

REPORT TO: SCRUTINY COMMITTEE – 26 SEPTEMBER 2018

REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S ANNUAL AUDIT REPORT TO MEMBERS OF DUNDEE CITY COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR TO 31 MARCH 2018

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 309-2018

1 PURPOSE OF REPORT

This report is a response to the report prepared by the Council's external auditor on the audit of Dundee City Council for the year to 31 March 2018. A copy of the draft external auditor's report (Report No 308-2018), the draft 2017/2018 Audited Annual Accounts for the City Council (Report No 305-2018), the draft 2017/2018 Audited Dundee City Council Charitable Trusts Annual Accounts (Report No 306-2018), the draft 2017/2018 Audited Lord Provost of Dundee Charity Fund Annual Accounts (Report No 307-2018) and the draft 2017/2018 Audited Dundee Trust Annual Accounts (Report No 310-2018) are also included on the agenda as separate items.

2 RECOMMENDATIONS

It is recommended that the Committee:

- i notes the contents of the draft external auditor's report including the completed action plan at Appendix 1, and in particular that Audit Scotland have indicated they will issue an unqualified audit opinion on each of the 2017/2018 Annual Accounts noted above.
- ii endorses this report as the Council's formal response to the external auditor's report
- iii instruct the Executive Director of Corporate Services to arrange for each of the Audited Annual Accounts noted above to be signed and then returned to the external auditor
- v instruct the Executive Director of Corporate Services thereafter to arrange for the above Annual Accounts, including copies of all audit certificates and accounts of the Council's subsidiary bodies to be published on the Council's website by no later than 31 October 2018
- vi notes that the external auditor's report will also be considered by the Policy & Resources Committee in due course, together with each of the Audited Annual Accounts noted above

3 FINANCIAL IMPLICATIONS

The Council's draft 2017/2018 Audited Annual Accounts show a closing General Fund balance of £13.846m at 31 March 2018. Within this overall total it is estimated that £7.0m is uncommitted. This equates to 2.1% of annual budgeted net expenditure. These figures are unchanged from the position reported in the 2017/2018 Unaudited Annual Accounts, as submitted to Scrutiny Committee on 27 June 2018.

4 MAIN TEXT

4.1 Introduction

External audit is one of the key methods by which the activities and performance of local government are independently scrutinised and reported upon. The external audit of Dundee City Council for the financial year 2017/2018 was carried out by Mrs Fiona Mitchell-Knight,

Assistant Director (Audit Services), Audit Scotland. Local authority external auditors are appointed for a five year period and the financial year 2017/2018 marked the second year of Audit Scotland's current appointment.

- 4.2 The 2017/2018 unaudited Annual Accounts were submitted to Scrutiny Committee earlier this year (Article XI of the Minute of Meeting of the Scrutiny Committee 27 June 2018, Report No: 226-2018 refers). The accounts were submitted to Audit Scotland, prior to the required statutory deadline of 30 June 2018. The accounts have since been subject to a three week statutory public inspection period and no objections were received.
- 4.3 External Auditor's Report
Audit Scotland have now completed their audit work and, in accordance with auditing standards (ISA 260: Communication with those charged with governance), are required to report the outcome of their work in relation to their review of the financial statements, prior to formally issuing their audit opinions. This requirement has been addressed in the External Auditor's report.
- 4.4 The report summarises the findings in relation to the overall audit of the Council for the year ended 31 March 2018. The attached report describes the scope of audit work undertaken during 2017/2018 and the issues arising from that work are divided into five key area looking at
- audit of 2017/18 annual report and accounts
 - financial management
 - financial sustainability
 - governance and transparency
 - best value
- 4.5 In addition to the elected members of Dundee City Council, the external auditor's report is also addressed to the Controller of Audit at the Accounts Commission for Scotland. Given this wider audience, and the extent of the external auditor's responsibilities and scope of work, the report is by necessity both fulsome and extensive. It contains much information that has already been reported to the relevant committees of Dundee City Council. Further to this, external audit reports issued previously already include agreed management action plans that are the subject of separate consideration by the Scrutiny Committee. Accordingly, it is not the intention in this report to provide a detailed response or commentary on all of the external auditor's findings.
- 4.6 Audit Adjustments
Through the audit process, two technical adjustments to the figures in the financial statements were identified. These related to an error in the pension scheme valuation figures and to the incorrect treatment of a debt rescheduling premium. Further details are provided in Exhibit 5 on page 10 of the external auditor's report. Whilst the sums involved were significant, it is emphasised that neither adjustment impacted on the Council's General Fund balance or on the Council's usable reserves generally.
- 4.7 Action Plan
The external auditor has made only one recommendation arising from the 2017/2018 audit that requires further action by the Council. This recommendation has been considered carefully by the Chief Executive and Executive Director of Corporate Services and the completed action plan, incorporating the "agreed management action/timing", is included at Appendix 1 to the external auditor's report. The progress on implementing this agreed action point will be monitored through the Council's established procedures for dealing with external audit reports and reviewing previously agreed action plans. Appendix 1 to the external auditor's report also includes one revised action plan point arising from the auditor's follow-up review of recommendations made in the 2016/2017 Annual Audit Report.

4.8 Conclusions

The external auditor has undertaken a thorough and wide-ranging review of the financial statements and the processes and procedures around their preparation. The report identified no unadjusted misstatements that exceeded the reporting threshold. In addition to the audit of the accounts, the external auditor examined a number of areas covering a wide range of activities during 2017/2018.

Whilst some adjustments were required to the unaudited accounts and some areas for improvement have been identified, it is pleasing to note that the overall findings and conclusions are satisfactory. In particular, the Council can take encouragement from the following findings:

- the accounts were submitted ahead of deadline and unqualified audit opinions will be issued
- the working papers provided with the unaudited report and accounts were of a high standard and finance staff provided good support during the audit
- the external auditor did not identify any significant internal control weaknesses
- effective governance arrangements are in place that support the scrutiny of decisions made by the Council
- the Council is open and transparent in the way that it conducts its business
- performance information shows maintained or improving performance in 2017/18 in 83% of the LGBF indicators
- there is only one recommendation arising from the 2017/2018 audit that requires further action by the Council

4.9 The Way Ahead

Following the approval of the accounts for signature, the relevant statements of the Annual Accounts will be signed and dated by the appropriate officers and then returned to the external auditor. In line with statutory requirements, copies of the Annual Accounts together with the audit certificate and accounts of the Council's subsidiary bodies will then be published on the Council's website by no later than 31 October 2018.

A copy of the final external audit report together with the Audited Annual Accounts will be also be submitted to the Policy & Resources Committee in due course.

5 **POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of sustainability, strategic environmental assessment, anti-poverty, equality impact assessment and risk management. There are no major issues.

6 **CONSULTATIONS**

The Council Management Team have been consulted on the content of this report.

7 **BACKGROUND PAPERS**

Audit Scotland: Proposed 2017/18 Annual Audit Report to Members of Dundee City Council and the Controller of Audit

GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

19 SEPTEMBER 2018

