



*cutting through complexity*

ITEM No ...8(b).....

# Dundee City Council

Annual audit report to the Members of Dundee City  
Council and the Controller of Audit

Audit: year ended 31 March 2016

Report No 308-2016

DRAFT: 31 August 2016

DRAFT



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**About this report**

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

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

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

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

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**Complaints**

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

# **Executive summary**

### Audit conclusions

- - We propose to issue an unqualified audit opinion on the financial statements of Dundee City Council, the Lord Provost of Dundee Charity Fund and Dundee City Council Charitable Trusts. Page 14

### Financial position

- - The 2015-16 deficit on the provision of services of £26.2 million compares to the 2014-15 deficit of £36.4 million. A total of £4.0 million was transferred to usable reserves in 2015-16, compared to a transfer to reserves of £1.6 million in 2014-15.
- - The budget has been set on the assumption that council tax will remain frozen in 2016-17; the Scottish Government has confirmed its support for this policy in 2016-17. Increases in costs across services include a 1% allowance for estimated pay awards in 2016-17 for all categories of staff, including teachers. Allowance has also been made for the increased National Living Wage of £8.25 per hour. We have reviewed the going concern assumption and found this to be reasonable. Pages 6-12

### Financial statements and related reports

- - We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy and plan document. Pages 14-22
- - The annual accounts, statement of responsibilities, governance statement and remuneration report were received at the start of the audit fieldwork and were supported by high quality audit work papers.
- - We have no matters to highlight in respect of: adjusted audit differences; independence; or changes to management representations.

### Wider scope

- - We considered the wider scope audit dimensions, concluding positively in respect of financial sustainability, governance and transparency and value for money. Pages 24-33
- - We note risks in relation to financial management in respect of the lack of long term financial planning and budget setting.
- - The Council has adequate procedures in place for collecting and reviewing performance data and is on track to meet current reporting deadlines.

#### Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Dundee City Council (the Council) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at Dundee City Council and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the scrutiny committee at the outset of our audit.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

#### Accountable officer responsibilities

The Code sets out Dundee City Council’s responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- Best Value.

#### Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix one sets out how we have met each of the responsibilities set out in the Code.

#### Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the scrutiny committee, together with previous reports to the scrutiny committee throughout the year, discharges the requirements of ISA 260.

# Financial position

### Overview

In common with other local authorities, the Council has faced challenges over the past few years, reflecting public sector reform and continued financial pressures. Councils have faced real term funding decreases and increasing demand for services. As highlighted in Audit Scotland's report *An Overview of Local Government in Scotland*, for 2016-17 councils' revenue funding from Scottish Government will reduce by 5% in cash terms. This takes the real term reduction in funding since 2010-11 to 11%. Funding for 2017-18 onwards has not yet been confirmed, creating challenges for long term financial planning. Councils are faced with further financial pressures with increasing pension costs, living wage and equal pay pressures. In addition, service demand is growing due to demographic changes and potentially transformation in respect of health and social care provision.

In response to funding reductions a number of councils reduced their workforce and many plan further voluntary reductions. There is a challenge for councils to ensure they maintain the knowledge and skills needed to effectively manage the local authority.

2015-16 saw a change in the process of shared risk assessments ("SRA") and how the local area networks ("LANs") work with Local Authorities. The 2016-17 local scrutiny plan highlights the Council's progress in improving financial sustainability. The plan outlines the scrutiny activity planned for 2016-17, including the implementation of the revised Best Value approach from October 2016.

Deficit on provision of services  
£26.2 million

Net defined benefit liability re-measurement  
£48.7 million

Underspend on capital budget  
£25.5 million

Reduction in pension liability  
£27.6 million

Uncommitted general reserve  
£7.0 million

Saving requirement for 2016-17  
£23.0 million

### Overview of financial position

The 2015-16 deficit on the provision of services of £26.2 million compares to the 2014-15 deficit of £36.4 million. A total of £2.8 million was transferred to the general fund in 2015-16, compared to a transfer to general fund of £5 million in 2014-15. The headline financial position figures are shown below. Further details are provided in the following pages. The transformation change programme continues to support the ongoing funding cuts from the Scottish government and Westminster. Savings totalling £23.0 million over 2016-17 are required to maintain the council tax freeze.

### Financial position: comprehensive income and expenditure statement

The 2015-16 deficit of £26.2 million (before adjustments for pensions and asset revaluations) compares to the 2014-15 deficit of £36.4 million. Gross expenditure decreased by £1.5 million in the year. A further decrease of £12.4 million relates to a decrease in financing and investment expenditure, with the largest movement being the decrease in net interest on the defined benefit liability (£9.4 million). Other movements include a small increase in other operating expenditure and non-specific grant income. An extract of the comprehensive income and expenditure statement is shown below.

### Comprehensive income and expenditure statement

	2015-16 £m	2014-15 £m	Variance £m
Cost of services	380.3	375.5	4.8
Other operating expenditure	2.3	1.1	1.2
Financing and investment income and expenditure	31.6	44.0	(12.4)
Taxation and non specific grant income	(388.0)	(384.1)	(3.9)
<b>Deficit / (surplus) on the provision of services</b>	<b>26.2</b>	<b>36.4</b>	<b>(10.3)</b>
Other comprehensive income and expenditure	(51.2)	(170.0)	118.8
<b>Total comprehensive income and expenditure</b>	<b>(25.0)</b>	<b>(133.5)</b>	<b>108.5</b>

Source: KPMG analysis of the Council's annual accounts 2015-16.



### Financial position: balance sheet

The Council's balance sheet was strengthened in the year with an increase of net assets of £24.9 million. This is primarily due to a reduction in long term liabilities as a result of the lower pension liability. This is outlined further at appendix four. The increase in current assets is offset by the increase in current liabilities.

Balance sheet			
	2015-16 £m	2014-15 £m	Variance £m
<b>Long term assets</b>	1,389.7	1,389.0	0.7
<b>Current assets</b>	57.1	50.5	6.6
<b>Current liabilities</b>	(129.7)	(123.4)	(6.3)
<b>Long term liabilities</b>	(728.9)	(752.9)	24.0
<b>Net assets</b>	<b>588.2</b>	<b>563.3</b>	<b>24.9</b>

Source: KPMG analysis of the Council's annual accounts 2015-16.

The Council revalued a number of categories of assets as part of a rolling programme of revaluation. We considered a number of revalued properties and make the following observations;

- The value of the Wellgate shopping centre is inherently judgemental and based on a number of assumptions such as yield, current economic climate and future expectations. The valuation considers these factors together with alternative uses.
- The site known as Kellyfield was reported to have reduced in value from £1.4m to £251,000. As part of the Council's residential land disposal strategy, there has been a change of description of a number of sites rather than a loss of value. Estates and finance officers continue to work closely to harmonise records and to ensure consistency of valuation and accuracy of financial statements."

### Reserves

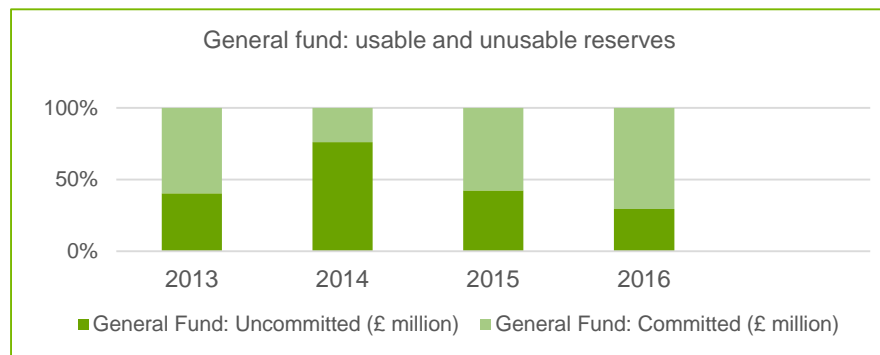
The Council's medium term financial strategy states that it will seek to achieve an overall outturn position each year in line with or below budget.

The Council reviews the adequacy of its minimum target for uncommitted reserves when setting the budget each year. In setting the 2015-16 revenue budget, management advised the policy and resources committee that the target level of reserves should remain at £5m (around 1.5% of budgeted expenditure). To achieve this it was recommended that funds should not be taken from the general fund when setting the council tax for 2015-16. The same approach has been taken for 2016-17.

The uncommitted general fund balance as at 31 March 2016 is £7.0 million, falling above the £5 million target. The Council's uncommitted reserves as a percentage of net revenue spend continues to be low.

### Composition of the general fund as at 31 March 2016

Source: KPMG analysis of Dundee City Councils annual accounts 2015-16.



### Capital grants and expenditure

Total capital expenditure has increased year on year by £14.3 million in 2015-16 to £87.4 million (£73.1 million in 2014-15), however the capital expenditure was below the original budget of £112.9 million. Re-phasing into 2016-17 was the main reason for underspends for various projects including:

- Dundee railway station (£3.9 million);
- V & A museum (£3.2 million);
- national housing trust (£2.1 million);
- Menziehill community provision (£1.3 million);
- regional performance centre (£1.1 million); and
- redevelopment of HQ and operational depots (£1.1 million).

In addition the £8.2 million budgeted slippage allowance was not utilised.

Of the total capital budget, £73 million related to general services capital spend and £13 million to the housing revenue account. The total of the housing revenue account capital spend was immediately impaired as all items were deemed to be non value adding, although initially appropriately capitalised as extending useful life.

Key projects in the capital programme in 2015-16	£ million
V&A at Dundee	19.3
Harris Academy	12.4
Central Waterfront	6.3
External insulation and cavity fill in council housing	5.6
Heating, kitchens & bathrooms in council housing	4.7
Replacement of Sidlaw View primary and Jessie Porter nursery school's	4.7
Dundee railway station concourse	3.3

The capital investment in 2015-16 also included the purchase of intangible assets associated with software development totalling £1 million. These were evaluated to determine that future economic benefits are expected to flow from their purchase, and were therefore correctly classified as intangible assets.

### V&A at Dundee

The V&A museum is the largest single item of expenditure included in the 2016-21 capital plan, with £19.3 million spent in 2015-16. This represents an underspend of £3.2 million from budget, based on the latest programme of works from the contractor. This expenditure has been transferred into the 2016-17 and 2017-18 capital plans, so overall there is no change to the total cost of the project.

The McClelland review of the V&A museum was published in 2014-15 and recommendations presented to the policy and resource committee on 24 August 2015. KPMG held discussions with the V&A project manager and reviewed various reports, minutes and terms of reference of the Dundee City Council Project Management Group which demonstrated that the recommendations had been implemented.

### Conclusion

The increase in capital expenditure, represents 20% more than the prior year, largely due to the V&A at Dundee project spend. Although the Council did not use any of their contingency funds, sections of larger capital projects were re-phased into 2016-17. This potentially indicates that project delays will increase costs in the future.

All recommendations from the McClelland report are in progress or have been implemented. . Draft agreements between the Council and Design Dundee Limited have yet to be finalised in accordance with our 2014-15 recommendation (appendix 6).

The uncommitted general fund balance is in line Councils targets set by the Policy and Resource Committee.

## Budget to final outturn position during 2015-16

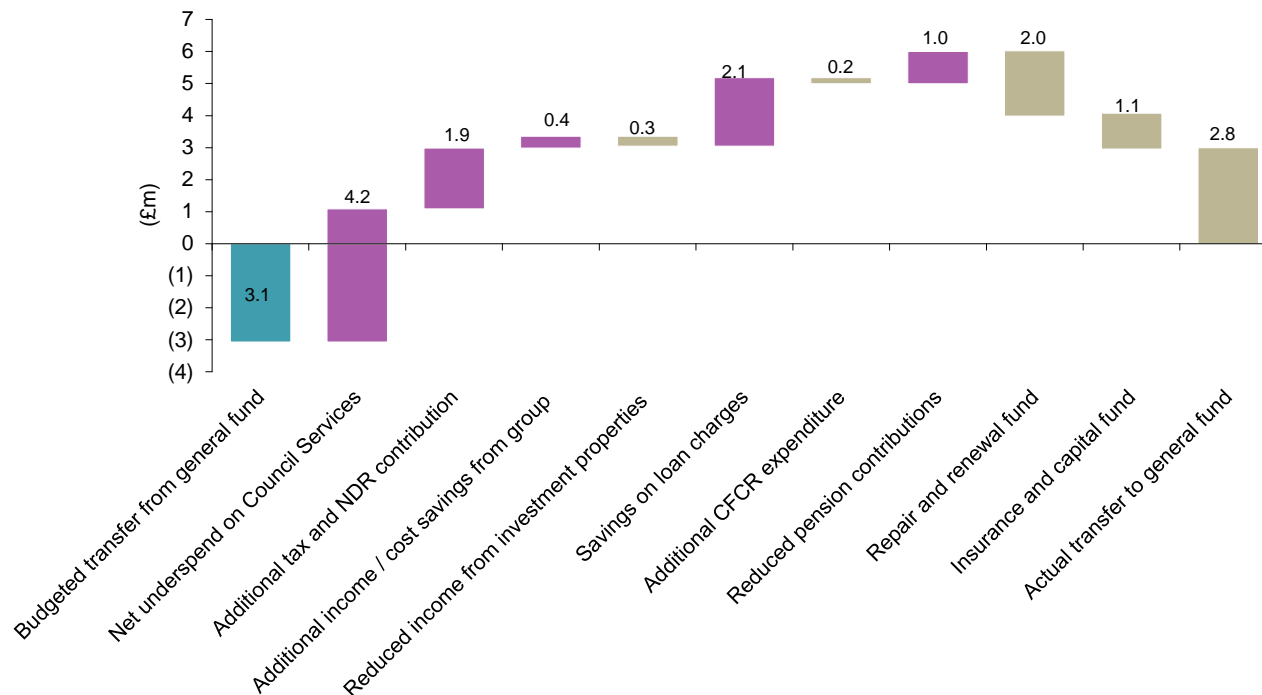
The budgeted outturn was for a transfer from general fund reserves of £3.1 million. The Council achieved a transfer to the general fund reserve of £2.8 million in 2015-16. We provide a summary of the movements from original budget to outturn position in the graph below.

### Key under spends in the year included:

- lower payments to third sector bodies in relation to adult services and mental health (£2.31 million);
- savings in staff costs (£4.35 million);
- redesign of the delivery of sheltered housing service leading to lower payments (£0.38 million); and
- higher than anticipated income from planning applications and building warrants due to increased market activity (£0.53 million).

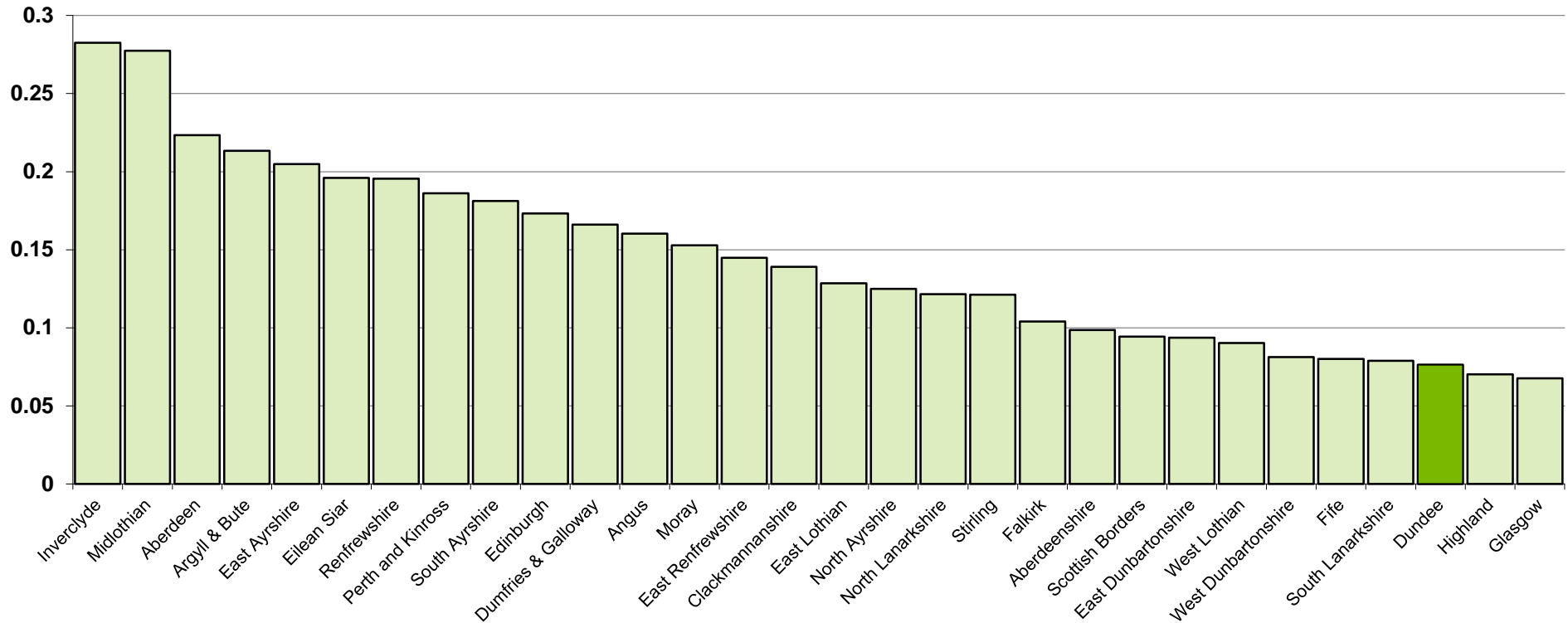
### Key expenditure over spends and income under recoveries in the year included:

- additional residential and secure placements and additional accruals for backdated kinship carer payments within children and family services (£1.86 million);
- higher than anticipated costs for council house repairs and relets due to increasing demands (£0.61 million);
- income shortfall in commercial property rentals (£0.55 million);
- environmental management net shortfall in various chargeable income for services provided (£0.32 million); and
- income shortfall in environmental protection services for the sale of recyclable materials (£0.54 million).



In benchmarking undertaken by Audit Scotland from analysis of the 2015-16 unaudited financial statements of Scotland's 32 local authorities. Dundee City Council had a movement in the general fund just above the average movement. The graph below shows that the Council's carried forward usable revenue reserves as a proportion of revenue position was the third lowest in Scotland. This position has remained constant since the prior year. The Council continues to review the target level of reserves as part of the annual budget setting process.

**2015-16 carried forward useable revenue reserves as a proportion of revenue – 30 Scottish local authorities**



Source: Audit Scotland. Note Shetland and Orkney Island Councils have been excluded from the comparison as their level of reserves would distort the comparison.

### Financial plans 2016-17

The budget has been set on the assumption that council tax will remain frozen in 2016-17; the Scottish Government has confirmed its support for this policy in 2016-17. The Council has identified budget savings of around £23 million in 2016-17 to maintain a council tax freeze.

Phase Four of the Changing for the Future programme focusses on how the Council maintains and operates assets, maximises the use of new technology, collaborates with other councils and aligns the workforce to meet the needs of citizens. It set out an initial savings target of £28 million.

Increases in costs across services includes a 1% allowance for estimated pay awards in 2016-17 for all categories of staff, including teachers. Allowance has also been made for the increased National Living Wage of £8.25 per hour.

As part of the budget setting process the Council re-stated its medium term financial outlook. The key elements of this outlook are as follows:

- Local Government in Scotland will experience funding cuts (in both cash and real terms) for the remainder of this decade;
- the Council will continue to experience pressure on demand-led services in key areas such as Education and Social Work, due to demographic factors;
- pay and prices inflation will require to be provided for and the updating of grant distribution factors will likely continue to work against the Council; and
- the Westminster Government's intention to withdraw the contracting-out rebate on employers national insurance contributions will add around £4.0 million to the Council's annual pay bill, from 2016-17 onwards.

The Provisional Revenue Budget for 2016-17 is set out below;

	Final Revenue Budget 2015-16 £m	Provisional Revenue Budget 2016-17 £m	Variance £m
Education	119.6	120.4	0.8
Social Work	98.5	99.5	1.0
City Development	55.6	52.4	(3.2)
Environment	19.0	17.7	(1.3)
Chief Executive	18.0	18.1	0.1
Corporate services	24.3	24.7	0.4
Other housing	2.4	1.9	(0.5)
Supporting people	11.6	11.6	-
Capital financing costs	26.7	25.7	(1.0)
Other, including Welfare Reform	18.1	20.9	2.8
<b>Sub-total</b>	<b>393.8</b>	<b>392.8</b>	<b>(1.0)</b>
Less: capital charges	(38.6)	(38.6)	-
<b>Total net revenue budget</b>	<b>355.3</b>	<b>354.3</b>	<b>(1.0)</b>

**Going concern**

The Scottish Government financial settlement for local authorities for 2016-17 has been communicated, which covers the 12 month period of our assessment. Amounts for funding periods after 2016-17 are currently unknown, however, due to the nature of the Council, it is unlikely that no funding would be received from the Scottish Government (although there may be further cuts to 2016-17 funding levels). The Council has previously used the Changing for the Future programme to identify efficiency savings designed to address the falling funding levels from the Scottish Government. This programme is now in its final phase (phase four) with savings becoming more difficult to achieve. Going forward the chief executive is intending to pursue a transformation project with the intention of identifying and delivering efficiency savings.

The Council had net assets of £588.2 million (2014-15 £563.3 million) at the balance sheet date. Although this has increased from 2014-15 by £24.9 million, this is primarily in relation to the decrease in the pension liability (£27.6 million).

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. It considers that the confirmed revenue support grant of £314 million is sufficient to meet debts as they fall due.

The Council recognised a deficit on the provision of services in the year, however, £2.8 million was transferred to the general fund, providing further comfort over the Council's financial position. Over the past few years there has been a reduction in the overall cost base and further efficiency savings are incorporated in budgets.

**Medium term financial planning**

The Council has set out the key aspects of a medium term financial strategy, however, this could be enhanced with the inclusion of financial budgeting. The Council is aware of the increasing need to make savings and provide efficiencies, however there is a risk that future cost pressures are not identified and understood by members in a timely manner as they are not presented with a longer term financial budget.

A three year budget based on current year budget and updated for known changes to income and expenditure would help management to identify and manage future cost pressures. It is normal for such a budget to be appropriately informed by reference to savings plans and changes in operations.

*Recommendation two*

**Conclusion**

Although the Council reported a deficit on the provision of services, performance was ahead of budget in 2015-16 and there was a contribution to reserves. The Council maintained a net assets position in the year.

We are content that the going concern assumption is appropriate for the Council, in light of the matters set out above.

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# **Financial statements and accounting**

#### Audit opinion

Our audit work is complete subject to receipt of management representation letters and update of subsequent events. Following approval of the annual accounts by the Scrutiny Committee we intend to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2016, and of the deficit for the year then ended. We also intend to issue unqualified opinions on the truth and fairness of the state of the Dundee City Council Charitable Trusts' affairs and on the state of the Lord Provost of Dundee Charity Fund's affairs as at 31 March 2016.

There are no matters identified on which we are required to report by exception.

#### Financial reporting framework, legislation and other reporting requirements

The Council is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the Code and relevant legislation.

The Dundee City Council Charitable Trust's financial statement are prepared in accordance with the Charities SORP (FRSSE), and the Lord Provost of Dundee Charity Fund's financial statements are prepared in accordance with the Scottish Charity Regulations. Our audits confirmed that the financial statements have been prepared in accordance with the relevant charity accounting legislation.

#### Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

#### Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

#### Audit misstatements

There have been no audit misstatements identified during the audit.

#### Written representations

There are no changes to the standard representations required for our audit from last year.



#### Materiality

We summarised our approach to materiality in our audit strategy. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant. Group materiality of 1.9% of expenditure was used (£11 million). We report all misstatements greater than £250,000.

#### Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the senior manager - internal audit and reviewed internal audit reports as issued to the scrutiny committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts have been considered;
- reviewed estimates and accounting judgments made by management and considered for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended scrutiny committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

#### Financial statements preparation

High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 4 July 2016. This included the management commentary and annual governance statement.

In advance of our audit fieldwork, we issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. Reflective of the long standing working relationship with the Council, the standard of documentation was very good and there was evidence of accountability and ownership of working papers across the finance department.

#### Significant risks and other focus areas in relation to the audit of financial statement

We summarise below the risks of material misstatement as reported within the audit strategy document. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the scrutiny committee may better understand the process by which we arrived at our audit opinion.

Significant risks:

- management override of controls;
- the Council's financial position; and
- fraudulent income recognition.

and other focus areas of:

- accounting for provisions;
- Transport infrastructure assets; and
- retirement benefits.

We have no changes to the risk or our approach to addressing the assumed ISA risks of fraud in management override of controls and risks of fraudulent revenue recognition. We do not have findings to bring to your attention in relation to these matters. No control overrides were identified.

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Financial position</b></p> <p>With higher demand for services coupled with budget reductions and public reform, financial position is of key importance to local authorities.</p> <p>In 2015-16 the Council recorded an accounting deficit of £26.2 million in the comprehensive income and expenditure account. The net movement on the general fund balance was an increase of £2.8 million, while uncommitted general fund balances increased to £7.0 million. The Council reported an underspend on cost of services against budget of £4.2 million.</p> <p>In benchmarking undertaken by Audit Scotland from analysis of the 2015-16 unaudited financial statements of Scotland's 32 local authorities. Dundee City Council had a movement in the general fund just above the average movement. The Council's carried forward usable revenue reserves as a proportion of revenue position was the third lowest in Scotland. This position has remained constant since the prior year.</p>	<p>We updated our understanding of the Council's financial position and year end outturn position through review of quarterly reports and other management information. We commented on this on pages 6 to 11.</p> <p>We performed controls testing over the budgeting process including the monitoring of budgets throughout the year.</p> <p>We performed substantive procedures, including substantive analytical procedures, over income and expenditure comparing the final position to budget and investigating significant variances.</p>	<p>We found that management is adequately monitoring the financial position through regular internal reporting. This is communicated to members on a regular basis.</p> <p>Management has applied the going concern assumption in preparing the annual accounts. We have considered this assumption on page 11 and concluded that it is appropriate.</p>

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Fraud risk from management override of controls</b></p> <p>Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>■ Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Council.</li> <li>■ Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</li> <li>■ In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries and accounting estimates. We did not identify any significant transactions that were outside the Council's normal course of business, or were otherwise unusual.</li> </ul>	<p>There were no specific circumstances identified which would indicate additional risk of management override of controls.</p>
<p><b>Fraud risk from income recognition</b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p>	<p>Our testing over the recognition of other income comprised:</p> <ul style="list-style-type: none"> <li>■ performing controls testing over budget monitoring. We found controls to be operating effectively;</li> <li>■ comparing income against budget and prior year, and seeking explanations and supporting documentation for unexpected movements;</li> <li>■ performing cut-off testing to verify that income and associated debtors are recorded in the correct accounting period; and</li> <li>■ reviewing pre and post year end bank statements to ensure material items of income are recorded in the correct period.</li> </ul>	<p>We found that controls around income are operating effectively. We are satisfied that income is recognised appropriately, in the correct financial year and in line with the Code.</p>

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Retirement benefits</b></p> <p>The Council accounts for its participation in the Tayside Pension Fund in accordance with IAS 19 Retirement benefits, using a valuation report prepared by actuarial consultants.</p> <p>The Council's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases.</p> <p>IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental.</p>	<p>Our work consisted of:</p> <ul style="list-style-type: none"> <li>■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks, the results of which are outlined on page 40;</li> <li>■ testing of scheme assets and rolled-forward liabilities;</li> <li>■ testing of the level of contributions used by the actuary to those actually paid during the year;</li> <li>■ testing of membership data used by the actuary to data from the Council; and</li> <li>■ agreeing actuarial reports to financial statement disclosures.</li> </ul>	<p>We are satisfied that the retirement benefit obligation:</p> <ul style="list-style-type: none"> <li>■ is correctly stated in the balance sheet as at 31 March 2016;</li> <li>■ has been accounted for and disclosed correctly in line with IAS19 <i>Retirement benefits</i>; and</li> <li>■ assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range.</li> </ul> <p>We set out further information in respect of the defined benefit obligation on page 40. The defined benefit obligation decreased by £27.6 million compared to 31 March 2015, driven by an increase in discount rate (0.3%), and decreases in future salary increases (0.1%).</p>

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Transport infrastructure assets</b></p> <p>The 2016-17 Code will adopt requirements of the Code on transport infrastructure assets (“the transport code”), which requires measurement of these assets on a depreciated replacement cost basis.</p> <p>This will represent a change in accounting policy from 1 April 2016. Local authorities are advised to have implemented a robust project plan through 2015-16 to ensure preparedness for the requirements of the 2016-17 code.</p>	<p>We considered the Council’s plan for the requirements of the transport code, including corresponding with staff from the Tayside Contracts team and reviewing the whole of government accounts (“WGA”) submission. We evaluated the extent to which the Council is prepared for the change in accounting policy.</p>	<p>There is a ‘data management plan’ in place to record data about each group of asset, where the information is stored and how and when it was valued. The Council have a digitised network (polygon) which was established a number of years ago for the “List of Public Roads”. This removes the centre line junction data and therefore is a more accurate measurement.</p> <p>The Society of Chief Officers for Transportation in Scotland’s (SCOTS) is providing information to assist in the process. An ‘asset valuation template’ which all local authorities are using to ensure consistency has been provided.</p> <p>The Council received the transport infrastructure asset valuation in time for the WGA submission.</p> <p>We consider the Council to be generally well prepared with detailed plans in place to ensure they are ready for the requirements of the 2016-17 Code.</p>
<p><b>Provisions</b></p> <p>Whilst the Council does not operate landfill sites or coal mines, Tayside Contracts Joint Committee operates quarries which carry obligations for rectification. Management should review whether appropriate provisions are held for this required expenditure.</p> <p>Following a European Court of Justice ruling in May 2014, employers are required to pay holiday pay to staff at a rate commensurate with any commission or over time that they regularly earn, instead of at their basic pay level. Following legal advice, management has implemented actions to mitigate the impact of the legislation. In common with all impacted employers, the Council will consider if there is a contingent liability that requires disclosure as at 31 March 2016.</p>	<p>We monitored legislative changes on holiday pay and considered the Council’s position.</p> <p>We challenged management’s year end judgments and assessed the provision values. We met with Council employees outside of the finance function to corroborate management’s assertions. We also discussed other risk areas in respect of provisions, such as equal pay, to verify no further provisions are required.</p>	<p>The only contingent liability disclosed is in respect of holiday pay.</p> <p>We reviewed provisions and all categories disclosed appear reasonable. The council tax and bad debt provisions were reviewed and the basis for provision is consistent year on year therefore there is no indication of management bias in setting the provision.</p> <p>A provision is held by Tayside Contracts in respect of reinstatement costs and remedial works. Our testing as auditor of Tayside Contracts concluded that the provisions balance is appropriately stated and the estimate is free from management bias.</p>

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<b>Management commentary</b>	<p>The Local Authority Accounts (Scotland) Regulations 2014 requires the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts.</p> <p>We also review the contents of the management commentary against the guidance contained in the local government finance circular 5/2015. We considered whether the management commentary included relevant information in respect of:</p> <ul style="list-style-type: none"> <li>■ strategy and objectives</li> <li>■ business model</li> <li>■ fair review of the business</li> <li>■ future developments</li> <li>■ key performance indicators</li> <li>■ principal risks and uncertainties</li> </ul>	<p>We are satisfied that the information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and are content with the proposed report.</p> <p>We provided management with some relatively minor suggestions relating to how the management commentary could be enhanced and where additional information disclosures should be made.</p>
<b>Remuneration report</b>	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p> <p>Amendments were required to the draft remuneration report to ensure its consistency with underlying records and presentational changes to ensure that it complied with the Local Authority Accounts (Scotland) Regulations 2014.</p> <p>An issue was found with obtaining exit package approval for one case. The value was found to be correctly recorded in the financial statements, however evidence of approval could not be obtained.</p> <p style="text-align: right;"><i>Recommendation three</i></p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. Some minor presentational adjustments were made as part of the audit.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
<b>Annual governance statement</b>	<p>The statement for 2015-16 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, review of effectiveness, continuous improvement agenda and group entities and analyses the efficiency and effectiveness of these elements of the framework.</p>	<p>Please refer to page 28 for consideration of the Council's governance and transparency arrangements.</p>

### Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the Code. The Code adopted IFRS 13 *Fair Value Measurement* for the first time in 2015-16. This requires surplus assets to be measured at fair value. Surplus assets are identified and valued annually as part of the revaluation exercise. In 2015-16 this resulted in a decrease in the value of surplus assets of £2.3 million as many assets were made available for community asset transfer.

Significant accounting estimates relate to the present value of defined benefit obligations and impairment of non current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Barnett Waddingham using agreed financial assumptions). We found the assumptions and accounting for pensions to be appropriate, as discussed on page 40. Non current asset impairment is calculated using third party valuation reports. We used our internal valuation specialists to assess the assumptions used in these reports. We did not identify indications of management bias.

Financial statement disclosures were considered against requirements of the Code, relevant legislation and IFRS. No departures from these requirements were identified.

### Future accounting and audit developments

From 2016-17 the Code will adopt requirements of the Code on transport infrastructure assets ("the transport code"), which requires measurement of these assets on a depreciated replacement cost basis. This is included as an audit focus area and is discussed in more detail on page 18.

The 2016-17 Code also includes a new requirement for an expenditure and funding analysis, as well as revised formats for the comprehensive income and expenditure statement and movement in reserves statement. The expenditure and funding analysis provides a reconciliation of the statutory adjustments between the financial position on a funding basis and the surplus or deficit on the provision of services. The management commentary should refer to the outturn provided in the expenditure and funding analysis. The comprehensive income and expenditure statement line items have been amended to require authorities to present the service analysis on the basis of the organisational structure under which they operate. Bodies are therefore not required to follow the service expenditure analysis in the *Service expenditure reporting code of practice (SeRCOP)*.

The Charities SORP (FRSSE) has been withdrawn by OSCR for accounting periods beginning on or after 1 January 2016. This is a result of the FRC withdrawing the FRSSE. Amendments have also been made to the Charities Accounts (Scotland) Regulations 2006 to reflect this change. All charities will be required to follow the Charities SORP (FRS 102).

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

#### Group accounts

We compared management's disclosure of group entities against the requirements of the Code. The Council considers that the Common Good Fund, Fleming Trust, and Dundee Energy Recycling Limited are subsidiaries and the Council considers that the Tayside Valuation Joint Board, Dundee City Developments Limited and Leisure and Culture Dundee are associates.

NAME	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Design Dundee Limited (DDL)	DDL is not consolidated in the group accounts. It was established to organise the development and delivery of the V&A Museum and is a company limited by guarantee. The finance team undertook a review of the relationship to ensure it was appropriate not to consolidate. The review showed the Council does not have a material interest in DDL and does not have control with only one of the nine Board members being from the Council. As the entity grows each year the Council will undertake a review each year to consider if it should be consolidated, including consideration of revenue contributions provided to DDL for the operation of the V&A Museum.	We agree with management's classification of subsidiaries and associates in line with the requirements of group accounting standards. The subsidiaries are consolidated within the annual accounts, none of them are material for audit purposes. We agree with management's view that DDL is not part of the Dundee City Council group.
Lord Provost of Dundee and Dundee Council Charitable Trusts	<p>As the trustees of the charities are members of the authority and they are registered with the Office of the Scottish Charity Regulator, an audit is required in line with the <i>Local Government (Scotland) Act 1973</i> (section 106 charities).</p> <p>There were no audit adjustments required to the draft accounts which impacted on the net assets and income and expenditure for the year. A small number of minor numerical and presentational adjustments were required to some of the financial statement notes. We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of the Audit Partner and audit staff. We assessed materiality based on our knowledge and understanding of the charities' risk profiles and annual accounts balances. Materiality was determined at 10% of net assets for both.</p>	The audit of the charities were concluded to be satisfactory.



NAME	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<p>Dundee Integration Joint Board</p>	<p>In March 2014 the Public Bodies (Joint Working) (Scotland) Act was passed by the Scottish Government. This required all Councils and NHS Boards to formally and legally establish integration of health and social care by April 2016. The integration scheme for Dundee City was approved by Scottish Government in September 2015. The IJB was formally established on 3 October 2015.</p> <p>Whilst there was no transfer of functions until 1 April 2016, the IJB was required to prepare financial statements for 2015-16, following the 2015-16 Code. Guidance was issued by The Local Authority (Scotland) Accounts Advisory Committee ("LASAAC") in September 2015 on the expected content of the IJB accounts. The LASAAC guidance states that IJBs should comply with the Local Authority Accounts (Scotland) Regulations 2014, which includes the preparation of a remuneration report. The IJB appointed a Chief Officer in June 2015 and Chief Finance Officer in October 2015. The 2015-16 audit was carried out by KPMG and a separate annual audit report has been produced.</p>	<p>The audit concluded the accounts were presented in line with the required legislation as noted above alongside appropriate disclosures. One audit adjustment was raised and agreed with management in respect of the chief officer's salary being charged to the IJB prior to the establishment date.</p>

**Wider scope**

### Introduction

The Code of Audit Practice frames the wider scope of our audit in terms of four audit dimensions; financial management, financial sustainability, governance and transparency and value for money. At the centre of these dimensions is Best Value.

It remains the responsibility of the audited body to ensure that they have proper arrangements in place across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

During our work on the audit dimensions we have considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code of Audit Practice.

### Audit work and conclusions

We summarise over the next few pages the work we have undertaken in the year to obtain assurances over the arrangements in place for each audit dimension and our conclusions on the effectiveness and appropriateness of these arrangements.

The next page sets out those risks we identified during our audit planning stage, any emerging risks during the course of audit work and our overall conclusion on each audit dimension.

Where we have found arrangements to not be effective or are absent we have provided further narrative on the following pages and recommendations for improvement. Where we have found the arrangements to be generally effective and operating as expected we have identified this in the conclusions we have formed.



#### Financial sustainability (Page 26)

The Council's monitoring against the Changing For The Future efficiency targets identifies that £23 million of savings are needed in 2016-17 to maintain the council tax freeze.

A revenue and capital budget for 2016-21 for general services and HRA was approved in August 2015.

The council has underspent against budget in 2015-16 and has a sufficient level of reserves to support future operations.

Medium to long term financial planning is not presented to Council members.

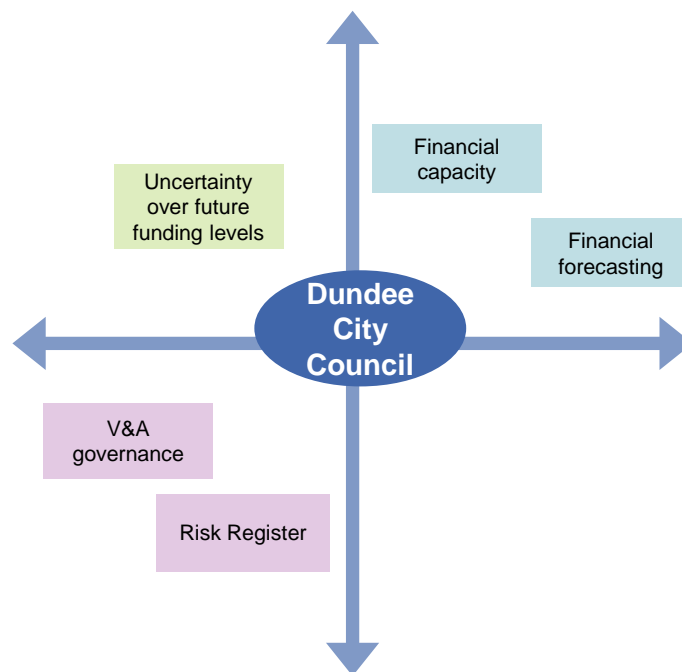
#### Governance and transparency (Page 29)

The Council has well established governance arrangements which ensure effective scrutiny and challenge.

Papers and agendas for meetings are available on the Council website to ensure transparency.

The risk register has not been presented to the scrutiny committee since June 2014 due to the implementation of Covellant. There is a risk this register is out of date. This was one of the recommendations in our interim report.

There are appropriate arrangements in place for collecting, recording, and publishing performance information.



#### Financial management (Page 27)

We consider that the Council's finance team has appropriate resource, although we acknowledge that pressures in respect of the integration of health and social care and further budget pressures are impacting the department.

There is a strong internal control environment and no significant control deficiencies were identified by the audit.

Management is engaged in the NFI process and there are controls in place for the prevention and detection of fraud. Registers of interest were completed for members and senior officers.

#### Value for money (Page 31)

One of the main focuses of value for money is on the procurement department.

The Council has restructured the procurement department in 2015-16 resulting in efficiencies and cost savings from the more centralised structure.

Further savings are expected to materialise going forward and a drive for continuous improvement is evident with a move to all tenders using a National Framework.

The tender evaluation process was reviewed to ensure quality is a key factor as well as cost.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

In considering financial sustainability of the Council we performed the following work:

- *Reviewing the financial position of the Council as at 31 March 2016 and future budgets and forecasts.* The Council has underspent against budget in 2015-16 and there are sufficient reserves to support future operations. Savings are identified on an ongoing basis to avoid overspends supported by the changing for the future programme. We provide further commentary on the financial position on pages six to 12.
- *Reviewing financial forecasting, financial strategies and key risks over financial sustainability.*

There is no long term financial budget information presented to the Council or committees. A medium term financial out look was approved on 11 January 2016 by the policy and resources committee. This sets out some context for the year 2016-17 including the anticipated cuts in the local government grant settlement.

#### *Recommendation two*

Changing For The Future is Dundee City Council's approach to Corporate Improvement. Led by a team in the Chief Executive's Service, the programme has already helped deliver savings and efficiencies of over £50 million since 2010, through projects such as organisational restructure, integration of services, a more corporate approach to asset and fleet management, and establishment of a corporate business support service following a review of back-office services. Phase 4 of the programme is currently focusing on how to best maintain and operate assets, maximise use of new technology, collaborate with other councils and align the workforce to meet the needs of citizens. Alongside Changing For The Future, the STEP programme (Systems Thinking Empowers People) is embedding a systematic approach to employee engagement in service improvement across the Council.

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

Our conclusion on page 25 is derived from the following audit tests, carried out to determine the effectiveness of the financial management arrangements. This included:

- *Assessing the budget setting and monitoring processes within the Council.*

The budget setting and monitoring process demonstrates strong financial management in the short term. Revenue and capital monitoring reports receive appropriate scrutiny by elected members at the Policy and Resources Committee. These detail reasons for budget adjustments and reasons for variances between the adjusted budget and actual position to date. Following an internal audit report the capital monitoring reports have been improved, they now include the total project cost and completion dates, whereas before the report focussed on in year spend only.

- *Consideration of the finance function and financial capacity within the Council*

The S95 officer is the executive director of corporate services, a member of council management team, therefore has appropriate status within the council and access to the chief executive and the council members. The finance function has decreased in size over the past few years. This is in line with the general reduction in the Council's scale over the last few years. Finance function capacity is considered to be appropriate. There are ongoing pressures with the introduction of the IJB and budget pressures however there is no risk identified as this stage.

Financial training was made available to all elected members after the last election in 2012. In addition to this one-off training, personal development plans are being developed for elected members in order to organise training events according to the needs of the elected members. Online training is available to elected members and further training is provided as necessary.

Appropriate challenge and scrutiny of the V&A project demonstrates member's awareness and understanding of financial issues (resulting in the McLelland review).

### National fraud initiative ("NFI")

The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches.

In June 2015, we were asked to complete and submit a questionnaire in regard to the Council's engagement with the NFI 2014/15 exercise at that point in time. In 2015-16 we were asked to follow up the June findings and complete another questionnaire to be returned February 2016.

We submitted a return to Audit Scotland in February 2016, assessing management's participation in the NFI against Audit Scotland criteria. The NFI process has improved since the June 2015 NFI return as a result of internal audit taking the lead on the process and developing an action plan to address identified weaknesses in the process. This was reported in our interim report in June 2016. Overall the arrangements were satisfactory and overall engagement with NFI is good, no exceptions were identified.

**Conclusion:** The Council continues to take steps to improve the NFI Process.

### Prevention and detection of fraud

No material fraud or other irregularities were identified during the year. The arrangements include policies and codes of conduct for staff and board members, supported by a fraud prevention policy and response plan. The Council participates in the national fraud initiative ("NFI") exercise, led by internal audit. We have discussed the Council's involvement in NFI above.

**Conclusion:** The Council has appropriate arrangements to prevent and detect fraud. Internal audit takes an active role in fraud prevention and detection.

### Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The Council has arrangements including policies and codes of conduct for staff and elected members, supported by a whistleblowing policy. Management and members are responsible for setting the 'tone at the top' and are responsible for abiding by the code of conduct and disclosing interests which may be of importance, material or otherwise, to their work at the Council.

**Conclusion:** The Council has appropriate arrangements to prevent and detect fraud. Internal audit takes an active role in fraud prevention and detection.

### Internal controls

Council officers are responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the annual accounts. Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively.

The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work.

As part of our interim audit report, we raised five recommendations in relation to control weaknesses. We provide an update on the progress of implementation of each of these recommendations below:

- Medium term financial strategy; The Council will continue to develop its budget projections and medium term financial strategy in response to the spending review announcements by the UK and Scottish Governments. This will include consideration around preparation and presentation of a three year revenue budget.

- Journals authorisation; This control was overlooked during the absence of the staff member delegated to perform this task. This will now be overseen by the appropriate manager who will review the completed analysis of returns received from accounting staff and monitor the timeous issue and return of the selected sample.
- Risk register; still awaiting implementation
- Northgate administrator access; A review will be completed on the access levels within Northgate V6 System and a separate user profile created for management and systems staff. Regular reviews will also be carried out on the generic user account which will be recorded and monitored by senior officers.
- Civica Financials system revocation; With respect to leavers, the 'Resourcelink' Aurora report relied upon is now produced monthly and the application of this report, and its timeous processing, will be overseen by the appropriate manager.

In addition to the journals authorisation control point noted in our interim report we have also made further recommendations in the action plan at appendix five. These relate to the availability of appropriate journals back up.

### *Recommendation one*

**Conclusion:** Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively.

Since the conclusion of our interim work, there has been positive action towards our recommendations, however opportunities remain to improve processes further.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

In considering governance and transparency we performed the following work:

- *Reviewing the organisational structure, reporting lines and level of scrutiny within the Council.* The Council demonstrates effective scrutiny, challenge and transparency on decision making through various levels of committee reporting reviewed. Decisions are transparent as actions are documented within Council and committee minutes. There is a high level of transparency through the Council's website, which includes minutes and papers for all committee meetings. Committees are balanced between administration and opposition members to ensure adequate expertise, independence and challenge. Where areas for improvement have been identified, these have been included in an action plan which will be reviewed during the next annual review of the Council's arrangements.
- *Reviewing financial and performance reporting within the organisational structure.* Reporting is of high quality, accurate and transparent. Financial reporting is presented to the policy and resource committee, including analysis of both revenue and capital at every second meeting. Reports are sufficiently detailed, giving narrative explanations to key movements from budget. Details of any changes to capital programmes is also given to allow these to be approved. Reports are available to the public online in a timely manner. We have discussed financial management in more detail on page 26. Our assessment of performance reporting is outlined on page 31.
- *Reading the annual governance statement;* as discussed on page 19.
- *Consideration of scrutiny over key risks.* Management is continuing to review risk management arrangements to provide assurance to elected members over the mitigation of identified risks.

The Council's risk management strategic plan was approved by the policy and resources committee in June 2014 and includes a broad description of the Council's risk appetite.

The corporate risk register was updated and approved by the scrutiny committee in June 2014. Following this, the Council introduced the Covalent performance and risk management software. As part of the implementation of the new system, management has reviewed the risk register format which is in the process of being agreed. It is intended that frequent updates of the corporate risk register will be presented to the scrutiny committee once the new format has been agreed.

**Conclusion:** We have updated our understanding of the governance framework and documented this through our overall assessment of the Council's risk and control environment. We consider the governance framework to be appropriate for the Council and that the governance statement is in accordance with guidance and reflects our understanding of the organisation.

#### Statutory performance reporting

The Council has developed a number of key performance indicators ("KPIs") which are guided by criteria from the Accounts Commission as to the performance data that local authorities should be monitoring and reporting. Statutory performance indicator ("SPI") information is reported on the Council's website, and progress is reported to the policy and resources committee on a quarterly basis. Any variances from the previous year of 5% are discussed.

KPMG's 2014-15 SPI report recommended that efforts be made to improve public access to the data. In response, the "Dundee Performs" website now includes an interactive listing of each indicator, with traffic lights indicating decline or improvement, and brief further information on performance against targets including areas for improvement, comparisons with prior years and comparatives with the Scottish average and other Scottish cities.

Overall the Council have adequate procedures in place for collecting and reviewing data and are on track to meet current reporting deadlines. Prior year recommendations regarding improved transparency and accessibility have been actioned.



#### Statutory performance reporting

Included within the internal audit plan each year is a review of the systems for preparation and reporting of performance indicators, to provide assurance over best value. Internal audit considers best value as part of the audit planning process to ensure that this is considered during all internal audit reviews.

**Conclusion:** Our consideration of the work of internal audit, and part of our extended control work, did not indicate high risk findings within these areas. We consider that the Council has adequate processes to ensure best value. However, we recognise that there are a number of criteria to consider within best value and it is inherently judgemental.

### Internal audit

Internal audit is provided by the Council's internal audit department and supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses to management for action.

Audit Scotland's Code of Audit Practice sets out the wider dimension of public sector audit. It requires external auditors to perform an annual assessment of the adequacy of the internal audit function. We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. This included a review of the internal audit charter, reporting lines, independence, objectivity and proficiency and the range of work carried out by internal audit. We also considered the requirements of International Standard on Auditing 610 (*Considering the Work of Internal Audit*).

From this assessment, and considering the requirements of International Standard on Auditing 610 (*Considering the Work of Internal Audit*), we can apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there is no impact on our planned substantive testing.

Internal audit has completed its agreed plan for the year ended 31 March 2016 and the controls assurance statement states that reasonable assurance can be placed on the overall adequacy and effectiveness of Dundee City Council's framework of governance, risk management and control for the year to 31 March 2016.

Internal audit's work during the year is summarised below:

- Agreed plan completed for the year with some slippage due to staffing issues which will be carried forward to 2016-17.
- 24 reviews completed.
- Out of a total of 66 findings, two were categorised as 'critical' risk findings.
- Controls assurance statement provides reasonable assurance on the overall adequacy and effectiveness of the Council's governance framework, risk management and controls.

**Conclusion:** We have concluded that the internal audit service operates in accordance with PSIAS.

We can apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there is no impact on our planned substantive testing

Value for money is concerned with using resources effectively and continually improving services.

### Value for money – procurement

In April 2016 Audit Scotland issued an impact report on the Accounts Commission's performance audit report on Procurement in Councils. This report aimed to assess whether councils were efficiently and effectively managing how they procured goods and services.

The Council identified procurement as a department which would benefit from a process review both from a tactical and strategic perspective to generate savings. The changes have resulted in a move to a more centralised function with a proactive approach.

Previously, services were disparate in their approach to choosing suppliers and there was no control over adding a new supplier. Suppliers are now handled centrally and benefits are achieved through economies of scale. Controls have been introduced over adding a new supplier requiring approval by an authorised individual.

Savings of £280,000 were planned for 2015-16 for the procurement department with £500,000 further savings planned for 2016-17 and 2017-18. For 2015-16 planned savings have been achieved for example by bringing the travel booking service back in house and more cost effective contracts in areas such as asbestos removal which is saving around £100,000 a year.

There is now a requirement for councils to include a community benefits clause where a contract is over £4 million to show how the community will benefit in terms of employment, increased tourism etc. The Council has included a community benefits clause in their large tenders for several years and often includes for values under £4 million.

The department continues to evolve and improve its working practices showing a drive towards continuous improvement and efficiency savings.

We reviewed a recent tender process to assess how best value is considered and what criteria is assessed when choosing a bid. A future contract opportunity was placed on the Public Contracts Scotland website and companies were invited to submit a proposal. The shortlisted parties were then invited to present to the tender panel who did not know the price of each at the time of presenting.

The panel discussed and evaluated the presentations using the Councils standard evaluation matrix which was weighted at 70% quality 30% price in this specific tender. The winning bidder was considered by the panel to show in depth product knowledge and understanding and as a result achieved a high score on quality; with a lower score achieved on price. A unanimous decision to award the contract was taken due to the high quality rating and ability to deliver the necessary product. The proposal to accept was passed to the department budget holder and a report for committee approval prepared.

Throughout the process an independent member of the procurement team guides the panel to ensure they are assessing based on the contract requirements and using the standard scoring system to award the best value bid the contract.

**Conclusion:** The restructure of the procurement team has shown early cost and efficiency savings and a drive for continuous improvement is expected to result in further savings going forward.

The tender process showed a focus on quality as well as price and processes are in place to ensure the best value contract is awarded.

### Following the Public Pound

Auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound ("the FtPP Code"). We considered management's processes to comply with the FtPP Code. The Council presents annually to the Policy and Resources committee to ensure value for money and best practice arrangements are in place in relation to the Council's use of companies, trusts and other arms length bodies.

**Conclusion:** We consider that the Council has appropriate arrangements for monitoring of ALEOs and following the public pound.

# Appendices

# Appendix one

## Appointed auditors responsibilities

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions, Conclude on whether the monitoring arrangements are operating in line with recommended best practice.	Page 28 sets out our conclusion on these arrangements.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements Provide an opinion on the regularity of the expenditure and income ( <i>not required for local government</i> ).	Page 13 summarises the opinions we have provided.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.	Page 19 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report. Page 35 - 36 summarises the grant claims and whole of government returns we have reviewed and reported on.
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Page 13 sets out any notifications we have made to the Auditor General or Controller of Audit.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Page 24 sets out our conclusion on these arrangements.
WGA returns and grant claims	Examine and report on WGA returns Examine and report on approved grant claims and other returns submitted by local authorities.	Pages 35-39 sets out the returns that we have examined during the course of our audit.

# Appendix one

## Appointed auditors responsibilities (continued)

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	Page 24 sets out our conclusion on these arrangements. Page 26 concludes on the bodies participation in the National Fraud Initiative.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Pages 6 to 8 sets out our conclusion on these arrangements.
Financial position	Review performance against targets	Pages 6 and 7 summarise our review of how the body has performed against it's financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Page 6 sets out our conclusion on the bodies financial position including reserves balances. Page 10 sets out our conclusion on the bodies financial strategies and longer term financial sustainability.
Best Value	Be satisfied that proper arrangements have been made for securing Best Value and complied with responsibilities relating to community planning.	Page 31 sets out our conclusion on these arrangements.
Performance information	Review and conclude on the effectiveness and appropriateness of arrangements to prepare and publish performance information in accordance with Accounts Commission directions.	Page 31 sets out our conclusion of the bodies arrangements for performance information.

Return	Description	Conclusion
Whole of Government Accounts	<p>Whole of government accounts (WGA) is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.</p>	<p>The deadline for submission of the WGA pack to auditors is 26 August 2016. This was received on the 17<sup>th</sup> August and our audit is in progress. We will submit our assurance statement by 30<sup>th</sup> September 2016.</p>
Housing Benefit ("HB")	<p>The HB subsidy scheme is the means by which local authorities claim subsidy from the Department for Work and Pensions ("DWP") towards the cost of paying HB in their local areas.</p> <p>Claimants benefits either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority.</p> <p>Monthly instalments of subsidy are made by the DWP on the basis of authorities' estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor.</p>	<p>Audit is in the final stages and we will submit our audited return by 30<sup>th</sup> November 2016.</p>
Education Maintenance Allowance return	<p>Education maintenance allowance ("EMA") is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision.</p> <p>EMA payments comprise a weekly allowance of £30 and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government.</p>	<p>We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return.</p> <p>Audit Scotland highlighted a potential issue regarding back payments processed in the education management information system used by the council (SEEMiS), which could have resulted in some students being underpaid by up to one week. Council officers do not consider this affected any applications in 2015-16. In accordance with instructions from Audit Scotland, no further audit work has been performed in respect of this issue.</p>

# Appendix two

## WGA returns and grant claims (continued)

Return	Description	Conclusion
<p>Criminal Justice Authority return</p>	<p>The delivery of social work services in the criminal justice system is the responsibility of the eight community justice authorities (CJAs) established under the Management of Offenders etc (Scotland) Act 2005. Dundee City Council is the administering authority for the Tayside CJA.</p> <p>Funding is provided by Scottish Ministers and allocated to constituent authorities by CJAs. Constituent authorities are required to submit a financial return to their CJA detailing eligible expenditure incurred in the financial year to enable the CJA to produce a composite return to the Scottish Government.</p>	<p>No issues noted. We intend to submit the audited return by 30 September 2016.</p>
<p>Non Domestic Rates Income ("NDRI") return</p>	<p>NDRI in Scotland is collected by local authorities on an agency basis and notionally placed in a national 'pool', which is then redistributed among authorities based on each authority's estimated collection levels.</p> <p>In April each year, authorities submit an estimate of their expected NDRI following the year end, authorities are required to submit their actual NDRI yield, known as 'the notified amount' in a final return to the Scottish Government.</p>	<p>No issues noted. We intend to submit the audited return by 30 September 2016</p>



To Scrutiny Committee members

#### Assessment of our objectivity and independence as auditor of Dundee City Council (“the Council”)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed.

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

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

#### General procedures to safeguard independence and objectivity

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

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

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

#### Independence and objectivity considerations relating to the provision of non-audit services

##### Summary of fees

We have considered the fees charged by us to the Council for professional services provided by us during the reporting period.

We have detailed the fees charged by us to the Council for significant professional services provided by us during the reporting period in the table below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2016 are:

	Current Year £000	Prior Year £000
Audit of Dundee City Council	386	386
Audit of Integration Joint Board	6	-
<i>Total Audit</i>	392	386
<i>Total non-audit services</i>	-	-
<b>Total Fees</b>	<b>392</b>	<b>386</b>

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Scrutiny Committee.

### Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Partner and audit staff is not impaired.

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

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

**KPMG LLP**

In respect of employee benefits, each of the assumptions used to value the Council's net pension deficit are within an acceptable range of KPMG's expectations.

We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19.

We set out below the assumptions in respect of defined benefit obligations.

Defined benefit pension liability					
2016 £'000	2015 £'000	KPMG comment			
(249,697)	(277,312)	In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.			
		Assumption	Dundee City Council	KPMG central	Comment
		Discount rate (duration dependent)	3.60%	3.46%	Acceptable. The proposed discount rate is higher (lower liabilities) than KPMG's central rate as at 31 March 2016 but lies within a range we would normally consider to be acceptable for IAS19 purposes.
		CPI inflation	RPI less 0.9%	RPI less 1.0%	Acceptable. The proposed CPI in KPMG's best estimate view is that the differential between RPI and CPI is 1% and we are seeing most companies adopt an assumption of around 1% for this differential. The proposed assumption could therefore be considered overly prudent (higher liability). However, the assumption should not be considered in isolation. DCC have increased the difference to 0.9% from 0.8% in 2014/15 which brings it closer to KPMG's central rate.
		Net discount rate (discount rate – CPI)	1.3%	1.25%	Acceptable. The proposed assumptions are within the acceptable range from the KPMG central range.
		Salary growth	RPI + 1.8%	Typically 0% - 1.5% above RPI	Acceptable. The proposed assumption is consistent with last year and is acceptable under IAS19 provided it is in line with the Directors' best estimate view on future remuneration.
The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of around 18 years. The closing deficit decreased by £27.6 million compared to 2014-15, primarily due the increase in the discount rate used (3.3% to 3.6% discount rate).					

The action plan summarises specific recommendations arising from our work, together with related risks and management’s responses.

We present the identified findings across four audit dimensions:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

#### Priority rating for recommendations

**Grade one** (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>1 Journal documentation</b></p> <p><i>Audit dimension: financial management</i></p> <p>Our testing of journal entries found an inconsistent approach to attaching back up to journals in the ledger, with some examples of good practice found alongside examples where no supporting information was available. We found four journal entries for which no back up was available in relation to the year-end process of moving departmental balances to the corporate balance sheet. There is a risk that errors in journal postings could go unnoticed where no supporting information is attached.</p>	<p>Officers posting journals should be reminded to attach back up to the ledger system to show why the journal has been posted. For those which are part of the year end process, a screen-print showing the balance on each department at year end could be attached. This process could be enhanced to include an annual reconciliation to ensure an overall nil effect on the bottom line, to address the risk of a misstatement in the corporate balance sheet due to an error in posting these journals.</p>	<p style="text-align: center;"><b>Grade two</b></p> <p>An instruction will be issued to relevant staff to attach back-up to support the posting and a note to explain the journal. The recommended annual reconciliation will be prepared as part of the year-end processes.</p> <p><b>Responsible officer:</b> Accounting Manager (Financial Systems)</p> <p><b>Implementation date:</b> October 2016 / June 2017</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>2 Financial planning</b>  <i>Audit dimension: financial management</i>		<b>Grade two</b>
<p>The Council estimates it will need to identify further budget savings of around £23m in 2016-17 in order to maintain a Council Tax freeze. The key aspects of a medium term financial strategy have been set out, however, there is a risk that future cost pressures are not identified and understood by members in a timely manner as they are not presented with a longer term budget.</p>	<p>Management should present a three year budget based on current year budget and updated for known changes to income and expenditure to members.</p>	<p>The Council will continue to develop its budget projections and medium term financial strategy in response to the forthcoming spending review announcements by the UK and Scottish Governments.</p> <p><b>Responsible officer:</b> Executive Director of Corporate Services</p> <p><b>Implementation date:</b> February 2017</p>
<b>3 Exit package approval</b>  <i>Audit dimension: governance and transparency</i>		<b>Grade two</b>
<p>On reviewing exit packages as part of our work on the remuneration report we found that the packages and their value had been recorded correctly within the financial statements. However we noticed one instance where there were limited records to evidence appropriate approval in line with the requirements of the Council's severance policy. We have confirmed with management that the package was approved.</p>	<p>For all exit packages a clear audit trail should be kept from calculation through to final approval.</p>	<p>A complete audit trail will be maintained for all exit packages.</p> <p><b>Responsible officer:</b> Executive Director of Corporate Services</p> <p><b>Implementation date:</b> Immediate</p>

We follow up prior year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2014-15 audit and their current status.

Grade	Number recommendations raised	Implemented	In progress	Overdue
One	0	0	0	0
Two	3	0	3	0
Three	2	2	0	0

We have provided a summary of progress against overdue actions below, and their current progress.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
<b>1 Design Dundee Limited</b> <i>Risk dimension: Governance</i>			<b>Grade two</b>
<p>Once the V&amp;A museum is operational, DDL will be responsible for running the museum and the Council will own the asset. DDL will pay the Council a peppercorn rent for its use and the Council will make revenue contributions to DDL in respect of running costs.</p> <p>We understand that while expected Council running cost and in-kind contributions have been approved, the management agreement, lease agreement and development agreement are currently in advanced draft form and should be agreed with partners shortly.</p> <p>There is a risk that agreements are not finalised in an appropriate timeframe or do meet the Council's needs.</p>	<p>The remaining draft agreements should be finalised, approved by relevant committee where appropriate and subsequently concluded with partners as soon as possible.</p>	<p>The draft agreements are currently being finalised and will be reported to the relevant committee at an early date.</p> <p><b>Responsible officer:</b> Executive Director of Corporate Services</p> <p><b>Implementation date:</b> 31 December 2015</p>	<p>Ongoing</p> <p>The funding package has been agreed by the Council but there is, as yet, no agreement in place between the two parties. This agreement is currently in draft form.</p>

# Appendix six

## Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
<b>2 Design Dundee Limited</b> <i>Risk dimension: Governance</i>			<b>Grade three</b>
<p>DDL has nine directors, one of which is a representative of the Council. The Council does not make a contribution to DDL. As such the Council does not consider that it exercises 'joint control' or 'significant influence' and does not consider DDL to be part of the group.</p>	<p>Although this is reflective of the current position, management should monitor this in advance of the preparation of the 2015-16 financial statements and regularly thereafter to determine whether DDL should be consolidated as part of the Council's group accounts.</p>	<p>The status of DDL will be considered again as part of the preparations for the 2015/16 accounts and monitored on an ongoing basis thereafter.</p> <p><b>Responsible officer:</b> Executive Director of Corporate Services</p> <p><b>Implementation date:</b> 31 March 2016</p>	<p>Complete</p> <p>The status of DDL had been reviewed as part of the accounts preparation and will continue to be monitored in the following year.</p>
<b>3 Financial planning</b> <i>Risk dimension: Business</i>			<b>Grade two</b>
<p>The Council estimates it will need to identify further budget savings of around £22.7m over the two year period 2016-18 in order to maintain a Council Tax freeze. The key aspects of a medium term financial strategy have been set out, however, there is a risk that future cost pressures are not identified and understood by members in a timely manner as they are not presented with a longer term budget.</p>	<p>Management should consider presenting a three year budget based on current year budget and updated for known changes to income and expenditure to members.</p>	<p>The Council will continue to develop its budget projections and medium term financial strategy in response to the forthcoming spending review announcements by the UK and Scottish Governments.</p> <p><b>Responsible officer:</b> Executive Director of Corporate Services</p> <p><b>Implementation date:</b> February 2016</p>	<p>Ongoing</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
<b>4 Whole of government accounts – transport infrastructure assets</b> <i>Risk dimension: financial statements</i>			<b>Grade three</b>
<p>Management completed the whole of government accounts (“WGA”) data collection tool (“DCT”) slightly later than the deadline for submission to auditors on 24 July 2015. The DCT contains an optional tab for transport infrastructure assets to help local authorities prepare a depreciated replacement cost valuation in line with the transport code. The transport infrastructure assets tab was not completed on the unaudited DCT, however management plan to include this within the financial submission.</p> <p>There is a risk that management will not have the depreciated replacement cost figures for transport infrastructure assets as at 1 April 2015 to allow for a restatement of the 2015-16 balance sheet in line with the requirements of the Code.</p>	<p>Management should ensure the transport infrastructure assets tab of the DCT is completed prior to final submission. Going forward, this should be included in the first submission.</p>	<p>This data will be completed and returned in the final 2014/15 WGA submission.</p> <p><b>Responsible officer:</b> Finance Manager (Corporate)</p> <p><b>Implementation date:</b> 30 September 2015</p> <p>Future arrangements will be considered through the Final Accounts Working Group and the interdepartmental working group that has been formed to implement the requirements of the CIPFA Transport Infrastructure Assets Code.</p> <p><b>Responsible officer:</b> Finance Manager (Corporate)</p> <p><b>Implementation date:</b> 31 March 2016</p>	<p>Complete</p> <p>The DCT was provided in advance of the deadline of 26<sup>th</sup> August 2016 and included the optional tab with information on transport infrastructure assets.</p>



# Appendix six

## Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
<b>5 National fraud initiative</b> <i>Risk dimension: Governance</i>			<b>Grade two</b>
<p>We completed a return to Audit Scotland in June 2015 to review the Council's participation. This resulted in a red grading.</p> <p>The Council did not submit the datasets by the required deadline and some datasets had not been opened or considered by relevant officer; as a result at least 70% of recommended matches had not been considered.</p> <p>Council resources were not focussed on high quality recommended matches resulting in inefficient investigations.</p> <p>The scrutiny committee has not been provided with an update on the council's NFI progress.</p>	<p>We note that the council has introduced a new process for NFI from June 2015 whereby the chief internal auditor is now the line manager of the NFI key contact and is responsible for promoting the NFI process.</p> <p>As part of the new processes management should:</p> <ul style="list-style-type: none"> <li>■ ensure all datasets are submitted by the required deadlines;</li> <li>■ improve the efficiency of the NFI process by focussing on recommended matches from high quality data sets; and</li> <li>■ update the scrutiny committee regularly on progress made in the NFI process.</li> </ul>	<p>To enhance the robustness of the NFI process the improvements contained in the recommendations are in the process of being progressed. As part of this exercise a reporting regime for the Scrutiny Committee in respect of NFI matters will be put in place.</p> <p><b>Responsible officer:</b> Chief Internal Auditor</p> <p><b>Implementation date:</b> 31 December 2016</p>	<p>Ongoing</p>



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