

Address:  
Mark Taylor  
Assistant Director  
Osborne House  
1-5 Osborne Terrace  
Edinburgh  
EH12 5HG

Telephone:  
0845 146 1010  
Fax:  
0845 146 1009

Website:  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

ITEM 1

**REPORT TO:       AUDIT AND RISK MANAGEMENT SUB-COMMITTEE – 2 JUNE 2008**

**REPORT ON:       EXTERNAL AUDIT REPORTS**

**REPORT BY:       PEARL TATE, SENIOR AUDIT MANAGER**

**REPORT NO:       307-2008**

## **1       PURPOSE OF REPORT**

To submit to Members of the Audit and Risk Management Sub-Committee the Annual Audit Plan and the Strategic Audit Risk Analysis (SARA) for 2007/08.

## **2       RECOMMENDATIONS**

Members of the Sub-Committee are asked to consider each of the individual reports.

## **3       BACKGROUND**

3.1 The 2007/08 Annual Audit Plan outlines the focus of our audit work for the year which is centred around four areas:

- the financial statements
- the findings of our audit risk assessment process
- a review and assessment of governance and performance arrangements
- grant claims and returns.

3.2 The SARA outlines our findings from our audit risk assessment process and details the management actions being taken to mitigate these risks. Our risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland and work undertaken to identify issues and risks which are unique to the local situation. This report is not an exhaustive list of all the risks or management assurances nor does it reflect our conclusions at this point in time. The findings from our 2007/08 work will be detailed in our Final Report to Members in October 2008.

Pearl Tate  
Senior Audit Manager  
16 May 2008



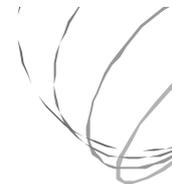
# Dundee City Council

**Annual Audit Plan 2007/08**



# Contents

<b>Summary plan</b>	<b>5</b>	Fees and resources	12
Summary of planned audit activity	5	Independence and objectivity	13
Introduction	5	<b>Appendix A</b>	<b>14</b>
Our responsibilities	6	Summary assurance plan	14
Our approach	7	<b>Appendix B</b>	<b>18</b>
Responsibility for the preparation of accounts	8	Financial statements audit timetable	18
Format of the accounts	8	<b>Appendix C</b>	<b>19</b>
Audit issues and risks	8	Audit team	19
Summary assurance plan	10	<b>Appendix D</b>	<b>20</b>
Materiality	10	Reliance on internal audit	20
Reporting arrangements	11	<b>Appendix E</b>	<b>21</b>
Quality control	12	Independence and Objectivity	21



# Summary plan

## Summary of planned audit activity

Based on our analysis of the risks facing Dundee City Council, our planned work in 2007/08 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they present fairly the financial position of Dundee City Council as at 31 March 2008 and its income and expenditure for the year then ended
  - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2007 SORP
- reporting the findings of our audit risk assessment process in a Strategic Audit Risk Analysis highlighting the key risks being faced by the council, the action under way or planned in response to these and the work we plan to undertake in relation to these. Our risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland and work undertaken to identify issues and risks which are unique to the local situation
- a review and assessment of Dundee City Council's governance and performance arrangements in a number of key areas including: review of adequacy of internal audit, ICT reviews and an assessment of the reliability of statutory performance indicators
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts

## Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Dundee City Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in Dundee City Council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of Dundee City Council, and sets out the audit work that we propose to undertake in 2007/08 to address these. Our annual audit plan reflects:

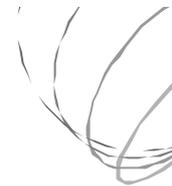
- the risks and priorities facing Dundee City Council
- current national risks relevant to local circumstances
- the impact of changing international auditing and accounting standards
- our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
- issues brought forward from previous audit reports.



2. In addition to this annual audit plan, the first audit report of the year we will prepare is a Strategic Audit Risk Analysis which will focus on the key performance risks being faced by the council, along with other governance risks highlighted through our work. The Analysis will identify the action under way or planned in response to these risks, and the work we plan to undertake in relation to these. This risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland, along with work undertaken to identify issues and risks which are unique to the local situation.

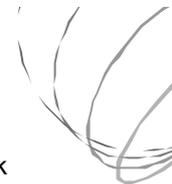
## **Our responsibilities**

3. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
5. In carrying out our audit, we seek to gain assurance that Dundee City Council:
  - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
  - has systems of recording and processing transactions which provides a sound basis for the preparation of financial statements and the effective management of its assets and interests
  - prepares financial statements which present fairly the financial position at 31 March 2008 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2007 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the SORP)
  - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
  - complies with established policies, procedures, laws and regulations
  - proactively manages and reviews its performance in line with its strategic and operational objectives
  - has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.



## Our approach to the audit of the accounts

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of Dundee City Council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
  - understanding the business of Dundee City Council and the risk exposure which could impact on the financial statements
  - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
  - identifying major transaction streams, balances and areas of estimation, understanding how Dundee City Council will include these in the financial statements and developing procedures to audit these
  - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
  - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
  
7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2007/08 includes:
  - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
  - clear responsibilities for provision of accounts and working papers being agreed
  - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
  - completion of the internal audit programme for 2007/08.
  
8. Auditing standards require internal and external auditors to work closely together to make optimal 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 early assessment of the internal audit function. Internal audit is provided by the Internal Audit Section within Dundee City Council. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.



9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance and opinion.
10. At the completion of the audit we will provide the Chief Executive with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## **Responsibility for the preparation of accounts**

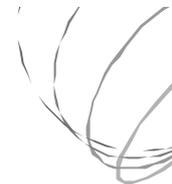
11. It is the responsibility of Dundee City Council and the Head of Finance as Proper Officer to prepare the financial statements in accordance with the SORP. This means:
  - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
  - maintaining proper accounting records
  - preparing financial statements timeously which present fairly the financial position of Dundee City Council as at 31 March 2008 and its expenditure and income for the year then ended
  - preparing an explanatory foreword.

## **Format of the accounts**

12. The financial statements should be prepared in accordance with the SORP which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
13. Dundee City Council prepares a consolidation pack annually for the Scottish Government under the requirements of the Government Resources and Accounts Act 2000.

## **Audit issues and risks**

14. This annual audit plan focuses on governance and other risks specific to the financial statements of Dundee City Council. Our Strategic Audit Risk Analysis will provide a broader analysis of wider risks and issues your council faces, setting out our planned work in relation to performance and other governance issues in more detail.
15. Based on our discussions with staff and a review of systems and supporting information, we have identified the main financial statements risk areas for your organisation.



## Information Systems

16. From our preliminary work, we noted several new management information systems (MIS), or changes to existing MIS. We intend to conduct high-level reviews of the following systems during the year: Housing Stock Information Database, Client Tracking Service (Children's Services) and K2 (Social Work).
17. By 1 April 2008, the council plans to have fully transferred departments to a new integrated payroll and personnel system. The transfer of payroll from ISIS to Resourcelink has been a protracted process. Delays arose due to unanticipated difficulties encountered in creating a single corporate establishment database from the individual departmental personnel registers. The April date coincides with the implementation of single status which will have a significant resourcing implication for the payroll department in updating Resourcelink with the new pay scales and grades. We will continue to monitor progress with the new integrated system.
18. The Powersolve ledger will be replaced by Authority Financials in February 2008. We will review the high-level controls within the upgraded ledger.
19. Following recent national events, we plan to carry out a review of the Council's data security arrangements, including security of personal data held.
20. A 2007 Internal Audit report made a number of recommendations in relation to data restoration and business continuity plans. We will review progress made in these areas during the year.
21. One of the important ways of measuring Council performance is through statutory performance indicators (SPIs). Internal Audit will be auditing the reliability and accuracy of SPI data and this work will inform our annual SPI return.

## Fixed assets

22. At 31 March 2007 the Council held £18 million of surplus assets, a slight reduction from the previous year. Not all of the assets included within this figure were, however, available for sale in the short or medium term and some generate rental income for the Council. A review of the categorisation of surplus assets is to be undertaken by the council in 2007/08 and it is likely that this review will result in a significant reduction in the value of assets reported under the heading "Surplus Assets Held for Disposal" in the balance sheet. We will review the outcome of this work during the annual accounts audit.
23. The prior year audit of financial statements highlighted some potential double counting issues around component accounting which were to be investigated by the council during 2007/08. We plan to review progress in this area at the year end.



24. In common with many local authorities, corporate capital budget monitoring focuses on containing the capital budget for the year across departments. While we have evidence that the overall capital budget position is tightly managed, we plan to establish how well actual costs versus budgeted costs per project are managed. We therefore plan to test the controls in place for a number of individual capital projects.

## Common Good and Trust Funds

25. The prior year audit of financial statements highlighted a number of issues with common good and trust assets including the identification, valuation and recording of Common Good fixed assets, and the valuation basis of the Fleming Trust houses. We will review the Council's progress in this area during the year.

## Other matters

26. From audit work performed in the course of our 2006/07 appointment, we have identified two areas that require attention this year:
- Monitoring the flow of public funds through external parties, and the achievement of outcomes by those parties
  - Reconciliation between the benefits system and the nominal ledger

## Summary assurance plan

27. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

## Materiality

28. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
29. International Standard on Auditing 320 states that, *"information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of*

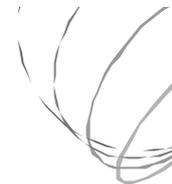


*its omissions or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*

30. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
31. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

## **Reporting arrangements**

32. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned committee dates and audit resources.
33. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the Head of Finance and/or responsible director and relevant senior manager to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission.
34. A copy of all final agreed reports will be sent to the Chief Executive, Head of Finance, relevant senior manager, Internal Audit and Audit Scotland's Public Reporting Group.
35. We will provide an independent auditor's report to Dundee City Council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the controller of audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about Dundee City Council management of key risks.
36. All annual reports produced by Audit Scotland are published on our website: ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).



37. The full range of outputs to be delivered by the audit team are summarised below:

<b>Planned outputs</b>	<b>Target delivery date</b>
<b>Governance</b>	
Strategic Audit Risk Analysis	31 March 2008
Capital Budgeting	30 June 2008
Corporate Governance	30 June 2008
ICT review	31 July 2008
<b>Performance</b>	
Statutory PIs (return)	29 August 2008
<b>Financial statements examples</b>	
Report in terms of ISA 260 (Communication of audit matters to those charged with governance)	30 September 2008
Independent auditor's report on the financial statements	30 September 2008
Annual report to the Members and the Controller of Audit	31 October 2008
Audit opinion on Whole of Government Accounts	31 October 2008
<b>Grants examples</b>	
Audit opinions on a number of grants as defined by Audit Scotland Technical Services Unit	As required

## Quality control

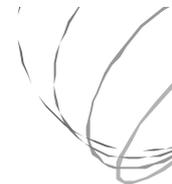
38. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Dundee City Council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is, Mark Taylor, who is responsible for ensuring that our work is carried out on time and to a high quality standard.

39. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

## Fees and resources

40. Our agreed fee for the 2007/08 audit of Dundee City Council is £399,900 comprising a local audit fee of £263,300 and a fixed charge of £136,600. Our fee covers:

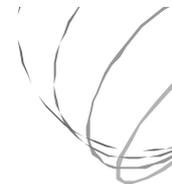
- all of the work and outputs described in this plan



- a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
  - attendance at the Audit Committee and key council/committee meetings
  - access to advice and information on relevant audit issues
  - access to workshops/seminars on topical issues
  - travel and subsistence costs.
41. In determining the agreed fee we have taken account of the risk exposure of Dundee City Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 30 June 2008. If the draft accounts and papers are late, agreed management assurances are unavailable, or planned internal audit reliance is not achieved, we reserve the right to charge an additional fee for further audit work.
42. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.
43. Lynn Bradley, Director, Audit Services (Local Government) is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For Dundee City Council the Assistant Director is Mark Taylor.
44. The local audit team will be led by Pearl Tate who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

## **Independence and objectivity**

45. 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 within the audit team.
46. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.

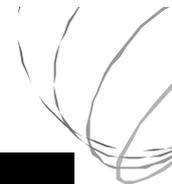


# Appendix A

## Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of Dundee City Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of Dundee City Council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
<b>Information Systems</b>		
<p>The Housing department have developed a Housing Stock Information Database (SID) in response to its duties per the Housing (Scotland) Act 2006. This is a new system and there is a risk that the information may be inaccurate, incomplete or inappropriate to meet the duties under the 2006 Act.</p>	<ul style="list-style-type: none"> <li>▪ Project team in place, regular meetings with consultants</li> </ul>	<ul style="list-style-type: none"> <li>▪ High level review of controls within the system</li> </ul>
<p>A new in-house management information system for Children's Services has been developed, Client Tracking Service (CTS). Its primary aim is to share information on vulnerable children and young people between DCC departments and partner agencies, while providing management information to monitor, evaluate and direct resources to where they are needed most.</p> <p>There is a risk that IT controls and interfaces do not adequately support robust performance reporting.</p>	<ul style="list-style-type: none"> <li>▪ Responsibility and ownership for CTS sits within Dundee's Integrated Children's Services structure.</li> <li>▪ Work began in November 2002 and is being rolled out across the city</li> </ul>	<ul style="list-style-type: none"> <li>▪ High level review of controls within the system</li> </ul>
<p>The Social Work management system K2 is heavily relied on by management to manage performance and billing. There is a risk that the system holds incorrect data and/or that it does not reconcile with the general ledger.</p>	<ul style="list-style-type: none"> <li>▪ PRF discussion with Social Work senior management</li> <li>▪ Reconciliation from K2 to Care User Information list</li> </ul>	<ul style="list-style-type: none"> <li>▪ Follow-up on previous study.</li> <li>▪ Perform controls testing on invoicing function as appropriate.</li> </ul>



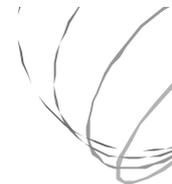
Risk	Source of assurance	Planned audit action
Upgraded financial system could affect ability of Finance Service to prepare financial statements.	<ul style="list-style-type: none"> <li>▪ Project board and team in place, regular meetings with consultants.</li> <li>▪ Testing the system on a prototype company.</li> <li>▪ Training is being rolled out across departments.</li> </ul>	<ul style="list-style-type: none"> <li>▪ High level review of controls within the system</li> </ul>
Migration of Payroll to Resourcelink is due to complete by the year end. If this date is not achieved there will be issues for the council as the existing payroll, ISIS, is no longer being supported.	<ul style="list-style-type: none"> <li>▪ Project manager in place</li> <li>▪ Timescale ties in with ISIS support being withdrawn.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Watching brief</li> <li>▪ High level review of controls within the system</li> </ul>
Information assets were last classified for FOI rather than security purposes. Compulsory staff training in IT security is planned for the first time. Procedural advice to staff is still sparse.  The council may not have in place adequate arrangements to ensure the safety of personal data it holds.	<ul style="list-style-type: none"> <li>▪ IT security policy and procedures</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review local response to letter sent from Scottish Government to Chief Executive.</li> <li>▪ ICT auditor undertaking information management audit.</li> </ul>
Internal Audit report 2007/02, IT General Ledger highlighted an inability to restore data if required because the back-up disk was not being removed from Tayside House on a Friday; and no simulated recovery had been carried out for several years.	<ul style="list-style-type: none"> <li>▪ management action to address the matters raised by internal audit</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review progress against agreed recommendations</li> </ul>
Internal Audit report 2007/03, General Ledger found there was no business continuity plan in place. There was also a risk of inappropriate access to the Powersolve system by software supplier (Civica) staff because the password had not changed since 6/9/02; and a second tier password requirement for remote access to the system was not in place.	<ul style="list-style-type: none"> <li>▪ management action to address the matters raised by internal audit</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review progress against agreed recommendations</li> </ul>
Performance measures used by the Council and reported publicly are unreliable.	<ul style="list-style-type: none"> <li>▪ Internal audit review on SPI's, ensuring that planned management action is met</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review of internal audit work</li> </ul>



Risk	Source of assurance	Planned audit action
<b>Fixed assets</b>		
<p>There is a risk that the cost of capital projects is not tightly managed, leading to cost overruns. Project sponsors may not be held accountable for actual cost to initial cost estimate comparison (as set out at option appraisal stage).</p>	<ul style="list-style-type: none"> <li>▪ Monthly capital budget monitoring report.</li> <li>▪ Some departments subscribe to PRINCE2 methodology.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Testing of capital budgetary control arrangements, focussing on specific projects</li> </ul>
<p>The Council has introduced component accounting for capital expenditure, such as replacement windows and kitchens, on Council houses. A number of council houses have been sold, however, no adjustment has been made to the carrying value of component assets to write down the associated kitchens, bathrooms etc related to these disposals. There is a risk that the Council is overstating the value of components included in houses that have subsequently been sold.</p>	<ul style="list-style-type: none"> <li>▪ A detailed review of component accounting will be undertaken by DCC in 2007/08 to allocate refurbishment costs to individual dwellings. We have been assured that the value of refurbishment costs capitalised that relate to disposed homes will be written off in 2007/08.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Detailed testing at year end.</li> </ul>
<p>Not all assets included within "Surplus assets held for disposal" are indeed held for disposal. There is a risk therefore that capital receipt projections are overstated.</p>	<ul style="list-style-type: none"> <li>▪ Procedure to change in 2007/08</li> </ul>	<ul style="list-style-type: none"> <li>▪ Detailed testing at year end.</li> </ul>
<b>Common Good and Trust funds</b>		
<p>There are a number of risks associated with the Common Good fund. These include:</p> <ul style="list-style-type: none"> <li>▪ all common good fund fixed assets not accounted for</li> <li>▪ no register of common good fixed assets in place</li> <li>▪ common good assets are valued on incorrect basis</li> <li>▪ non-compliance with Group Accounts accounting policies on assets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Council aware of consultation document on Accounting for the Common Good fund, which gives management until April 2009 to deal with this.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Discuss progress and issues with senior officers during 2007/08</li> </ul>



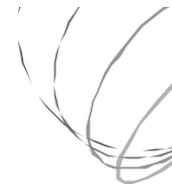
Risk	Source of assurance	Planned audit action
<p>There is a risk that the valuation of Fleming Trust assets, amounting to £4.7m at 31 March 2007, does not comply with the SORP, and is inconsistent with Group accounting policies.</p>	<ul style="list-style-type: none"><li>▪ Council will obtain a SORP-compliant valuation of Fleming Trust houses for Group Accounts purposes in 2007/08. (should be same valuation as HRA houses)</li></ul>	<ul style="list-style-type: none"><li>▪ Detailed testing at year end.</li></ul>
<b>Other matters</b>		
<p>There is a risk that the benefit system / subsidy claim is not reconcilable to the ledger.</p>	<ul style="list-style-type: none"><li>▪ Annual reconciliation is performed but unexplained variances exist.</li></ul>	<ul style="list-style-type: none"><li>▪ Detailed testing at year end.</li></ul>
<p>While Dundee City Council has taken steps to ensure that all Community Regeneration Funding grants disbursed have in fact been spent by projects, it has not formally verified that all project expenditure has been incurred on authorised activities. There is a risk that the council does not adequately monitor the flow of public funds through external parties, and/or the achievement of outcomes by external parties.</p>	<ul style="list-style-type: none"><li>▪ Monitoring officers in place</li></ul>	<ul style="list-style-type: none"><li>▪ Follow up on CRF matters raised with officers in 2006/07, considering any internal audit work undertaken in this area.</li></ul>



# Appendix B

## Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	30 June 2008
Provision of closedown procedures to audit	31 March 2008
Committee review approved unaudited financial statements	23 June 2008
Latest submission of unaudited financial statements with working papers package	30 June 2008
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for final clearance meeting with Head of Finance	15 September 2008
Issue of report on the audit of financial statements (ISA 260)	30 September 2008
Independent Auditors Report signed	30 September 2008
Latest date for submission of unaudited whole of government accounts return to external audit	30 September 2008
Latest date for signing of WGA return	28 October 2008
Annual report and certified accounts presented to Council	24 November 2008



# Appendix C

## Audit team

A summarised curriculum vitae for each core team member is set out below:

### **Lynn Bradley BSc CPFA CA**

#### **Director**

Lynn took up post as Director of Audit in January 2005. Originally trained as an auditor with National Audit Office, Lynn has worked in various senior posts in the public and private sectors in Scotland and England. She spent several years working with local authorities on housing and regeneration projects. Before joining Audit Scotland, she was the Section 95 officer in a Scottish Council. Lynn was the co-author of CIPFA guidance on audit committee principles. She is currently a CIPFA council member and the past chair of CIPFA in Scotland.

### **Mark Taylor CPFA**

#### **Assistant Director**

Mark took up his current post as Assistant Director in early 2005, having previously undertaken a number of audit roles with Audit Scotland, and, before that the Accounts Commission, transferring from the Scottish Office Audit Unit in 1995. During this time he has gained extensive experience in local government audit, and led the introduction of our modernised audit approach. Currently Mark divides his time between a portfolio of local government audits and leading work to better integrate the annual and best value audit processes.

### **Pearl Tate BAcc CPFA**

#### **Senior Audit Manager**

Pearl began her career as a finance trainee in the health sector and was then an internal auditor in health before joining Audit Scotland in 1996. As an external auditor she has covered a wide and varied portfolio of audits across the whole public sector and has specialised in local government audit for the last four years.

### **Francois de Villiers BCompt (Hons) CA (SA)**

#### **Senior Auditor**

Francois has 10 years of post-qualification auditing experience, including 4.5 years in the public sector. Prior to joining Audit Scotland in 2003, he worked for a "Big 4" global firm of accountants, in the UK and abroad. He has experience of a variety of private sector industries, local and central government sectors and has worked as both an accountant and auditor.

### **Edward Stansfeld ACA CISA**

#### **ICT Senior Auditor**

Edward trained as an auditor in private practice in the early 90s, and then worked in industry for five years. He joined Audit Scotland in 2001 as an IT audit specialist. Edward contributes to the international ISM3 information security standard which provides a process-based view of ISO27001/BS7799.

### **Mark Stewart BA MAAT**

#### **Auditor**

Mark joined the Accounts Commission for Scotland in April 1986. He has worked on the audit of a number of local authorities and associated bodies. He became a member of the Association of Accounting Technicians in 1991.

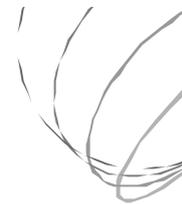


# Appendix D

## Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal 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 early assessment of the internal audit function. Our review of the internal audit service concluded that the internal audit service operates in accordance with the CIPFA code of practice for internal audit in local government. We therefore plan to place reliance on the work of internal audit in the following areas:

- Council tax liability
- Social Work Department – residential and respite care charges
- Cash collection and receipting
- Debtors and debt management
- Ordering receipting and creditor payments (Economic Development)
- Housing Benefit and Council Tax Benefit
- Non domestic rates liability and billing
- Access and security over the general ledger
- Statutory performance indicators



# Appendix E

## Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication of audit matters to those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

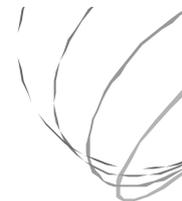
The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Head of Finance. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.





# Dundee City Council

## Strategic Audit Risk Analysis 2007/08



# Contents

<b>Key messages</b>	<b>1</b>
<b>Introduction</b>	<b>2</b>
<b>Key issues and priorities in the local government sector</b>	<b>3</b>
<b>Dundee City Council's strategic risk analysis</b>	<b>5</b>
<b>Strategic risk plan 2007/08</b>	<b>11</b>
 <i>Appendices</i>	
<b>Appendix A: Strategic risk plan</b>	<b>12</b>



# Key messages

This report sets out the findings from our review of the strategic risks facing Dundee City Council. We considered the key risks and the action underway or planned by the council in response to these risks. We have used these findings to prioritise the audit activity to be undertaken in the current audit year and identified areas for ongoing review in future years. This complements the work carried out by us in other areas, the approach to which was reported recently in our Annual Audit Plan.

We identified and considered the following strategic risk themes for the council, summarising the key risks it faces in working toward achievement of its corporate objectives:

- Funding future improvements
- Delivering improved performance
- Political and management structures
- Workforce management
- Effective partnership working
- Delivering improved infrastructure

Our risk assessment work has confirmed that the council has action plans in place to address many of the risks identified. In these areas we will monitor the progress over the coming years and report any significant matters which arise on an exception basis.

Any significant findings from our work on the council's management of key risks will also be summarised in our annual report on the audit.



# Introduction

1. This report sets out the findings from our strategic risk assessment for Dundee City Council. We considered the key risks being faced by the council and the action underway or planned by the council in response to these risks. We have used these findings to prioritise the audit activity to be undertaken in the current audit year and identified areas for ongoing review in future years.
2. The assessment included follow-up of the risks reported in our 2006/07 Audit Risk Analysis and Plan, which were then reflected in our 2006/07 final report as appropriate.
3. To provide the context for the council, we briefly outline some of the key challenges currently facing Scottish local government. We then provide a summary of our assessment of the key risks facing Dundee City Council over the next three years together with the management assurances we have received for each risk area.
4. As many of the risks included in this report are high level and strategic in nature, they will continue to be relevant to the council for a number of years. Therefore, although our risk analysis will be updated annually, many risks will remain from year to year and the risk analysis will cover a rolling three year period.
5. This report sets out our findings from the audit risk analysis carried out. It complements the work carried out by us in other areas such as the audit of the financial statements, the approach to which was reported recently in our Annual Audit Plan.
6. The management of the council is responsible for implementing appropriate internal control systems including risk management processes. Communication by auditors of matters arising from the audit or of weaknesses does not absolve management from its responsibility to address the issues raised and for maintaining an adequate system of internal control.
7. The risks outlined are only those which have come to our attention during the course of our normal audit work in accordance with the Code of Audit Practice and are not necessarily, therefore, all of the risks which may exist.
8. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our work is gratefully acknowledged.



# Key issues and priorities in the local government sector

## Overview

9. In the last year there have been major changes in the local government environment. There is a new national government and, at a local level, the move to proportional representation has resulted in changes to the political balance. Most councils have seen a significant shift from one party control to coalition or minority administrations. In addition, while the overall number of councillors is unchanged, nearly half are new to local government. Changes at Dundee City were less marked as the Council already had a coalition administration and around a third of members are new.
10. The new Scottish Government has set a strategic framework for delivering sustainable economic growth in Scotland, with simpler government and a focus on outcomes and best value for citizens. The Government wants to give councils more flexibility and also recognises the role of the voluntary sector and the importance of community planning partnerships. There is an expectation of a move towards more effective performance management systems using outcome agreements and a strong expectation that councils will share services. Efficient use of resources continues to feature as an overall requirement.
11. While the Scottish Government has issued its plans for expenditure and outlined its priorities, it is too early to assess the extent to which the new political context will change the big issues facing local government. However, the move towards a new relationship between central and local government is a key element of the government's stated intention, and the early signs of this are beginning to be evident in the development of a more outcome focussed approach.
12. The overall context for local government, therefore, is continuing change, with increasing pressures on services. The new councils face difficult choices in deciding which service options to deliver and how to allocate limited resources.

## 2007/08 Priorities and Risks Framework

13. The Priorities and Risks Framework (PRF) is a national tool used by auditors to plan the risk-based audits of local authorities in Scotland. It is updated annually and identifies the key national initiatives and priorities facing clients in the coming year as well as the main risks to their achievement. This helps to ensure that audit work is properly focused and takes account of local authority national priorities and risks. It is one element of our approach which is designed to meet the requirements of the Code of Audit Practice and International Standards on Auditing which require auditors to obtain an understanding of the client's business and environment sufficient to identify and assess the risks of material misstatement.



The national view presented by the PRF is combined with the auditor's understanding of the key priorities and risks operating at the local level.

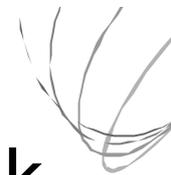
14. Working with local government and stakeholders, we identify the key issues facing the sector in the coming year and select the priorities for coverage. The key national priorities and risks identified for 2007/08 are:

Political governance	Financial planning
Community planning & partnership working	Workforce management
Performance management	Procuring & managing assets

15. The 2007/08 priorities and risk framework is available from Audit Scotland's website ([http://www.audit-scotland.gov.uk/docs/local/2007/prf\\_0708\\_localgov.pdf](http://www.audit-scotland.gov.uk/docs/local/2007/prf_0708_localgov.pdf))

### **Study programme consultation**

16. In February 2007 we published our programme of performance audits 2007/08. The programme was prepared taking account of views expressed by key stakeholders such as local authorities, the Scottish Parliament, Scottish Executive and the Scottish Consumer Council and has been approved by the Accounts Commission. It includes a number of joint studies with the Auditor General and provides the basis for study work to the end of 2008.
17. The programme (<http://www.audit-scotland.gov.uk/docs/fwd/studyprogramme0708.pdf>) is designed to provide a mix of projects reflecting the range of responsibilities covered by the Accounts Commission and the Auditor General. National studies complement other audit work including Best Value audits, overview reports and annual audits. It is important that the range of audit work generates reports on major themes facing the Scottish public sector. The programme includes studies relating to environmental sustainability, educational performance, health, workforce issues and community safety, all important topical public policy subjects. It also includes studies that provide post legislative evaluation and relate to best value and the efficient government agenda.



# Dundee City Council's strategic risk analysis 2007 - 2010

## *Overview of Dundee City Council*

18. Dundee City Council is, geographically, the smallest council in Scotland and is currently led by a Labour/Liberal Democrat coalition. The city has the third highest deprivation index in Scotland and one in three households is claiming housing benefits. The population is in decline and is estimated to fall from around 142,000 (2005 census) to 120,000 by 2024, largely from the below 50 age groups which is partially offset by an increase in the over 65 population groups.
19. Dundee was once famous for 'jute, jam and journalism', however as the traditional industries have declined, with the exception of journalism, the City has had to look to new economic opportunities to revitalise itself. It is now a key player in the Biotechnology field and accounts for 10% of Britain's digital entertainment industry.
20. An initial best value audit of the council has been conducted and the results reported in October 2005. The report concluded that *"the council has had considerable success in regenerating its area in the face of complex social and economic challenges. It demonstrates a strong commitment to engaging with its local communities. Council services generally perform well, but some have been deteriorating. The council considers that pressure on its funds is a critical issue, but it needs to do more to demonstrate that it is achieving Best Value from its use of resources. There is potential for the council to deliver greater benefits for Dundee through improved corporate management and more effective integration across the organisation"*.
21. The council has developed an improvement plan in response to the issues raised by the audit and, over the last two years, we have reported that progress had been made towards meeting a number of the areas for improvement.
22. The council's corporate plan for 2007 – 2011 sets out the key goals and priorities for the council until 2011 and explains how it plans to achieve these. The plan contains three core aims:
  - Create and work towards a vision for Dundee with all community planning partners
  - Modernise and improve services for the public in Dundee
  - Make the best use of the public resources in the city.To achieve these aims the council has identified 11 priorities and has articulated a number of outcomes, measures and projects in relation to each.
23. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', with sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are



unlikely to achieve best value. Based on our discussions with staff and a review of supporting information, we have identified and considered the following strategic risk themes for the council, which it faces in working toward the achievement of its corporate objectives.

### *Funding future improvements*

24. New funding arrangements between Central and Local Government come into effect in 2008/09. A number of previously ring-fenced funds will be included in the main financial settlement from 2008/09 thereby increasing the flexibility within councils on how funds can be spent. A condition of the new partnership arrangements will be the freezing of council tax at 2007/08 levels and although the Scottish Government plan to compensate councils for this tax freeze this will be done within tight fiscal constraints. Councils are also required to achieve 2% efficiency savings each year which can be used to address on going pressures and local priorities. Failure to achieve the level of savings anticipated, coupled with a council tax freeze may increase existing financial pressures or impact on the quality of services provided.
25. The Council recognises that procurement processes have a critical role to play in achieving potential efficiency savings and has developed a Corporate Procurement function to manage these and to demonstrate the requirements of the McClelland report, "Review of Public Procurement in Scotland", are met. The council secured additional funding in 2007 which has enabled it to develop an e-procurement system which will be in place by the end of 2007/08. A Procurement Strategy is in place, however, the Council has still to determine the projected level of savings anticipated from the revised procurement procedures.
26. A requirement for significant investment has been identified in a wide range of areas including school buildings, housing and the waterfront area. Other particular financial pressures include single status, pension liabilities and any potential future liability with regard to backdated equal pay claims. The Council has concerns about its funding position and, in line with agreed Council policy, only moderate reserves are held. There are, therefore risks to the Council's ability to maintain the current level of services it provides.
27. There is limited long term financial planning which restricts the Council's ability to prioritise expenditure to meet longer term objectives. Whilst there are plans to model the financial implications of population decline beyond the current three year horizon in order to better inform financial planning processes, this is not yet in place. Overall, there is an absence of a strategic framework to deliver change and set out a vision for the Council in the long term which reflects commitments already made such as the 30 year waterfront project, the workforce which will be required and the assets which will be needed to deliver that vision.



### ***Immediate priorities and risks***

- Management of financial pressures
- Progressing the efficient government agenda

### ***Longer term considerations***

- Develop integrated long term planning
- Continue to review funding options for investment in school buildings, housing and the waterfront project.

## ***Delivering improved performance***

28. From 2008/09 the council will be moving to Single Outcome Agreement with Scottish Government based on an agreed set of national outcomes. Partners in the agreement will work on developing a new performance reporting system to evidence progress against the national and local outcomes.
29. In order to claim efficiencies under the Efficient Government initiative the Council needs to demonstrate that service outcomes have been maintained or improved, presenting a real challenge to evidence the link between resources and performance measurement. The Council does not yet have a comprehensive performance management information system capable of underpinning its efficiency claims, measuring service outcomes and quality and ensuring that frontline services benefit from efficiency savings made.
30. Whilst the Council has an approved HR Strategy (see paragraph 36) and asset management plan (see paragraph 32) in place, there is currently no cohesive and demonstrable approach to ensure delivery of the objectives within these long term resource strategies. There is therefore a risk that the Council will be unable to fully deliver its long term objectives.
31. Part 4 of the Waste and Emissions Trading Act 2003 states that penalties for exceeding the landfill allowance will rise to £150 per tonne from 1 April 2008 (up from £50 per tonne in 2007/08). Dundee Energy Recycling Limited (DERL), the waste to energy plant, is a key element in the council's approach to waste management. There is a risk that issues with DERL availability may result in the council not meeting its landfill targets and thereby incurring financial penalties.
32. A corporate asset management plan was approved in December 2007. Whilst this document provides an overall framework for managing the council's assets it could be further developed as currently not all assets are covered by the plan. Asset data is held on a variety of systems that are not interfaced therefore there is a risk that information relevant to asset management decisions may not be fully utilised.



### ***Immediate priorities and risks***

- Establish a performance monitoring system to evidence progress against national and local outcomes
- Establishing systems to determine the impact of identified efficiencies

### ***Longer term considerations***

- Further development of the asset management plan

## ***Political and management structures***

33. A significant change in the local government environment was introduction with the move to multi-member wards. Whilst the Council is politically stable and leaders share a common vision for the city, the workload for both members and officers has increased in this new environment adding to existing pressures on resources.
34. The Scottish Local Authorities Remuneration Committee recommended that members training records be included in annually published information. A structured training programme to ensure that all members are fully aware of their regulatory and legislative duties is in place, however, the attendance at training sessions varies.
35. Whilst there has been some restructuring within a few services in recent years, overall the Council structure has remained unchanged. Although this approach has served the Council well in the past, existing organisational structures and cultures may not be the most appropriate for dealing with the changing environment in which the Council operates. Opportunities for service reconfiguration are offered by new technologies and the Council is facing requirements to provide more responsive, joined up services – often in partnership with other agencies. The Efficient Government Initiative expects savings to be generated through service redesign, streamlined bureaucracy and shared service support. Failure to deliver such savings could increase pressure on existing resources.

### ***Immediate priorities and risks***

- Raise member awareness of training requirements

### ***Longer term considerations***

- Review of the Council's structure and service configuration



## **Workforce Management**

36. A Human Resources (HR) Strategy was approved by the Council in December 2006. Whilst this sets the strategic context for achieving Council objectives it is not clear how achievement of the strategy will be monitored and there is no clear prioritisation of aims and objectives.
37. People play the key role in delivery of high performing services and the Council needs to ensure it has the right skills, in the right place, at the right time, on a continuing basis. A number of senior officers within the council are nearing retirement age and succession planning has been recognised as an issue that needs to be addressed.
38. Like many other councils, Dundee City Council has not yet implemented the 'single status' agreement but plans are in place for this to effective from 1 April 2008. This complex and sensitive area exposes the Council to risks in relation to staff morale, potential industrial relations difficulties and the financial impact of any revised pay and grading structures.
39. The introduction of age discrimination legislation from October 2006 presents risks that pay and benefits conditions which are linked to length of service could give rise to indirect age discrimination and consequent financial risk.

### ***Immediate priorities and risks***

- Implementing the single status agreement
- Ensuring compliance with age discrimination legislation

### ***Longer term considerations***

- Embedding the HR Strategy

## ***Effective partnership working***

40. Increasingly the Council is dependent on partnership working to deliver service improvements. Formal duties to initiate, facilitate and maintain community planning have been placed on the Council. In order to maintain and develop community planning arrangements there are a number of areas to be addressed. Partners may be unable to demonstrate sufficient progress in improving outcomes within challenging timescales and financial constraints.
41. Community planning projects are dependent on on-going funding. Whilst the Fairer Scotland funds will remain ring-fenced until 2010 there is a general move away from ring fenced funding. In the longer term, there is a risk that the momentum on community regeneration, deprivation and employment projects is lost as funding becomes less secure.



42. Whilst the council has continued to embed risk management in recent years this process has not been extended to community planning partnerships. Consequently it is not clear who has responsibility for managing partnership risks.

### ***Immediate priorities and risks***

- Managing financial pressures to establish self-sustaining community projects
- Actively enabling strategic partnerships to deliver their objectives

### ***Longer term considerations***

- Maintain effective partnership working
- Continue to develop and improve existing partnership working arrangements
- Demonstrate improved outcomes
- Develop risk management strategies with partners

## ***Delivering improved infrastructure***

43. A requirement for significant investment has been identified in a wide range of areas including school buildings, housing, waste management and information systems. Some projects are already underway, such as the Waterfront project, PPP for schools projects and implementation of a range of ICT facilities such as a new financial ledger system, including the e-procurement module, a new integrated payroll and personnel system and a second computer room within the City Square complex. Project management carries with it risks that expected benefits are not delivered, or that they are only delivered at greater than expected time and cost. A focus on major projects may limit the ability of individuals to manage 'business as usual'.

### ***Immediate priorities and risks***

- Effective project management
- Management of the Waterfront project
- Opening of first PPP school on time

### ***Longer term considerations***

- Effective management of the Waterfront project
- Further development of the corporate asset management plan

# Strategic Risk Plan 2007/08

## *Strategic risk plan*

44. This report summarises the key risks facing the council and sets out the audit work that we propose to undertake in 2007/08 and future years on these risk areas. As many of the risks included in this report are high level and strategic in nature, they will continue to be relevant to the council for a number of years. Therefore, although our risk analysis will be updated annually, many risks will remain from year to year and the risk analysis will cover a rolling three year period.

45. Our plan reflects:

- the council's local risks and priorities
- current national risks relevant to the council's circumstances
- our responsibilities under the Code of Audit Practice as approved by the Accounts Commission (our Annual Audit Plan 2007/08 sets out more detailed information on our responsibilities, approach, quality control and fees)
- issues brought forward from last year's audit.

46. Within the strategic risk themes there is a range of more detailed risks and these are included within the council's 2007/08 strategic risk plan, as set out in appendix A. In many cases actions are either planned or already underway within the council to manage key risks. Details of the management assurances that we have received against each of the risks and the audit work to be undertaken on identified residual risks are also set out in the plan.

47. Where risks have a possible impact on the financial statements of the council they may have already been reported in our Annual Audit Plan. They have been included here also so that this risk plan reflects the complete range of risks in the council.

48. It is in the nature of risk that the likelihood of occurrence is variable – the absence of assurance arrangements does not necessarily mean that identified risks are statements of fact. Councils may also choose to accept, or be unable to mitigate, certain risks.

## *Monitoring and reporting arrangements*

49. Our risk assessment work has confirmed that the council has action plans in place to address many of the risks identified. In these areas we will monitor the progress of the management assurances we have received as specified in the strategic risk plan. Any significant matters which arise from our monitoring activity will be reported on an exception basis and may be included in our annual report on the audit.

# Dundee City Council 2007/08 – strategic risk plan

**Strategic risk plan** - In this section we identify a wide range of operational risks facing the council, the related management assurances received and the audit work we propose to undertake in the coming years to secure additional assurance. The management of risk is the responsibility of the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks. In some instances planned audit work will include ongoing monitoring of risks throughout our audit appointment.

## Funding future improvement

The Council has concerns about its funding position and further efficiency savings have been incorporated into annual financial settlements, presenting an immediate and on-going challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised.

No	Risk	Management assurances	Planned audit action
1	<p>New funding arrangements between Central and Local Government come into effect in 2008/09. A number of previously ring-fenced funds will be included in the main financial settlement from 2008/09 thereby increasing the flexibility within councils on how funds can be spent. A condition of the new partnership arrangements will be the freezing of council tax at 2007/08 levels and although the Scottish Government plan to compensate councils for this tax freeze this will be done within tight fiscal constraints.. Councils are also required to achieve 2% efficiency savings each year which can be used to address on going pressures and local priorities. There are risks that failure to achieve the level of savings anticipated, coupled with a council tax freeze may:</p> <ul style="list-style-type: none"> <li>• increase financial pressures;</li> <li>• impact on the quality of services provided;</li> <li>• lead to loss of credibility with the Scottish Government and the public.</li> </ul>	<ul style="list-style-type: none"> <li>• The Council approved a budget for 2008/09 which achieved a council tax freeze. The approved budget detailed the level of previously ring-fenced funds being committed for 2008/09 to 2010/11 and individual departmental budgets and staffing structures have been set accordingly.</li> <li>• The 2008/09 revenue and capital expenditure will be rigorously monitored to ensure that budgets are met.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances</li> </ul>

2	<p>The Council has been working in collaboration with Angus and Perth &amp; Kinross Councils to modernise procurement practices and a report commissioned in 2005 identified scope for significant procurement savings. Additional funding has been secured to enable the councils to implement an enhanced and modern procurement function. Whilst progress has been made towards improving procurement practices there is an on-going risk that expected savings will not be realised in the expected timescales.</p>	<ul style="list-style-type: none"> <li>• E-procurement system to be implemented during 2007/08.</li> <li>• Best Value plan to be progressed.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> <li>• Continue to review progress in relation to the Best Value Improvement Plan.</li> <li>• Consider findings of Audit Scotland's national report on "Strategic Procurement" (due to be published spring 2009) in relation to the Council.</li> </ul>
3	<p>Uncommitted Council reserves stood at £4.413 million at 31 March 2007. There are a number of competing pressures on the Council to use these reserves, with risks that:</p> <ul style="list-style-type: none"> <li>• the use of reserves does not comply with the Council's protocol;</li> <li>• the Council is left with insufficient reserves to meet unforeseen events;</li> <li>• the long-term sustainability of the organisation and services are in question.</li> </ul>	<ul style="list-style-type: none"> <li>• A protocol for the operation of the Council's reserves is in place.</li> <li>• Annual review of reserves levels.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> </ul>
4	<p>There has been limited long term financial planning which has restricted the Council's ability to prioritise expenditure to meet longer term objectives. Whilst there are plans to model the financial implications of population decline beyond the current three year horizon in order to better inform financial planning processes, this is not yet in place. There are risks, therefore, that:</p> <ul style="list-style-type: none"> <li>• the Council fails to project the longer-term implications of previous spending decisions thus restricting the achievement of objectives beyond the three-year budgeting horizon;</li> <li>• ring fenced or specific initiatives fail as they are not supported by effective exit strategies should funding be withdrawn.</li> </ul>	<ul style="list-style-type: none"> <li>• The Council mitigates its risk exposure by time-limiting its financial commitment.</li> <li>• A grant floor mechanism exists to protect councils from significant reductions in grants between years.</li> <li>• Work is currently being progressed on a 20 year high level financial model and longer term population projections.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> </ul>

## Delivering improved performance

Although the Council delivers services that are generally good it recognises the need for greater focus on continuous improvement, especially given the financial pressures faced. The Council has a corporate system for managing and reporting performance. In order to claim efficiencies under the Efficient Government initiative the Council needs to demonstrate that services have been maintained or improved, presenting an on-going challenge to evidence the links between resources and performance.

No	Risk	Management assurances	Planned audit action
1	<p>From 2008/09 the council will be moving to Single Outcome Agreement with Scottish Government based on an agreed set of national outcomes. Both partners in the agreement will work on developing a new performance reporting system to evidence progress against the national and local outcomes. Until the new system is in place there are risks that:</p> <ul style="list-style-type: none"> <li>• performance may not be systematically monitored and followed up by services to ensure that corrective action is taken. As a result, the effectiveness of strategies and policies may not be demonstrated and service provision may be ineffective or inefficient;</li> <li>• performance measures and monitoring are focused on processes rather than outcomes for service users;</li> <li>• performance indicators used to measure performance are not appropriate or are unreliable and distort the perception of underlying performance or customer satisfaction;</li> <li>• measured performance does not demonstrate continuous improvement.</li> </ul>	<ul style="list-style-type: none"> <li>• The Council's Policy &amp; Resources Committee has approved a draft Single Outcome Agreement which will be submitted to the Scottish Government by 31 March and finalised, after discussion with them, by 30 June. The draft SOA was agreed with Community Planning partners at the Dundee Partnership Forum on 12 March. The draft SOA builds on the outcome-focussed measures already included in the Council Plan and departmental Service Plans for 2007-2011. Performance will be monitored using the Online Performance Monitoring database. Reports on these outcome measures and other key indicators, will be reported quarterly to the Chief Officers' Management Team and the BV Sub-Committee, highlighting trends and identifying any areas of declining performance for discussion or corrective action. The draft SOA also included outcome measures used to assess progress on Community Planning, which are included in a Headline Indicator report submitted bi-annually to the Dundee Partnership Management Group.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances</li> </ul>

2	<p>In order to claim efficiencies under the Efficient Government initiative, the Council needs to demonstrate that service outcomes have been maintained or improved. The Council does not yet have a comprehensive performance management information system capable of underpinning its efficiency claims, measuring service outcomes and quality and ensuring that frontline services benefit from efficiency savings made. Without clear baseline information covering cost and quality of service, there is a risk that the Council will not be able to demonstrate that claimed efficiencies have not impacted adversely on service provision.</p>	<ul style="list-style-type: none"> <li>The development of a comprehensive performance management information system is still ongoing. In the meantime, the Council developed an efficiency monitoring pro-forma and in-house guidance to enable departments to record and report efficiencies. Departments are requested to provide evidence that the saving (in financial terms) has been made and evidence that there has been no decline in service quality (e.g. results of customer surveys, performance indicators, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Track management assurances.</li> </ul>
3	<p>Whilst the Council has an approved HR Strategy and asset management plan in place, there is currently no cohesive and demonstrable approach to ensure delivery of the objectives within these long term resource strategies. There is therefore a risk that the Council will be unable to fully deliver its long term objectives.</p>	<ul style="list-style-type: none"> <li>The implementation of Single Status has been the major HR priority during 2007/08. The HR Strategy will be reviewed and developed over the next three years.</li> <li>The Economic Development department is working towards harmonising the Council's asset databases and populating all the financial and operational data.</li> <li>All operational assets are in the Asset Management Plan and officers are now including the Investment and surplus properties.</li> </ul>	<ul style="list-style-type: none"> <li>Track management assurances.</li> <li>Consider findings of Audit Scotland's national report on "Asset management in local government" (due to be published summer 2009) in relation to the Council.</li> </ul>

4	<p>The European Union Landfill Directive 1999 sets targets for all member states to reduce the amount of biodegradable municipal waste going to landfill to 75% of the 1995 amount by no later than 17 July 2010. Although significant progress has been made in meeting interim recycling targets, increasing the recycling rate further will be challenging. The risk of not meeting the Landfill Directive targets is that the UK could become the subject of proceedings that could eventually lead to fines.</p> <p>To provide an incentive to councils, Scottish Ministers have set landfill allowances under the Landfill Allowance Scheme for each council for each year up to the first target year of 2009/10. Part 4 of the Waste and Emissions Trading Act 2003 states that penalties for exceeding the landfill allowance will rise to £150 per tonne from 1 April 2008 (up from £50 per tonne in 2007/08). Dundee Energy Recycling Limited (DERL), the waste to energy plant, is a key element in the council's approach to waste management. There is a risk that issues with DERL availability may result in the council not meeting its landfill targets and thereby incurring financial penalties.</p>	<ul style="list-style-type: none"> <li>• It is estimated that by 31 March 2008, DCC will have banked 58,000 tonnes of landfill credits. The Scottish Government are currently not enforcing landfill penalties and discussions are ongoing regarding future application of these measures.</li> <li>• As long as DERL is operating effectively, DCC will avoid these penalties. The Council works closely with DERL to ensure maximum productivity of the Plant. DCC has the lowest risk in Scotland of suffering landfill penalties.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances</li> </ul>
5	<p>A corporate Asset Management Plan was approved in December 2007. This document provides an overall framework for managing council assets the following asset management issues still need to be addressed:</p> <ul style="list-style-type: none"> <li>• The current plan does not contain operational and financial data for all properties</li> <li>• Asset data is held on various systems that are not interfaced, for example, GVA, Housing database, national infrastructure database</li> <li>• The plan does not include all assets owned by the council.</li> </ul>	<ul style="list-style-type: none"> <li>• The Economic Development department is working towards harmonising the Council's asset databases and populating all the financial and operational data.</li> <li>• All operational assets are in the Asset Management Plan and officers are now including the Investment and surplus properties.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> <li>• Consider findings of Audit Scotland's national report on "Asset management in local government" (due to be published summer 2009) in relation to the Council.</li> </ul>

## Political and management structures

Following the 2007 election there are a number of new members. The move to multi-member wards has the potential to increase the workload of both members and officers. The Council's management structure has evolved as opportunities for change have presented themselves, rather than as a result of a systematic review, and to date there has been limited reconfiguration of services.

No	Risk	Management assurances	Planned audit action
1	<p>The previous 29 Dundee ward boundaries were realigned to form eight wards from May 2007. Five of these wards have four member representation and the remaining three wards each have three members. There is a risk that:</p> <ul style="list-style-type: none"> <li>• Member workload is increased due to the larger ward areas;</li> <li>• there may be an increased workload on Council officers or duplication of effort if more than one Councillor is seeking information on a particular issue.</li> </ul>	<ul style="list-style-type: none"> <li>• A protocol for dealing with both public and members' queries to staff has been developed.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> </ul>
2	<p>The Scottish Local Authorities Remuneration Committee recommended that members training records be included in annually published information. A structured training programme to ensure that all members are fully aware of their regulatory and legislative duties is in place, however, the attendance at training sessions varies.</p>	<ul style="list-style-type: none"> <li>• Council officers will continue to provide opportunities for members' training and encourage members to attend, as well as responding to members' requests for information, briefings or seminars about topics of interest. For example, a session has been arranged for 22 May on the subject of Post Office closures, to ensure members are fully aware of local proposals and the consultation process, and a high attendance is anticipated.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances</li> </ul>

3	<p>To date, there has been limited reconfiguration of services within the Council and the best value audit identified scope for the benefits of service review and option appraisal to be applied more widely. Following the May 2007 election the number of committees in place was reduced from 13 to eight and it is recognised that the Council may need to revisit the existing service structures to provide a more efficient way of delivering the Administration's manifesto. In addition, the Efficient Government initiative expects savings to be generated through service redesign, streamlined bureaucracy and shared service support. Failure to deliver such savings could increase pressure on existing resources.</p>	<ul style="list-style-type: none"> <li>• The Council has previously reviewed its structures and determined that the current structure meets the business needs, however, the Council is reviewing its internal processes.</li> <li>• The Council is currently analysing key processes across departments using the Improvement Service diagnostic toolkit. The results of this exercise will be benchmarked internally and externally.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances</li> </ul>
---	---	---	---

## Workforce management

People play the key role in delivery of high performing services and the Council needs to ensure that it has the right skills, in the right place, at the right time. Implementation of the single status agreement also exposes the Council to risks in relation to staff morale, potential industrial relations difficulties and the financial impact of any revised pay and grading structures.

No	Risk	Management assurances	Planned audit action
1	<p>Whilst an approved HR Strategy is now in place and is a good starting point, further development may be required to address the potential risks that:</p> <ul style="list-style-type: none"> <li>• the Council is failing to maximise the use of the staffing resources available;</li> <li>• temporary contracts are inappropriately used;</li> <li>• staff resources are not deployed as effectively as they could be to deliver best value services.</li> </ul>	<ul style="list-style-type: none"> <li>• The Council Plan 2007-2011 and the Personnel Department Plan 2007-2011 both identify the "Review and Development of the Human Resource Strategy" as a priority project. It will therefore be subject to online plan monitoring and updated regularly.</li> <li>• The review of the HR Strategy Action plan has commenced and will prioritise actions over the period up to 2011. However, efficient workforce management has to be ongoing and the HR Strategy will continue to develop in response to changing demands on the Council up to and beyond 2011</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances</li> </ul>
2	<p>People play the key roles in delivery of high performing services and the Council needs to ensure that it has the right skills, in the right place, at the right time. A number of senior officers within the Council are nearing retirement age and succession planning has been recognised as a issue with the risk of:</p> <ul style="list-style-type: none"> <li>• Suitably experienced and qualified individuals not being available to fill these key roles</li> <li>• Potential detrimental impact on service delivery.</li> </ul>	<ul style="list-style-type: none"> <li>• The Chief Executive reviews succession planning annually and discusses options with the Leader of Administration including whether to replace or restructure.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances</li> </ul>

3	<p>Equal pay legislation and the Single Status agenda requires equitable wages for equivalent jobs. The council has yet to implement single status although this should be in place by 1 April 2008. Until this agreement is in place there are risks that:</p> <ul style="list-style-type: none"> <li>• Initial and continuing costs may be considerably in excess of expected levels.</li> <li>• Industrial relations difficulties may restrict the ability to deliver on key objectives.</li> <li>• The Council may be judged to be contravening the Equal Pay Act.</li> </ul>	<ul style="list-style-type: none"> <li>• Single Status will be implemented on 1 April 2008.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> </ul>
4	<p>The introduction of age discrimination legislation from October 2006 presents risks that pay and benefits conditions which are linked to length of service could give rise to indirect age discrimination and consequent financial risk.</p>	<ul style="list-style-type: none"> <li>• Council policies have been amended to ensure they comply with the new legislation.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances</li> </ul>

## Effective partnership working

Increasingly the Council is dependent on partnership working to deliver service improvements. There is a risk that partners are unable or unwilling to work effectively in a joined-up manner and do not achieve best value in the use of public resources as a result.

No	Risk	Management assurances	Planned audit action
1	<p>Although community planning is well established in Dundee it faces a number of strategic issues including:</p> <ul style="list-style-type: none"> <li>• Difficulty in determining and measuring outcomes for specific projects, particularly in relation to community regeneration.</li> <li>• The move away from ring fenced funding may result in a lack of momentum in community regeneration, deprivation and employment projects</li> </ul>	<ul style="list-style-type: none"> <li>• The Dundee Partnership has agreed a new set of more focused strategic community regeneration outcomes which concentrate on the outcomes which will make the biggest contribution to closing the gap between the most and least successful neighbourhoods. These revised outcomes are at the heart of the Fairer Scotland Fund programme which was agreed by the Dundee Partnership in February 2008 and Dundee City Council in March 2008.</li> <li>• Fairer Scotland fund remains ring-fenced until 2009/10 and these areas remain key priorities for the Council.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> </ul>
2	<p>Whilst the council has continued to embed risk management in recent years this process has not been extended to community planning partnerships. There is no risk management strategy or joint risk registers in place with community planning partners. There is therefore no sound process for managing risk and no formal record of where responsibility for addressing partnership key risks lie.</p>	<ul style="list-style-type: none"> <li>• Few partnerships deliver services. They provide governance and direction to the individual agencies which carry the risks of service delivery.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> </ul>

## Delivering improved infrastructure

The Council needs facilities and infrastructure that are suitable and sufficient to meet the requirements placed on them in the provision of services and the delivery of Council objectives both now and in the future. A requirement for significant investment has been identified in a wide range of areas.

No	Risk	Management assurances	Planned audit action
1	<p>The Council has a £85 million PPP programme of investment in Dundee schools which will see the building of six primary schools, one secondary school and an Academy. The first school is due to open in 2008 and the last one by 2009. This timetable has slipped considerably from the original timetable, which would have seen the schools open two years earlier. There is a risk that the timetable will slip further and the Council will incur further delays to opening the new schools and incur ongoing costs of maintaining the existing schools to be replaced by the PPP buildings.</p>	<ul style="list-style-type: none"> <li>• The Education and Policy &amp; Resources Committee approved a report on 19 March 2007 which detailed financial closure and set out the completion dates of the schools between April 2008 and October 2009.</li> <li>• Project Board and Management Group in place to monitor the construction phase.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> <li>• Consider findings of Audit Scotland's national report on "Improving Scotland's school estate" in relation to the Council.</li> </ul>
2	<p>The December 2006 HMIE report "<i>Inspection of the education functions of local authorities – Dundee City Council</i>" noted that the decreasing trend in population created challenges for the council, in particular, in addressing the over-capacity in its schools. Whilst this was beginning to be addressed through the Council's PPP programme, it may impact on the Council's ability to demonstrate best value in its educational expenditure.</p>	<ul style="list-style-type: none"> <li>• In addition to the PPP programme the Council is in the process of identifying further possible school building projects to be funded through prudential borrowing and capital receipts.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> <li>• Consider findings of Audit Scotland's national report on "Improving Scotland's school estate" in relation to the Council.</li> </ul>

3	<p>The Housing (Scotland) Act 2006 (the Act) introduced several measures aimed at improving the quality of private sector housing, with new powers for local authorities to ensure that owners are keeping their properties in good condition. The Act also introduces new duties for local authorities to prepare strategies for dealing with housing that is below the tolerable standard and for using the scheme of assistance to provide practical and financial help to home owners to improve housing conditions. These duties place further pressures on the council's resources and a risk that the council may not meet its duties under the Act.</p>	<ul style="list-style-type: none"> <li>• Three Working Groups have been established to consider specific aspects of the Act and determine response(s)</li> <li>• Policies and procedures will be amended in light of Working Group findings and Scottish Government guidance (awaited)</li> <li>• Private stock condition survey planned in 2008.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> </ul>
4	<p>The Council has a standard delivery plan which sets out what need to be done to ensure that its houses meet the requirements of the Scottish Housing Quality Standard by the target of 2015. The plan, which has been assessed and passed by Communities Scotland, provides for stock improvement, demolition programmes and other investment costed at some £141 million by 2015. The Council's delivery plan is therefore partly dependent on further external funding but there is a potential risk that this funding will not be forthcoming.</p> <p>Other assumptions and estimates in the financial projections underpinning the plan, including estimated savings in running costs, are subject to estimating error and risk, but there is no explicit allowance for risk in the delivery plan. Unforeseen increases in costs, inability to achieve savings targets or changes in demand for housing, especially in relation to homeless requirements, could therefore present further risks to the delivery of the plan.</p>	<ul style="list-style-type: none"> <li>• Root and branch review of progress towards meeting the Standard to be undertaken in 2008/09.</li> <li>• Annual monitors of available finance and physical progress towards the Standard to be developed.</li> <li>• Needs demand survey to be undertaken in 2007/08.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> </ul>

5	<p>The Housing (Scotland) Act 2001 and the Homelessness etc (Scotland) Act 2003 placed an additional requirement on councils to house homeless people. This has resulted in an increased demand for suitable accommodation and a risk that the Council will be unable to meet its obligations under the Act.</p>	<ul style="list-style-type: none"> <li>• Demand for temporary accommodation continues to rise. This is being addressed through increasing the supply of dispersed furnished accommodation and a partnership arrangement with Hillcrest Housing Association to provide additional supervised temporary accommodation.</li> <li>• Requirements of Acts will result in the Council having a duty to provide permanent accommodation to all unintentionally homeless persons by 2012. Plans to increase the supply of permanent accommodation to homeless persons are underway through developing new lettings policy and greater use of Section 5 referrals to Housing Associations.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances</li> </ul>
6	<p>The Council has a 30 year plan to redevelop the Central Waterfront. Current elements of the development include the development a new administration headquarters building, Dundee House and rerouting of access roads around the Waterfront. There is a risk that project management arrangements are not adequate, with the result that target milestones are not met or that project costs are not continually updated resulting in additional costs being incurred by the Council.</p>	<ul style="list-style-type: none"> <li>• A dedicated Project Co-ordinator oversees the operational management of the project.</li> <li>• A project management team is in place within the City Engineer's Division to co-ordinate the provision of the necessary infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>• Track management assurances.</li> <li>• Review project management arrangements.</li> </ul>