

REPORT TO: SCRUTINY COMMITTEE – 24 SEPTEMBER 2014

REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S ANNUAL AUDIT REPORT TO THE MEMBERS OF DUNDEE CITY COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR TO 31 MARCH 2014

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 367-2014

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 2014. A copy of the draft external auditor's report (Report No 366-2014), the draft 2013/2014 Audited Statement of Accounts for the City Council (Report No 363-2014), the draft 2013/2014 Audited Dundee City Council Charitable Trusts Accounts (Report No 364-2014) and the draft 2013/2014 Audited Lord Provost of Dundee Charity Fund Accounts (Report No 365-2014) 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, and in particular that KPMG LLP have indicated they will issue an unqualified audit opinion on each of the 2013/2014 Statements of Accounts noted above
- ii instructs the Director of Corporate Services to arrange for each of the Audited Statement of Accounts noted above to be signed as necessary
- iii notes the completed action plan at appendix 3 to the external auditor's report
- iv endorses this report as the Council's formal response to the external auditor's report
- v notes that the external auditor's report will be considered by the Policy & Resources Committee in due course, together with each of the Audited Statement of Accounts noted above.

3 FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

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 2013/2014 was carried out by Mr David Watt, Director, KPMG LLP. Local authority external auditors are appointed for a five year period and the financial year 2013/2014 marked the third year of KPMG's appointment.

- 4.2 The 2013/2014 unaudited Statements of Accounts were circulated to elected members and to KPMG on 30 June 2014, in line with the required statutory deadline. 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

KPMG 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 attached report.

4.4 The report summarises the findings in relation to the overall audit of the Council for the year ended 31 March 2014. The attached report describes the scope of audit work undertaken during 2013/2014 and the issues arising from that work and is divided into the following four key areas:

- strategic overview and use of resources
- financial statements and accounting
- governance and narrative reporting
- performance management

4.5 For the first time, the external auditor's report also details the outcome of the audit of the Dundee City Council Charitable Trusts Accounts and the Lord Provost of Dundee Charity Fund Accounts for the year ended 31 March 2014.

4.6 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, his 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, the external auditor's 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.

4.7 Action Plan

The external auditor has identified three key issues arising from his 2013/2014 audit that he considers require further action by the Council. These relate to:

- 1 Financial Strategy
- 2 Capital Budget Monitoring
- 3 Local Authority Accounts (Scotland) Regulations 2014

These matters have been considered carefully by the Chief Executive and Director of Corporate Services and the completed action plan, incorporating the "agreed management actions", is appended to the external auditor's report. The progress on implementing these agreed action points will be monitored through the Council's established procedures for dealing with external audit reports and reviewing previously agreed action plans. It should be noted that all of the above items have been classified by the external auditor as grade three i.e. "minor".

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. Whilst some minor presentational changes were agreed to the 2013/2014 financial statements following the audit, there were no specific issues that required to be reported to members or further action by the Council.

In addition to the audit of the accounts, the external auditor examined a number of areas covering a wide range of activities during 2013/2014. Whilst 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 again submitted on time and there was no qualification to the external auditor's opinions
- working papers relating to the statements of accounts were deemed to be of a 'high-quality' standard
- all supporting documentation was provided to external auditor on a timely basis and audit queries were answered promptly
- all accounting policies have been applied appropriately and consistently in the financial statements
- arrangements for best value and performance management continue to be well established
- financial management is considered to be strong with a continual focus on the anticipated outturn forecast
- the new 'corporate fraud and corruption policy' that was introduced during 2013/2014 demonstrates good practice in the prevention and detection of fraud
- the Council has improved its risk management process following the approval of an updated strategic risk register during the year
- the updated assurance and improvement plan recognised the Council's ongoing commitment to continuous improvement and self-evaluation

4.9 The Way Ahead

The audit of the 2013/2014 financial statements can now be concluded by the signing of Audited Statements of Accounts. In line with statutory requirements, once the external auditor's opinions have been formally issued, the final audit report together with the Audited Statements of Accounts will be submitted to the Policy & Resources Committee in due course, and made available to the wider public thereafter.

5 **POLICY IMPLICATIONS**

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

6 **CONSULTATIONS**

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

7 **BACKGROUND PAPERS**

KPMG: Draft Annual Audit Report to the Members of Dundee City Council and the Controller of Audit – Year Ended 31 March 2014

MARJORY M STEWART
DIRECTOR OF CORPORATE SERVICES

22 SEPTEMBER 2014