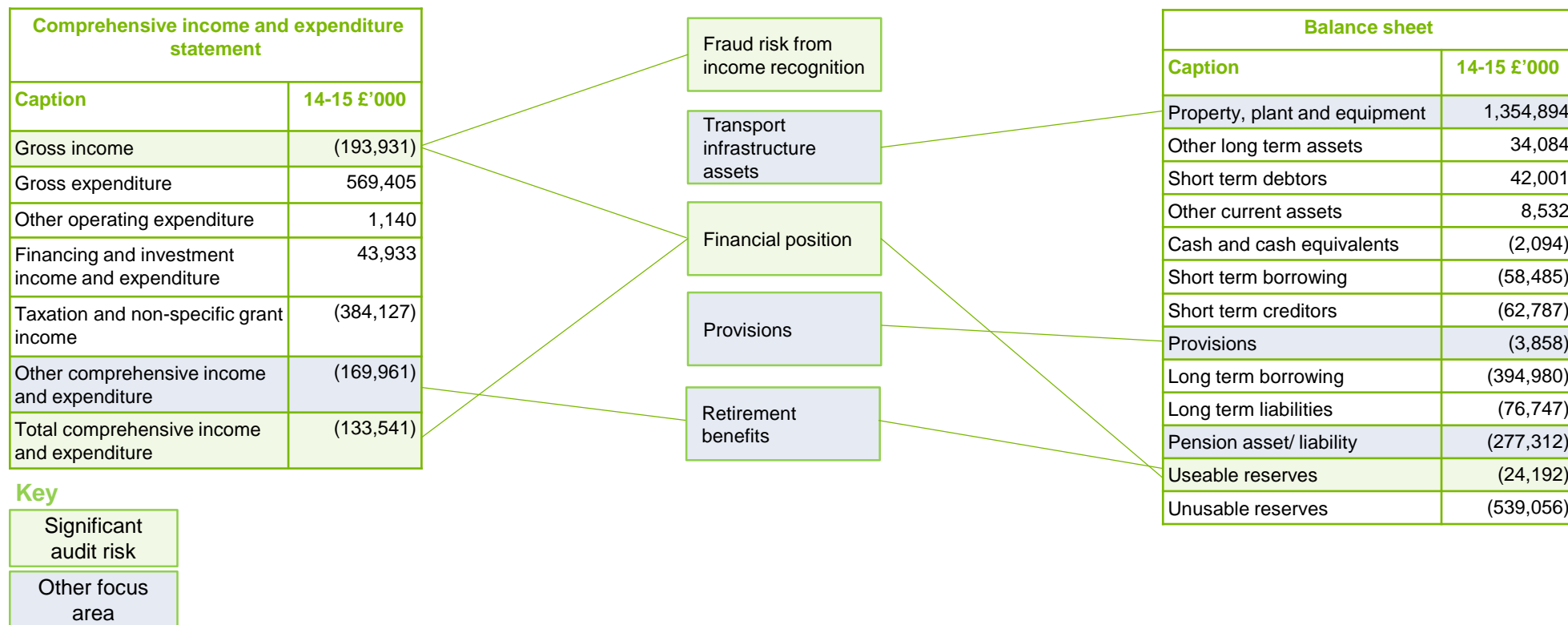
Audit guidance typically puts this percentage at not higher than 2% of the chosen gross metric (total expenditure).

We considered the Council's total expenditure of 2014-15 along with the expectation for 2015-16 and consider the use of a materiality of £11 million, representing 1.9% of 2014-15 total expenditure to be appropriate.



International Standard on Auditing (UK and Ireland) 315: *Identifying and assessing risks of material misstatement through understanding the entity and its environment* requires the auditor to determine whether any of the risks identified as part of risk assessment are significant risks and therefore require specific audit consideration.

In determining whether a risk is significant, judgement is applied in respect of the whether, for example, the risk is associated with the complexity of transactions, the degree of subjectivity involved in the measurement of financial information, whether the associated transactions are outside the normal course of business, or whether there is an associated risk of fraud. We have set out our significant risks, along with other audit focus areas, in terms of the 2014-15 comprehensive income and expenditure statement and the balance sheet for illustrative purposes.



RISK	WHY	AUDIT APPROACH
<b>Fraud risk from management override of controls</b>	Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	<ul style="list-style-type: none"> <li>■ Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Council.</li> <li>■ Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</li> <li>■ In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual.</li> </ul>
<b>Fraud risk from income recognition</b>	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	<ul style="list-style-type: none"> <li>■ Part of the Council's income is received from non ring-fenced government grants. As government grants are agreed in advance of the year, with adjustments requiring Government approval, we do not regard the risk of fraud from this revenue recognition as significant.</li> <li>■ The other major sources of income are from annual local taxes and rental income (council tax, non-domestic rates and housing revenues). These revenues are prescribed by law and other specific regulations, which prescribe the period in which annual local taxes and rental income is recognised as revenue. This minimises the level of judgement required in revenue recognition by management and we do not regard the risk of fraud from this revenue recognition as significant.</li> <li>■ We consider the fraud risk from recognition of other income to be significant. Other income relates primarily to sales or service income, and therefore we consider there to be potential judgement in recognising this income.</li> <li>■ The potential for revenue to be incorrectly recognised will be addressed through controls testing and substantive procedures. We will consider each source of income and analyse results against budgets and forecasts, performing substantive analytical procedures and tests of details</li> </ul>

RISK	WHY	AUDIT APPROACH
<p><b>Financial Position</b></p>	<p>With higher demand for services coupled with budget reductions and public reform, financial position is of key importance to local authorities.</p> <p>In 2014-15 the Council recorded an accounting deficit of £36.4 million in the comprehensive income and expenditure account. The net movement on the useable funds balance was an increase of £1.6 million, while uncommitted general fund balances remained at £5.0 million. The Council reported an underspend on cost of services against budget for services of £8.4 million.</p> <p>In benchmarking undertaken by Audit Scotland from analysis of the 2014-15 unaudited financial statements of Scotland's 32 local authorities, Dundee City Council had a movement in total useable reserves just above the average movement. The carried forward usable revenue reserves as a proportion of revenue were the third lowest in Scotland</p>	<ul style="list-style-type: none"> <li>■ We will update our understanding of the Council's financial position and year end outturn position through review of quarterly reports and other management information. We will assess management's progress with implementation of efficiency savings. Commentary and analysis on these areas will be provided within the annual audit report.</li> <li>■ We will consider management's capital monitoring reports and provide commentary on the achievement of the capital budget and impact on the capital limits and associated borrowing during the year.</li> <li>■ We will perform controls testing over the budgeting process including the monitoring of budgets throughout the year. We will perform substantive procedures, including substantive analytical procedures, over income and expenditure comparing the final position to budget.</li> </ul>

RISK	WHY	AUDIT APPROACH
<p><b>Transport infrastructure assets</b></p>	<p>The 2016-17 Code will adopt requirements of the Code on transport infrastructure assets (“the transport code”), which requires measurement of these assets on a depreciated replacement cost basis.</p> <p>This will represent a change in accounting policy from 1 April 2016. Local authorities are advised to have implemented a robust project plan through 2015-16 to ensure preparedness for the requirements of the 2016-17 code.</p>	<p>We will consider the Council’s plan to deal with the requirements of the transport code. We will evaluate the extent to which the Council is prepared for the change in accounting policy and use our property team to assist in this area, particularly around valuation methodologies.</p>
<p><b>Provisions</b></p>	<p>Whilst the Council does not operate landfill sites or coal mines, Tayside Contracts Joint Committee operates quarries which carry obligations for rectification. Management should review whether appropriate provisions are held for this required expenditure.</p> <p>Following a European Court of Justice ruling in May 2014, employers are required to pay holiday pay to staff at a rate commensurate with any commission or over time that they regularly earn, instead of at their basic pay level. Following legal advice, management has implemented actions to mitigate the impact of the legislation. In common with all impacted employers, the Council will consider if there is a contingent liability that requires disclosure as at 31 March 2016.</p>	<p>Under IAS 37 a provision should be recognised when:</p> <ul style="list-style-type: none"> <li>■ an entity has a present obligation as a result of a past event;</li> <li>■ it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and</li> <li>■ a reliable estimate can be made of the amount of the obligation.</li> </ul> <p>We will remain alert to legislative changes and consider the Council’s position in relation to the criteria.</p> <p>We will challenge and assess the judgements applied as at the year end and review recognition of any provisions, or disclosures of contingent liabilities</p>

RISK	WHY	AUDIT APPROACH
<p><b>Retirement benefits</b></p>	<p>The Council accounts for its participation in the Tayside Pension Fund in accordance with IAS 19 Retirement benefits, using a valuation report prepared by actuarial consultants.</p> <p>The Council's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases.</p> <p>IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental.</p>	<p>Our audit approach to IAS19 includes:</p> <ul style="list-style-type: none"> <li>■ review by KPMG specialists of the financial assumptions underlying actuarial calculations and comparison to our central benchmarks;</li> <li>■ testing of scheme assets and rolled-forward liabilities;</li> <li>■ testing of the level of contributions used by the actuary to those actually paid during the year;</li> <li>■ testing of membership data used by the actuary to data from the Council; and</li> <li>■ agreeing actuarial reports to financial statement disclosures.</li> </ul>

#### Code of practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code")

The 2015-16 financial statements will be prepared in accordance with the *Code of practice on local authority accounting in the United Kingdom 2015-16* ("the Code") which is based on International Financial Reporting Standards ("IFRS").

The 2015-16 Code has a number of amendments from the 2014-15 version and management should consider if these changes will impact the financial statements. The amendments include:

- adoption of IFRS 13 *Fair Value Measurement*, including consequential amendments as a result of adopting this standard and the introduction of the concept of current value;
- amendments to underline the importance of the consideration of materiality when preparing disclosures; and
- amendments made as a result of the Local Authority Accounts (Scotland) Regulations 2014.

We consider that the adoption of IFRS 13 may have an impact on the Council's financial statements in relation to the fair value measurement of assets and liabilities.

Audit Scotland has also provided enhanced guidance in respect of a number of technical topics, which will be considered during the audit.

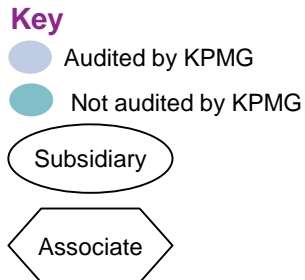
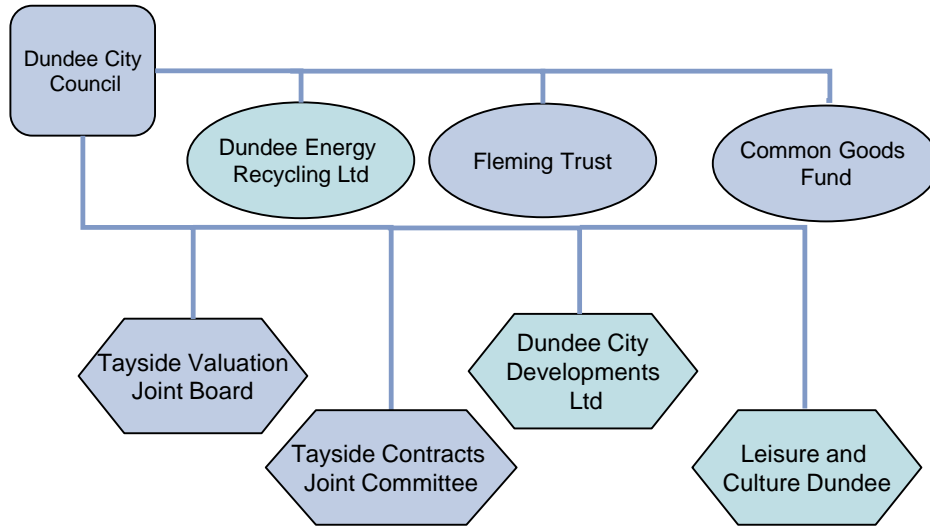
#### New Charities SORPs

In July 2014 the SORP Committee issued two new Charities SORPs to reflect the new UK accounting framework ("new UK GAAP"). The new SORPs provide a comprehensive framework for charity accounting that all charities that prepare accrual accounts must follow and apply to financial years beginning on or after 1 January 2015.

The new framework provides a SORP to support each of the accounting standards from which charities can choose, depending on their size. The FRSSSE standard is due to be reviewed by 2016 and a change in the FRSSSE will require a change in the FRSSSE SORP. Charities adopting the FRSSSE may face changing their accounting policies twice in succession.

We will provide continued support to management in the consideration and implementation of the new Charities SORPs and how this applies to charitable entities.

#### Group structure (as determined by management in the preparation of the 2014-15 financial statements)



#### Charities

As the trustees of the Dundee City Council Charitable Trusts and the Lord Provost of Dundee Charity Fund are members of the authority and it is registered with the Office of the Scottish Charity Regulator, an audit is required in line with the *Local Government (Scotland) Act 1973* (section 106 charities). We will complete an external audit of the charities accounts, and report on this within our annual audit report to the Council. We will also consider progress made by the Council in reorganising its Charitable Trusts.

#### Integration of health and social care

In March 2014 the Public Bodies (Joint Working) (Scotland) Act was passed by the Scottish Government. This requires all Councils and NHS Boards to formally and legally establish integration of health and social care by April 2016.

The integration scheme for Dundee City was approved by Scottish Government in September 2015. The Dundee Health and Social Care Integration Joint Board (“IJB”) was legally established on 3 October 2015. The statutory appointments of chief officer and chief finance officer have been made. The chief executive of the Council and the chief officer of the IJB are working to put into place arrangements to fill the heads of service positions throughout the IJB in line with Council and NHS Tayside policy and procedures for organisational change. This will include cohorting and matching all staff that operate within the delegated functions.

Auditors are required to consider the Council’s progress in the integration of health and social care, and report our findings in the annual audit report. Specifically, we will consider the date that the integration joint board became operational, review financial plans and comment on progress towards establishing effective governance arrangements for the new partnership. We are the external auditor of the IJB, and will prepare a separate audit strategy document and annual audit report to the IJB.

In accordance with International Standards on Auditing (UK and Ireland) ISA 240 *The Auditor's responsibility to consider fraud in an Audit of a Financial Report*, we will undertake specific procedures and report findings to management and the Scrutiny Committee in respect of financial reporting fraud. The following diagram highlights the phases of our work on fraud.

Discuss fraud	Assess fraud risk	Tailor audit response
<ul style="list-style-type: none"> <li>■ We will hold discussions with the:               <ul style="list-style-type: none"> <li>– scrutiny committee;</li> <li>– chief executive;</li> <li>– executive director of corporate services; and</li> <li>– corporate services team members.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Our preliminary fraud risk assessment will consider:               <ul style="list-style-type: none"> <li>– management oversight;</li> <li>– the internal control framework;</li> <li>– the nature of operations.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Our audit procedures are designed to have a reasonable chance of detecting misstatements as a result of fraud or error. We:               <ul style="list-style-type: none"> <li>– Review and test the fraud risk assessment process, systems and controls to prevent, deter and detect fraudulent activity.</li> <li>– Evaluate the design of financial reporting controls during process testing to assess their effectiveness in detecting fraud.</li> <li>– Identify and select specific journal entries for detailed substantiation and consolidation journals for appropriate evidence and basis.</li> <li>– Review significant accounting estimates for management bias.</li> </ul> </li> <li>■ The audit team will review and discuss fraud related risks and controls with the executive director of corporate services and other members of senior management.</li> <li>■ We will incorporate an element of unpredictability into our testing, as individuals within the Council who are familiar with our audit procedures may be able to use that knowledge to conceal fraudulent financial reporting.</li> </ul>



### Shared risk assessment

Local area networks (“LANs”) are established for each local authority. These bring together local scrutiny representatives in a systematic way to agree a shared risk assessment. As external auditor, we are a key member of the shared risk assessment process for the Council.

A national scrutiny plan sets out how Scotland’s scrutiny agencies coordinate their work and focus on the key issues at each council. This plan is underpinned by a local scrutiny plan for individual councils.

The 2015-16 shared risk assessment identified areas of scrutiny for the Council as:

- joint inspection of services for children and young people led by the Care Inspectorate;
- Scottish Housing Regulator planned programme of thematic inquiries into housing services; and
- validated self-evaluation of educational psychology services with Education Scotland over a two-year period beginning in 2015-16.

### Governance

The Council is required to prepare and disclose a governance statement to detail the purpose of the framework of internal control, along with an analysis of its effectiveness. We are required to review the governance statement against disclosure requirements and consider its content against our knowledge and understanding of the Council. We will report on findings in the annual audit report.

### Best Value and continuous improvement

Best Value audits are carried out by central teams within Audit Scotland’s performance audit and best value (“PABV”) group in partnership with local auditors. The timing, nature and extent of these is determined as part of the SRA process.

The Accounts Commission has developed a new approach to Best Value in 2015-16, with emphasis on driving continuous improvement and providing a Best Value report for each Council at least once every five years. The new arrangements will develop a joint responsibility of best value between PABV and local auditors. Under the approach, our role will be expanded to include scoping, planning, gathering evidence and contributing to best value audit reports. The focus of our final year of appointment will be ensuring a smooth transition and preparing for the new approach. Linking in with the SRA process, we will work with other scrutiny bodies to prepare a baseline summary on best value for the Council.

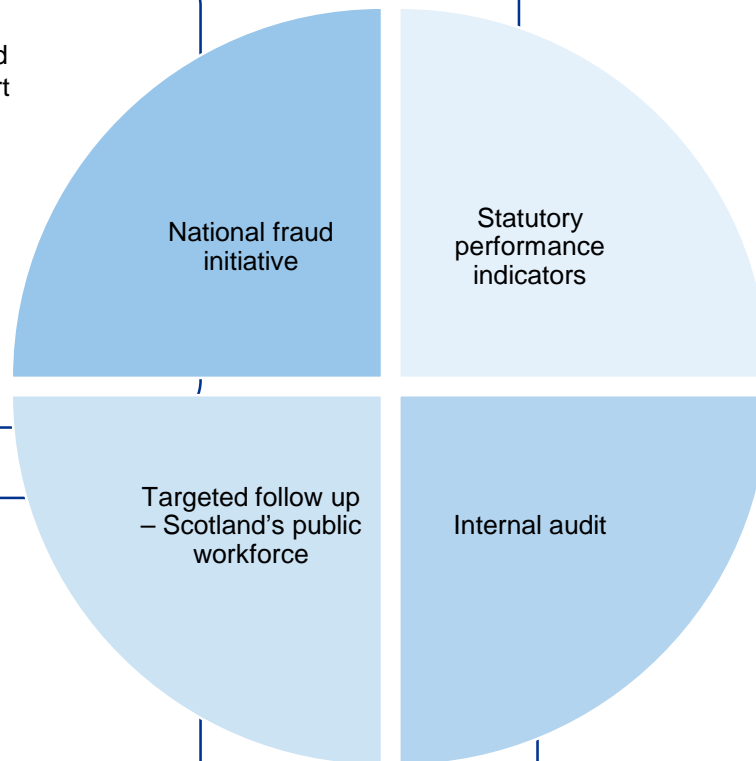
### Following the public pound

Local authorities have a statutory requirement to comply with the Code of Guidance on Funding External Bodies and Following the Public Pound (“the FtPP code”). As part of the audit we are required to consider the Council’s arrangements to comply with the FtPP code. We will report any matters of non-compliance within our annual audit report. In future years, auditing of compliance with the FtPP code will be part of the new integrated best value audit approach.

The National Fraud Initiative (“NFI”) is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. We will prepare a short return to Audit Scotland on the Council’s progress and engagement with the NFI process in February 2016.

We note that the council has introduced a new process for NFI from June 2015 whereby the senior manager – internal audit is now the line manager of the NFI key contact and is responsible for promoting the NFI process. This arrangement is expected to enhance the focus on NFI matches.

In November 2013 the Accounts Commission and Auditor General for Scotland published a report on Scotland’s public sector workforce. It is our responsibility to establish the extent that the Council has implemented the recommendations to help identify any common and emerging issues across the public sector. We will perform targeted follow up work, submit a short questionnaire to Audit Scotland and report our findings in our annual audit report.

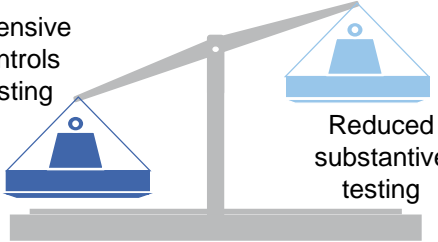
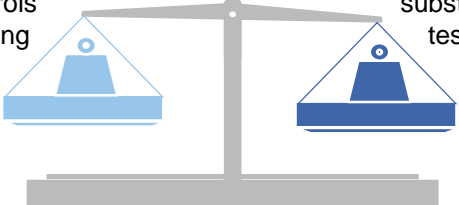
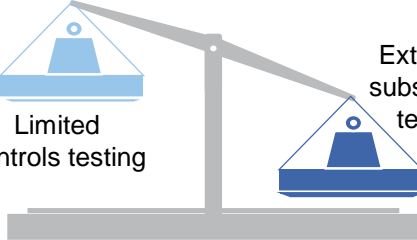


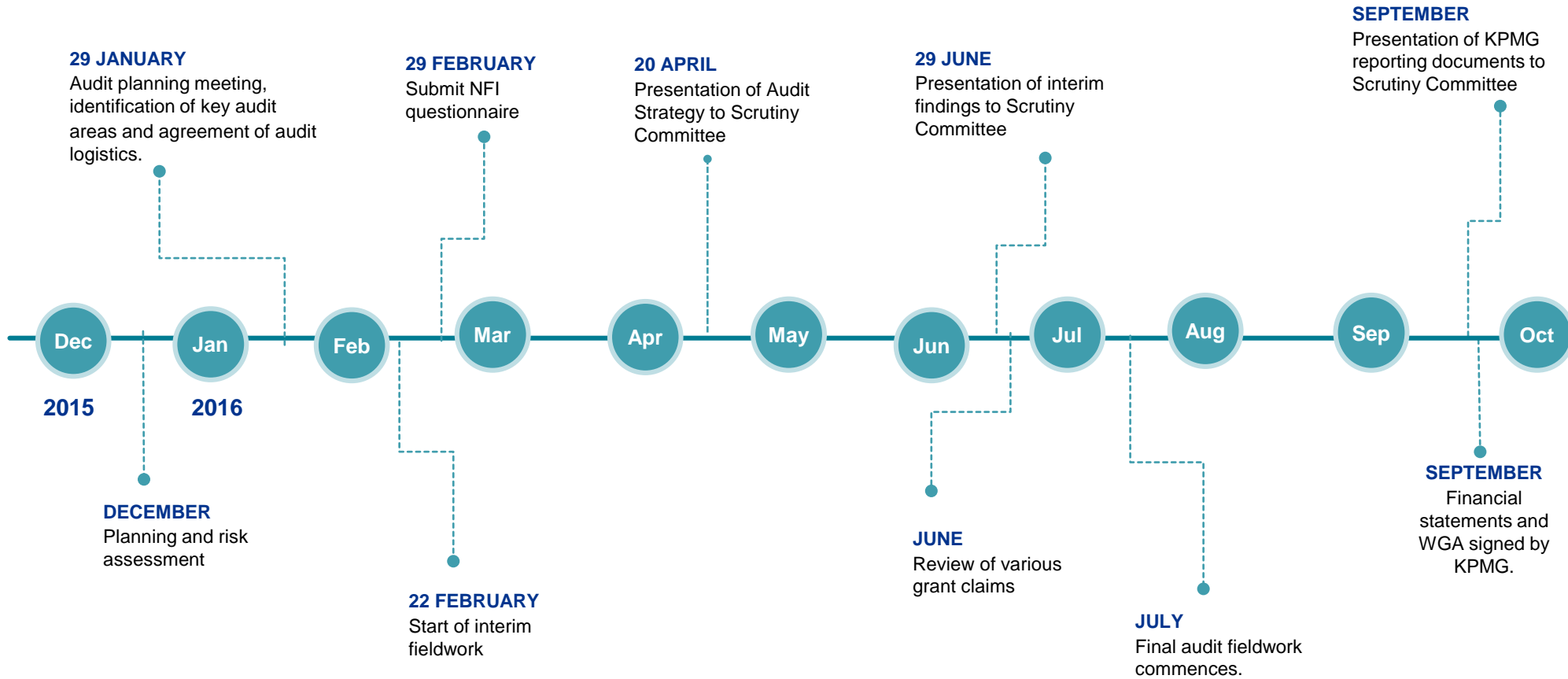
The statutory deadline for publication by the Council of statutory performance indicators (“SPIs”) is 31 March 2017. Auditors must assess the adequacy of arrangements for collecting and publishing information in relation to SPIs. We will complete a pro-forma schedule to reflect the audit work on SPIs for submission to Audit Scotland and include a summary within our annual audit report.

In accordance with International Standard on Auditing (UK and Ireland) 610: *Considering the work of internal audit*, we will continue liaison with internal audit and evaluate internal audit processes against Public Sector Internal Audit Standards. The general programme of work will be reviewed for significant issues to support our general work in assessing the Council’s annual governance statement. Specific internal audit reviews which will be considered include payroll and other income, and statutory performance indicators.

In respect of the financial statements, we identify the constituent account balances and significant classes of transactions and focus our work on identified risks.

Determining the most effective balance of internal controls and substantive audit testing enables us to ensure the audit process runs smoothly and with the minimum disruption to your team. The graphic opposite outlines how we apply this to the audit of the Council's financial statements.

What we do	Accounts/transactions suited to this testing	KPMG's approach to:
 <p>Extensive controls testing</p> <p>Reduced substantive testing</p>	<ul style="list-style-type: none"> <li>■ Low value transactions</li> <li>■ High volume</li> <li>■ Homogenous transactions</li> <li>■ Little judgement</li> </ul>	<ul style="list-style-type: none"> <li>■ Payroll expenditure</li> <li>■ Net cost of services</li> </ul>
 <p>Moderate controls testing</p> <p>Moderate substantive testing</p>	<ul style="list-style-type: none"> <li>■ Low/medium value</li> <li>■ High/medium volume</li> <li>■ Some areas requiring judgement</li> </ul>	<ul style="list-style-type: none"> <li>■ Cash</li> <li>■ Other expenditure</li> </ul>
 <p>Limited controls testing</p> <p>Extensive substantive testing</p>	<ul style="list-style-type: none"> <li>■ High value</li> <li>■ Low volume</li> </ul> <p><b>or</b></p> <ul style="list-style-type: none"> <li>■ Unusual non-recurring</li> <li>■ Accounting estimates</li> <li>■ Significant judgments</li> </ul>	<ul style="list-style-type: none"> <li>■ Taxation and non-specific grant income</li> <li>■ Property plant and equipment</li> <li>■ Debtors, creditors and accruals</li> <li>■ Pension scheme liability</li> <li>■ Consolidation journals</li> <li>■ Journals</li> <li>■ Borrowings</li> </ul>



Output	Description	Report date
<b>NFI report</b>	<ul style="list-style-type: none"> <li>We report on the Council's actions to investigate and follow-up NFI matches.</li> </ul>	<ul style="list-style-type: none"> <li>By 29 February 2016</li> </ul>
<b>Audit strategy</b>	<ul style="list-style-type: none"> <li>Our strategy for the external audit for the year</li> </ul>	<ul style="list-style-type: none"> <li>By 31 March 2016</li> </ul>
<b>Interim management report</b>	<ul style="list-style-type: none"> <li>We report our findings from our interim audit visit where we will update our planning for the year end and perform controls testing.</li> </ul>	<ul style="list-style-type: none"> <li>By 29 June 2016</li> </ul>
<b>Statutory performance indicators</b>	<ul style="list-style-type: none"> <li>We will report on arrangements for preparation of the Council's statutory performance indicators; this will be included in our annual audit report.</li> </ul>	<ul style="list-style-type: none"> <li>By 30 September 2016</li> </ul>
<b>Independent auditor's report</b>	<ul style="list-style-type: none"> <li>Our opinion on the Council's financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>By 30 September 2016</li> </ul>
<b>Annual audit report to the Council and the Controller of Audit</b>	<ul style="list-style-type: none"> <li>We summarise our findings from our work during the year.</li> </ul>	<ul style="list-style-type: none"> <li>By 30 September 2016</li> </ul>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>We report on the pack prepared for consolidation and preparation of the Whole of Government Accounts.</li> </ul>	<ul style="list-style-type: none"> <li>By 30 September 2016</li> </ul>
<b>Audit reports on grant claims and other returns</b>	<ul style="list-style-type: none"> <li>We will report on the following returns:               <ul style="list-style-type: none"> <li>Education Maintenance Allowance return;</li> <li>Criminal Justice Authority return;</li> <li>Non Domestic Rate return; and</li> <li>Housing Benefit Count return.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>By 31 July 2016</li> <li>By 30 September 2016</li> <li>By 30 September 2016</li> <li>By 9 October 2016</li> </ul>

# Appendices

# Mandated communications with the Scrutiny Committee

Matters to be communicated	Link to Audit Committee papers
Independence and our quality procedures ISA 260 (UK and Ireland).	<ul style="list-style-type: none"> <li>■ See next page</li> </ul>
The general approach and overall scope of the audit, including levels of materiality, fraud and engagement letter ISA 260 (UK and Ireland).	<ul style="list-style-type: none"> <li>■ Main body of this paper</li> </ul>
<ul style="list-style-type: none"> <li>■ Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report, and their resolution (AU 380).</li> </ul>	<ul style="list-style-type: none"> <li>■ In the event of such matters of significance we would expect to communicate with the Scrutiny Committee throughout the year.</li> </ul>
<ul style="list-style-type: none"> <li>■ Significant difficulties we encountered during the audit.</li> <li>■ Significant matters discussed, or subject to correspondence, with management (ISA 260).</li> </ul>	<ul style="list-style-type: none"> <li>■ Formal reporting will be included in our audit highlights memorandum for the September 2016 Scrutiny Committee meeting, which focuses on the financial statements.</li> </ul>
<ul style="list-style-type: none"> <li>■ Our views about the qualitative aspects of the entity's accounting and financial reporting.</li> <li>■ The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540).</li> </ul>	
<ul style="list-style-type: none"> <li>■ Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct uncorrected misstatements (including disclosure misstatements) (ISA 450).</li> </ul>	
<ul style="list-style-type: none"> <li>■ The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 570).</li> </ul>	
<ul style="list-style-type: none"> <li>■ Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570).</li> </ul>	
<ul style="list-style-type: none"> <li>■ Expected modifications to the auditor's report (ISA 705).</li> </ul>	

Professional ethical standards require us to communicate to you as part of planning all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of Hugh Harvie and the audit team. This letter is intended to comply with this requirement although we will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

### Confirmation of our audit independence

We confirm that as at 11 March 2016, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of Hugh Harvie and the audit team is not impaired.

This report is intended solely for the information of the Scrutiny Committee and should not be used for any other purposes.

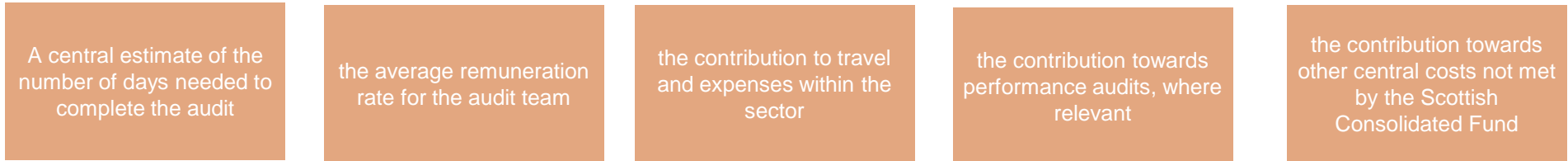
Please inform me if you would like to discuss any of these aspects of our procedures in more detail.

Yours faithfully

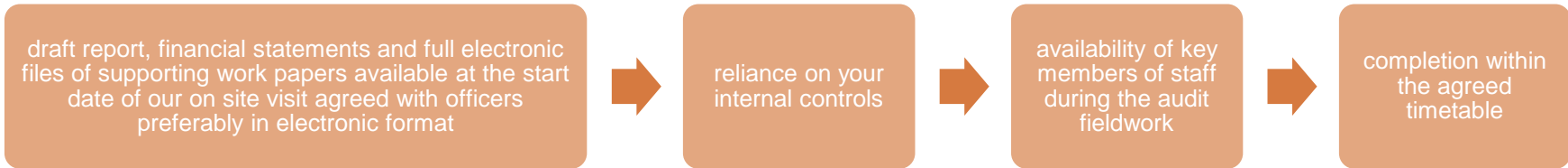
KPMG LLP



Audit Scotland requires that the fee for our work is set within an indicative range, depending on the assessment of risk and other factors facing the Council. The indicative fee range is calculated using a number of inputs:



The indicative fee ranges are based on the following assumptions to ensure an efficient audit process:



Audit Scotland has notified us that the fee range for 2015-16 is £347,450 to £424,670, with a mid-point of £386,060 (including VAT). We have proposed a fee of £386,060, which is unchanged from 2014-15. (this excludes the fee for the audit of the Dundee Health and Social Care Integration Joint Board).

Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arising, we will discuss with management the impact of this on our proposed fee.

As in 2014-15, an element of this fee will be allocated for our work on the audit of the financial statements of the Council’s Pension Fund and we will agree this with officers for the purposes of the re-charge to, and disclosure in, the Pension Fund’s financial statements.

### Charities

As in the prior year, we will audit Dundee City Council Charitable Trusts and Lord Provost of Dundee Charity Fund, charities administered by the Council. The fees for these audits are included within the Council audit fee.

# Audit Scotland code of audit practice – responsibilities of auditors and management

## Responsibilities of auditors

## Responsibilities of management

### Financial statements

Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:

- whether they give a true and fair view of the financial position of audited bodies and their expenditure and income; and
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

Auditors should review and report on, as appropriate, other information published with the financial statements, including the directors' report, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.

Where required, auditors should also review and report on the Whole of Government Accounts return.

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

### Corporate governance arrangements

Consistent with the wider scope of public audit, the Code gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- bodies' reviews of corporate governance and systems of internal control, including their reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption; and
- the financial position of audited bodies.

Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

# Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors	Responsibilities of management
<b>Systems of internal control</b>	
<p>Auditors are required to review and report on the compliance statements given by bodies under the relevant code or framework before their publication. This is discharged by reviewing and, where appropriate, examining evidence relevant to audited bodies' arrangements in accordance with any guidance issued by Audit Scotland. Auditors are not required to consider whether the statements cover all risks and controls, or form an opinion on the effectiveness of procedures, but report where compliance statements are not consistent with their knowledge of the body.</p>	<p>Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.</p>
<b>Prevention and detection of fraud and irregularities</b>	
<p>Auditors should review and report on these arrangements. While auditors do not substitute for audited bodies own responsibilities, and are not responsible for preventing or detecting fraud or irregularity, they should be alert to the potential for breaches of procedures, and of fraud and irregularity. Auditors examine evidence that is relevant to these arrangements, particularly aspects of internal financial control such as segregation of duties, authorisation and approval processes and reconciliation procedures.</p>	<p>Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:</p> <ul style="list-style-type: none"> <li>■ developing, promoting and monitoring compliance with standing orders and financial instructions;</li> <li>■ developing and implementing strategies to prevent and detect fraud and other irregularity;</li> <li>■ receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and</li> <li>■ participating, when required, in data matching exercises carried out by Audit Scotland.</li> </ul>

# Audit Scotland code of audit practice – responsibilities of auditors and management

## Responsibilities of auditors

## Responsibilities of management

### Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Auditors should consider whether bodies have adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. Auditors review and, where appropriate, examine evidence that is relevant to these arrangements and reporting their findings.

While auditors are not responsible for preventing or detecting failure to maintain an appropriate level of integrity and openness, they should be alert to the potential for corruption and breaches of standards of conduct in all aspects of their work. If weaknesses in arrangements are identified or notified, auditors should report them promptly to management or those charged with governance.

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

### Financial position

Auditors should consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based, where appropriate, examining evidence that is relevant to the arrangements.

Auditors should have regard to audited bodies’:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent statutory and other financial obligations
- responses to developments which may have an impact on their financial position; and
- financial plans for future periods.

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

# Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors	Responsibilities of management
<b>Best Value, use of resources and performance</b>	
<p>The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.</p> <p>Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.</p> <p>Auditors should undertake appropriate work to satisfy themselves that bodies have put in place adequate arrangements for the collection, recording and publication of statutory performance information by reviewing and examining evidence that is relevant to these arrangements in accordance with any guidance issued by Audit Scotland.</p>	<p>Local authorities have a statutory duty to make arrangements to secure Best Value; defined as the continuous improvement in the performance of functions. In securing Best Value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. Local authorities also have a duty for community planning, which is to initiate, maintain and facilitate consultation among and with public bodies, community bodies and others about the provision of services in the area of the local authority and the planning of that provision.</p> <p>Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p> <p>The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance.</p>



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