

REPORT TO: SCRUTINY COMMITTEE – 23 JUNE 2021

REPORT ON: AUDIT SCOTLAND – INTERIM AUDIT TESTING 2020/21

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 195-2021

1 PURPOSE OF REPORT

To submit to Members of the Scrutiny Committee the Management Letter on Interim Audit Testing 2020/21 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 approve 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. It has not been possible for Audit Scotland to fully conclude their interim work programme due to the impact of Covid-19. 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 2020/21 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 2020/21 financial statements. Audit Scotland have, however, identified a small number of areas where a control could be strengthened. These areas are shown in the appendix to the management letter, along with the management responses. 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 In paragraph 8 of the management letter it is noted that the financial results of Leisure and Culture Dundee (LACD) will be consolidated on a subsidiary basis within the Council's 2020/21 group accounts. This change in accounting treatment reflects the increased level of financial support and other assurances provided by the Council to LACD in the wake of the Covid-19 pandemic.

4.4 The External Auditor will prepare a final report to members for 2020/21, following the audit of the financial statements. This report will be considered at a meeting the Scrutiny Committee later in 2021.

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 Chief Executive and Head of Democratic and Legal Services have been consulted on the content of this report.

7 BACKGROUND PAPERS

None.

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

08 JUNE 2021

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

07 June 2021

Dear Robert,

Dundee City Council – Interim audit testing 2020/21

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

1. We set out the programme of work for the 2020/21 audit in our annual plan which was issued on 24 March 2021, 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 2020/21 audit also included income and expenditure verification testing (including testing of the significant Covid-19 funding streams) and wider dimension audit work to support the judgements reported in our annual audit report.

Our interim work programme has still to be fully concluded but this management letter sets out the issues identified to date

5. The Covid-19 lockdown arrangements impacted on our available audit resources during the early part of 2021. As a result we have not yet fully concluded our interim work programme for the 2020/21 audit. However, additional audit resources have now been directed towards the audit to complete this work as a matter of priority and this letter sets out the issues identified from the work undertaken to date for consideration by the June meeting of the Scrutiny Committee.

The interim work completed to date has not identified any issues that represent a risk of material misstatement for the 2020/21 financial statements

6. From the interim testing completed to date we have not identified any issues that represent a risk of material misstatement for the 2020/21 financial statements. We have though identified a small number of areas where a control could be strengthened, as shown in the Appendix.

The financial results of Leisure and Culture Dundee will be consolidated on a subsidiary basis within the group statements in the 2020/21 annual accounts

7. As set out in our Annual Audit Plan, the council requires to review its relationships with all external organisations each year to establish how they should be accounted for within the group statements in the annual accounts. As we also highlighted there were some specific risks around this for 2020/21 due to the impact of the Covid-19 pandemic on the operation of those organisations during the course of the financial year.

8. The council has completed its annual assessment of the group boundary and concluded that the financial results of Leisure and Culture Dundee (LACD) should be consolidated on a subsidiary basis within the group statements in the 2020/21 annual accounts. This is a change from prior year's when LACD has been accounted for as an associate. This assessment was based on the level of financial support provided to LACD by the council in the wake of the Covid-19 pandemic, and the other assurances provided to LACD as set out in the "letter of comfort" sent from the Chief Executive of the council to the Managing Director of LACD on 1 March 2021.

9. We have reviewed the council's annual assessment of the group boundary and concur with its assessment of the group relationship with LACD, and the other relevant external organisations. The classification of those bodies deemed to be non-material interests for 2020/21 will be confirmed as part of the financial statement audit.

We will report any further issues from our interim testing in our 2020/21 Annual Audit Report

10. The issues identified in preparing this management 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 to Dundee City Council.

11. 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 2020/21 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.

Acknowledgement

12. This letter has been discussed with relevant officers to confirm the factual accuracy of its content. The co-operation and assistance we received from staff during the course of our work is gratefully acknowledged.

Yours sincerely



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Cc (email): Gregory Colgan, Chief Executive
Sandy Flight, Head of Corporate Finance
Pamela Redpath, Senior Manager - Internal Audit

Appendix

Findings and action plan

No.	Issue identified	Management response	Responsible officer and target date
General Ledger			
1	<p>Changes to the chart of accounts</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>Risk: Erroneous changes to the chart of accounts could go undetected and impact on budget monitoring reports and the production of the annual accounts.</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>
Accounts receivable (Debtors)			
2	<p>Review of monthly aged debtors reports</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 for April and September 2020.</p> <p>Risk: The late production and review of monthly aged debtors reports may impact on the pursuance and collection of money owed to the council.</p>	<p>There was a delay in the production of the reports due to the team being involved in Covid-19 Business Support Grant Administration. Monthly production of reports has now recommenced.</p>	<p>Head of Customer Services & IT</p> <p>31 May 2021</p>
Non-Domestic Rates Billing and Collection			
3	<p>Review of monthly NDR cash collection reports</p> <p>There was a delay in the monthly NDR cash collection report for February 2021 being passed to the Executive Director of Corporate Services for review. This impacted on the timing of the monthly budgetary information and collection statistics being reviewed and actioned.</p> <p>Risk: Issues with the collection of NDR income may not be identified and actioned timeously.</p>	<p>We established through discussion with management that this was an isolated issue due to the timing of the new Executive Director of Corporate Services taking up his post. Therefore, we are satisfied that this control has operated satisfactorily during 2020/21.</p>	<p><i>Not applicable – Point included for information only.</i></p>

No.	Issue identified	Management response	Responsible officer and target date
IT controls			
4	<p data-bbox="260 253 699 387">PSN certification The council's Public Sector Network (PSN) certification expired in March 2021.</p> <p data-bbox="260 409 699 678">Risk: The council's data transfer and security arrangements may not satisfy the current PSN requirements. If PSN certification is not achieved then this would impact on the council's ability to send and receive data to and from other PSN bodies through the secured network.</p>	<p data-bbox="707 253 1145 842">The delay in renewing the council's PSN certificate was primarily due to the impact of Covid-19 which has affected both the Councils own resourcing and that of its suppliers. In addition to this, the Council can face challenges in getting suppliers to address vulnerabilities in their software. Council staff had been in regular contact with the Cabinet Office accreditor in the certification process with assurances received that there was no immediate danger of the Council losing secure network connectivity. The council has now achieved certification running to 26 May 2022.</p>	<p data-bbox="1153 253 1453 297">Complete</p>