

**REPORT TO: SCRUTINY COMMITTEE – 29 JUNE 2022**

**REPORT ON: AUDIT SCOTLAND – INTERIM AUDIT TESTING 2021/22**

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

**REPORT NO: 168-2022**

**1 PURPOSE OF REPORT**

To submit to Members of the Scrutiny Committee the Management Letter on Interim Audit Testing 2021/22 prepared by the Council's External Auditor, Audit Scotland.

**2 RECOMMENDATIONS**

Members of the Committee are asked to note the contents of Audit Scotland's Management Letter and to note the management responses to Audit Scotland's findings.

**3 FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report. Any costs associated with implementing the management responses will be contained within existing budgets.

**4 MAIN TEXT**

4.1 Audit Scotland's interim audit work is used to inform their approach to the audit of the annual accounts. Interim audit work includes controls testing, income and expenditure verification testing (including testing of the significant Covid-19 funding streams) and wider dimension audit work. Audit Scotland's interim work programme is on-going at the time of writing. The management letter sets out the issues identified from the work undertaken to date, with outstanding work now being completed as a matter of priority. Any further issues identified will be included in the 2021/22 Annual Audit Report, along with the conclusions from the financial statements audit.

4.2 The interim work completed to date has not identified any issues that represent a risk of material mis-statement of the 2021/22 financial statements. Audit Scotland have, however, identified a small number of areas where controls could be strengthened. These areas are shown in the appendix to the management letter, along with the management responses. Where applicable, the implementation of the agreed management responses will be monitored by both the Council and by Audit Scotland, with progress being reported to elected members in due course.

4.3 The External Auditor will prepare a final report to members for 2021/22, following the audit of the financial statements. This report will be considered at a meeting the Scrutiny Committee later in 2022.

**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 CONSULTATIONS**

The Corporate Leadership Team have been consulted on the content of this report.

**7 BACKGROUND PAPERS**

None.

**ROBERT EMMOTT  
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**08 JUNE 2022**

Robert Emmott  
Executive Director of Corporate Services  
Dundee City Council  
Dundee House  
50 North Lindsay Street  
Dundee  
DD1 1NN

24 May 2022

Dear Robert,

## **Dundee City Council – Interim audit testing 2021/22**

### **The completion of our interim work is a key aspect of our annual audit**

**1.** We set out the programme of work for the 2021/22 audit in our annual plan which was issued on 30 March 2022, and considered at the meeting of the Scrutiny Committee on 28 April.

**2.** Audit Scotland's [Code of Audit Practice](#) requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that the council:

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests,
- has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption, and
- complies with established policies, procedures, laws and regulation.

**3.** To comply with the requirements of the International Standards on Auditing, *ISA 315: identifying and assessing the risk of material misstatement*, we considered whether Dundee City Council's key accounting and internal financial controls are adequate to prevent material misstatements in the financial statements. During the interim audit we reviewed the key controls in the following systems:

- Budgetary control
- General ledger
- Accounts receivable (debtors)
- Accounts payable (creditors)
- Payroll
- Cash income and banking
- Housing rents
- Non-domestic rates billing and collection
- Council tax billing and collection
- Housing benefit

4. Our interim work for 2021/22 audit also included income and expenditure verification testing and wider dimension audit work to support the judgements reported in our annual audit report.

**Our interim work completed to date has not identified any issues that represent a risk of material misstatement for the 2021/22 financial statements**

5. Our interim work programme has still to be fully concluded with accounts payable and journals testing yet to be completed but this management letter sets out the issues identified to date for consideration by the Scrutiny Committee. From the interim testing completed to date we have not identified any issues that represent a risk of material misstatement for the 2021/22 financial statements. We have though identified a small number of areas where a control could be strengthened, as shown in the Appendix.

**Our income and expenditure verification testing of transactions up to the end of January 2022 has not identified any issues with the accuracy, classification or occurrence of the items tested to date**

6. As part of our approach to the 2021/22 financial statements audit we are required to undertake substantive verification testing of income and expenditure to provide assurance over the accuracy, classification and occurrence of the transactions recorded in the board's financial ledger system, which is used to produce the annual financial statements.

7. In order to reduce the level of testing to be completed during the 2021/22 financial statements audit once the unaudited accounts are received, we selected a sample of income and expenditure transactions from April 2021 to January 2022 for verification. This testing involved tracing the sample of transactions from the financial ledger back to source documentation or external confirmations (receipts, bank statements, invoices, requisition forms, interim payment certificates, contracts, grant award letters, grant claims, or other relevant documents).

8. We have obtained evidence for just over half of the sample and did not identify any issues with the accuracy, classification or occurrence of the items tested. As part of our testing for the 2021/22 financial statements we will complete this testing and select a further sample covering the remainder of the financial year, and also test pre and post year end transactions, to ensure these have been correctly accounted for.

**We have reviewed the council's arrangements for investigating and reporting data matches identified by the NFI and have concluded that these are satisfactory**

9. The National Fraud Initiative in Scotland (NFI) is a counter-fraud exercise coordinated by Audit Scotland. It brings together data from local government, health boards and other public and private sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. We have reviewed the council's arrangements for investigating and reporting data matches identified by the NFI and have concluded that these are satisfactory.

**We have accepted the council's proposed change in the accounting policy for capitalisation of interest but this will require to be formally agreed with the new external audit team if adopted in 2022/23**

10. In 2019/20 the council was considering a change to its accounting policy in relation to the capitalisation of interest. At that stage we were advised of the reasoning behind the potential change and the principals to be followed in the exercise. We reviewed these principals against the relevant accounting requirements and accepted the premise for the potential change. No changes were made to the accounting policies in that year or in subsequent years, however, it has been noted that this proposal may again be considered for 2022/23.

**11.** We have included this commentary in the interim letter to formally document our view on the reasoning and principals set out by the council for the proposed change in accounting policy. However, if the council choose to proceed with this change in 2022/23 then they will require to formally agree this with the new external audit team.

### **We will report any further issues from our interim testing in our 2021/22 Annual Audit Report**

**12.** This letter has been discussed with relevant officers to confirm the factual accuracy of its content. The issues identified in preparing the letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate for Dundee City Council.

**13.** The results of our interim work will be used to inform our approach to the audit of the annual accounts and our intention is to report any further issues identified from our interim testing in our 2021/22 Annual Audit Report, along with the conclusions from the financial statements audit. However, should any issues arise that have a significant impact on the financial statements, or other disclosures within the annual accounts (for example, the disclosures within the Annual Governance Statement), these will be communicated to members of the Scrutiny Committee at the earliest opportunity available.

### **Audit Scotland have been provisionally appointed as the council's external auditors for the period 2022/23 to 2026/27**

**14.** The Auditor General and Accounts Commission are responsible for securing public audit in Scotland with the Accounts Commission responsible for the appointment of external auditors to Scottish local government bodies. External auditors are appointed from either Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2021/22 is the last year of the current audit appointment round.

**15.** The procurement process for the new round of audit appointments covering 2022/23 to 2026/27 was completed in March 2022 and Audit Scotland has again been appointed as the external auditor for Dundee City Council. Although Audit Scotland remain the council's external auditors, to maintain the independence and objectivity of the audit team, the engagement lead and other staff working on the audit will be changed from 2022/23. The outgoing audit team will work with officers and the new audit team to ensure a smooth transition.

### **Acknowledgement**

**16.** The co-operation and assistance we received from staff during the course of our work is gratefully acknowledged.

Yours sincerely



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**Senior Audit Manager**

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Cc (email): Paul Thomson, Head of Corporate Finance  
Francois de Villiers, Accounting Strategy Manager  
David Vernon, Acting Senior Manager – Internal Audit

## Appendix

### Findings and action plan

No.	Issue identified	Management response	Responsible officer and target date
<b>General ledger</b>			
1	<p><b>Changes to the chart of accounts</b></p> <p>As reported in prior years, additions and changes to the ledger coding is restricted to the systems team, thereby providing segregation of duties in the maintenance of the ledger. However, there is no formal process for requesting and approving these changes to ensure they are valid.</p> <p><b>Risk: Erroneous changes to the chart of accounts could go undetected and impact on budget monitoring reports and the production of the annual accounts.</b></p>	<p>Management accept that the risk of error in changes to the ledger remains but are of the view that given the experience of the systems team, errors are likely to happen very infrequently.</p> <p>Management noted that it is highly unlikely that any error could lead to a material distortion of the ledger and that any error would be highlighted by the individual that requested the change.</p> <p>We accept management's view and have reported this point for information only.</p>	<p><i>Not applicable – Point included for information only.</i></p>
<b>Accounts receivable</b>			
2	<p><b>Review of monthly aged debtors reports</b></p> <p>Our testing of the controls related to the monthly aged debtors reports confirmed that these had been produced and reviewed by authorised officers. However, there was a delay in the production and review of the reports during the year.</p> <p><b>Risk: The late production and review of monthly aged debtors reports may impact on the pursuance and collection of money owed to the council.</b></p>	<p>The team who deal with the outstanding sales debt have been involved in the administration of Scottish Government Business Support Grants. As a result of this priority work there have been occasions when the reports have not been distributed.</p> <p>The grant work is now complete and the team are ensuring procedures are in place for the necessary distribution of these reports.</p>	<p><i>Not applicable- issue arose due to a temporary re-prioritisation of work which has now passed</i></p>

No.	Issue identified	Management response	Responsible officer and target date
<b>Payroll</b>			
3	<p data-bbox="256 277 699 322"><b>Employee validation</b></p> <p data-bbox="256 329 699 770">We considered the existence of employees through agreement to contracts of employment for a sample of 25 individuals from the payroll. There were 2 individuals where there were no files in the council's document management system, CERDMS, and officers were unable to locate a paper file.</p> <p data-bbox="256 777 699 1039">We have subsequently been provided with evidence that these individuals were included in the employee validation exercise, as well as evidence that the individuals have logged into systems.</p> <p data-bbox="256 1046 699 1256"><b>Risk: The lack of HR records could compromise the council's ability to identify potential fraud (e.g. ghost employees).</b></p>	<p data-bbox="703 277 1145 539">The employee validation exercise undertaken provides assurance to management on the completeness and accuracy of employees on the payroll system.</p>	<p data-bbox="1150 277 1455 472"><i>Not applicable, employee validation exercises are routine and on-going</i></p>

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