

# Dundee City Council

## 2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the members of Dundee City Council and the Controller of Audit

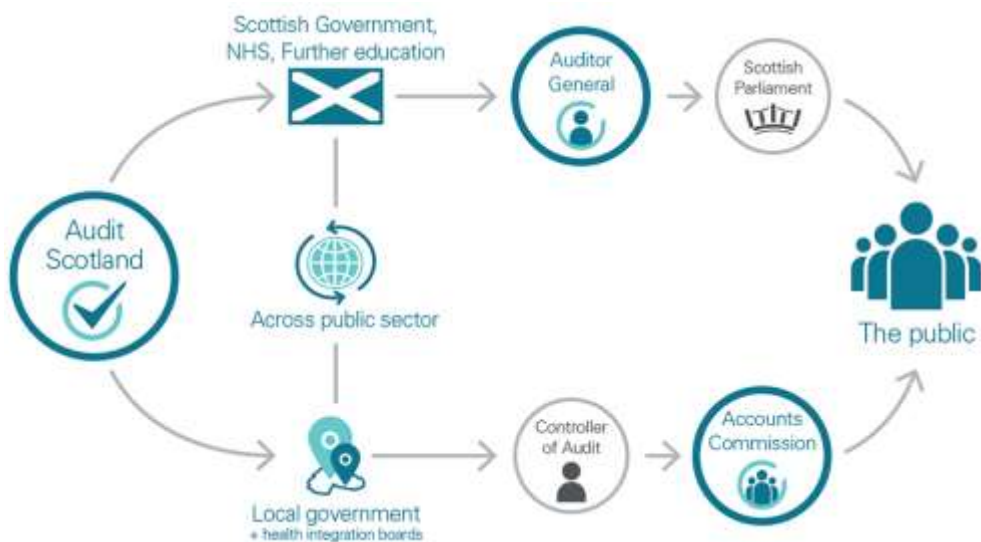
25 September 2019



## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.



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# Key messages

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## 2018/19 annual accounts

- 1 The financial statements of Dundee City Council and its group give a true and fair view of the financial position for the year ended 31 March 2019.
- 2 The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.
- 3 The statement of accounts of the three section 106 charities administered by the council are free from material misstatement.

## Financial management

- 4 Financial management is effective with a budget process focussed on the council's priorities.
- 5 Overall the council has delivered services within budget. However, the City Development Service overspent by £2.767 million in 2018/19 and an overspend of £3.564 million is currently projected for 2019/20.
- 6 Systems of internal control operated effectively in 2018/19 although there was scope for improvements in some areas.

## Financial sustainability

- 7 The financial position of the council and its group is sustainable in the short term but a deficit of £2.809 million is currently forecast which will need to be funded from increased savings or reserves.
- 8 The council's usable reserves are in line with the reserves policy approved in its long-term financial strategy. However, the council's reserves remain low, as a proportion of revenue expenditure and could be reduced further in 2019/20. The council is keeping the level of reserves under review.
- 9 The council has made good progress in financial planning with the introduction of a long-term financial strategy. Future financial plans are challenging but the council is well placed to address projected funding gaps.
- 10 The success of the C2022 transformation programme will be critical to achieving financial balance and improving the council's services.

## Governance and transparency

- 11 Governance arrangements operated effectively during the year.
- 12 The committee structure is "unusual" in that all elected members are members of all committees (except the scrutiny and licensing committees). Officers and elected members feel the structure works well for the council and supports elected members to make informed

decisions. The downside of this structure is that meetings can be lengthy.

- 13** The council demonstrates a commitment to transparency in the way it conducts its business.

## **Best Value**

- 14** Although service performance is improving, the pace of improvement is deteriorating over time.
- 15** Improvements are still being made to the council's performance management framework and it is too early to assess the impact of the new framework on the outcome for customers and citizens. This will be considered as part of our Best Value Audit Review (BVAR) in 2020.
- 16** The council is continuing to improve its public performance reporting with six monthly reporting on performance to the Policy and Resources Committee and Scrutiny Committee to be introduced from November 2019 and December 2019 respectively.
- 17** The council is currently developing its service planning arrangements to link to the performance management framework approved in August 2018. This is scheduled to be complete by December 2019.



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# Introduction

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1. This report summarises the findings arising from the 2018/19 audit of Dundee City Council and its group (the council).
2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 17 April 2019 meeting of the Scrutiny Committee. This report comprises the findings from:
  - an audit of the annual report and accounts
  - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in Exhibit 1.

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2018/19 have been:
  - an audit of the council and its group 2018/19 annual report and accounts and the statement of accounts of the three section 106 charities administered by the council including the issue of independent auditor's reports setting out our opinions
  - a review of the council's key financial systems
  - audit work covering the council's arrangements for securing Best Value relating to the use of resources
  - consideration of the four audit dimensions.

## Added value through the audit

4. We add value to the council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

7. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements
- the suitability and effectiveness of corporate governance arrangements and the financial position
- the arrangements for securing financial sustainability
- Best Value arrangements.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

11. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

12. Our Annual Audit Report contains an agreed action plan at Appendix 1, setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

**13.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £349,000 for the council and £4,690 for the registered charities as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**14.** This report is addressed to both the elected members of the council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**15.** We would like to thank all management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual accounts



### Main judgements

**The financial statements of Dundee City Council and its group give a true and fair view of the financial position for the year ended 31 March 2019.**

**The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.**

**The statement of accounts of the three section 106 charities administered by the council are free from material misstatement.**

The annual accounts of the council and its group are the principal means of accounting for the stewardship of resources and performance in the use of resources.

### Audit opinions on the annual accounts

**16.** The annual accounts for the council and its group for the year ended 31 March 2019 were approved by the Scrutiny Committee on 25 September 2019. We reported within the independent auditor's report that the:

- financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

**17.** We have nothing to report in respect of misstatements in the 'information other than the financial statements', the adequacy of accounting records and the adequacy of information and explanations we received.

### Submission of the council and its group annual accounts for audit

**18.** We received the unaudited annual accounts on 28 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan.

**19.** The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

### Risk of material misstatement

**20.** Appendix 2 provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

21. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

## Materiality

22. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

23. Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively, in forming our opinions on the financial statements.

24. On receipt of the annual report and accounts we reviewed our materiality calculations. Our final materiality levels are summarised at Exhibit 2.

## Exhibit 2 Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure used in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2019.	£7.47 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of overall materiality.	£4.48 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. We consider that an appropriate figure of interest to elected members would be £150,000.	£150,000

Source: Audit Scotland

## Significant findings from the audit in accordance with ISA 260

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

26. The qualitative aspects of the council's accounting practices, accounting policies, accounting estimates and financial statements disclosures are satisfactory and appropriate to the council.

27. The significant findings are summarised in Exhibit 3.

## Exhibit 3

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Pension Liability – Court judgements</b></p> <p>The impact of two distinct Court judgements affecting the accounts of UK local government bodies, became apparent during 2019. The judgements impact adversely on the council's pension liability. We have summarised the issues in more detail at paragraphs 28 to 36 below.</p>	<p>The accounts have been amended to include an unquantified contingent liability for one of the Court judgements. For the other, management has amended the audited accounts, the impact of which is to reduce net assets and unusable reserves by £8.614 million. The amendment has no impact on the general fund balance.</p>
<p><b>2. Pension Liability – disclosure</b></p> <p>The council did not separately disclose the pension liability on the face of the balance sheet, in line with the Accounting Code of Practice. This has been adjusted on the Balance Sheet and in the respective notes.</p>	<p>The audited accounts have been amended. This issue had no impact on the general fund balance or the council's net assets.</p>
<p><b>3. Movement in Reserves Statement</b></p> <p>The council included funding of capital expenditure from the Capital Fund and the Capital Grants &amp; Receipts Unapplied account of £4.195 million as transfers from Earmarked Reserves. This balance should be recognised within Adjustments Between Accounting Basis &amp; Funding Basis Under Regulations.</p>	<p>The audited accounts have been amended. This issue had no impact on the general fund balance or the council's net assets.</p>
<p><b>4. Budget delegated to Dundee City Integration Joint Board</b></p> <p>The council consolidated the results of Dundee City Integration Joint Board (the IJB) into the unaudited annual accounts, based on draft information provided by the IJB. These results were subsequently updated by the IJB but the council's consolidated accounts were not updated for these revisions. This resulted in the requirement for the following amendments:</p> <ul style="list-style-type: none"> <li>• the gross income and gross expenditure in the Comprehensive Income and Expenditure Statement were both understated by £3.63 million</li> <li>• short-term debtors and short-term creditors in the balance sheet were overstated by £1.837 million</li> <li>• the group accounts gross income and gross expenditure were overstated by £7.791 million relating to the removal of intra group transactions.</li> </ul>	<p>The audited accounts have been amended. The issue had no impact on the general fund balance or net assets.</p>
<p><b>5. Housing Revenue voids</b></p> <p>The Housing (Scotland) Act 1987 states that each year a local authority shall debit to the housing revenue account, amounts equal to the arrears of rent which have been written off in that year as irrecoverable, and the income receivable from any houses to which the account relates during any</p>	<p>The audited accounts have been amended. The issue had no impact on the general fund balance or net assets.</p>

Issue	Resolution
<p>period in that year when they were not let. The council has netted off void rents of £0.895 million in the Housing Revenue Account therefore housing rents and impairments are understated by these amounts.</p>	
<p>Source: Audit Scotland</p>	

## Amendments to the unaudited annual accounts arising from legal judgements and revised guidance

### Pension liability

#### Age discrimination on pension scheme transitional protection

**28.** In March 2011 the Independent Public Services Pension Commission published a review of Public Sector Pensions, the Hutton Report. It recommended wholesale public sector pension reform in order to place public sector pensions on a more sustainable footing. The Government largely accepted the recommendations of that report and enacted pension reforms through the Public Service Pensions Act 2013. The main changes were: pensions are now based on career average rather than final salary; retirement ages are now aligned with state pension eligibility age; rates of the annual accrual of pension benefits are changed.

**29.** The reforms included transitional protection for scheme members approaching retirement age. In December 2018, the Court of Appeal ruled that the transitional protection provided to some members of the judiciary and fire fighters schemes amounted to unlawful age discrimination. On 28 June this year, the judgement was upheld by the Supreme Court. Although this (McCloud) case related to specific schemes the principle applies to other public sector groups that have experienced similar changes to their pension schemes.

**30.** Dundee City Council is a member of the Tayside Pension Fund. The Fund's actuaries, Barnett Waddingham, estimated that the impact of the McCloud judgement on the pension liability of the council was to increase the liability by £8.614 million from £154.779 million to £163.393 million. This increase is offset by an equivalent change in the pension reserve.

**31.** These additional liabilities relate to past service costs which also resulted in an increase of £8.614 million expenditure in the Comprehensive Income & Expenditure Statement. This adjustment has no impact on the general fund balance as it is reversed in the Movement in Reserves Statement in the Adjustments Between Accounting Basis & Funding Basis Under Regulations. This issue also impacts on the Group Accounts.

**32.** Officers have concluded that the adjustment is material and have adjusted the annual accounts for this matter.

#### Sex discrimination on guaranteed minimum pension (GMP) rights

**33.** Contracting out of the state earnings related pension scheme (SERPS) became possible in April 1978. This provided for reduced employer and employee National Insurance contributions in return for members receiving a guaranteed minimum pension (GMP) from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they built up at different rates, reflecting the earlier payment age for women.

**34.** In October 2018 the High Court (England) held that pension schemes must eliminate the discriminatory effects of GMPs. The Court's judgement is applicable

across all UK public sector defined benefit pension schemes. The issue is a long standing one and the many complexities of dealing with it have meant that there is no agreed solution to calculating the liabilities of pension schemes. However, an interim method of calculating costs in respect of persons retiring between April 2016 and April 2021 has been agreed by HM Treasury.

**35.** Barnett Waddingham advised that no adjustment was required to the pension figures at this time for GMP highlighting:

*“Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA (State Pension Age) by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome”.*

**36.** As a result, the council amended the annual accounts to disclose an unquantified contingent liability reflecting the potential liability arising from the GMP decision.

## How we evaluate misstatements

**37.** It is our responsibility to request that all misstatements above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

**38.** All material adjustments to the unaudited financial statements arising from our audit have been made and are reported at Exhibits 3 and 5 in this report. The impact of the amendments is to reduce net assets and unusable reserves by £8.614 million. The amendments have no impact on the general fund balance.

## Audit opinions on section 106 charities

**39.** Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where elected members of Dundee City Council are sole trustees, irrespective of the size of the charity.

**40.** The council administers three charities registered under section 106, Dundee City Council Charitable Trusts, the Dundee Trust and the Lord Provost of Dundee Charity Fund. The Dundee City Council Charitable Trusts' annual accounts are prepared on an accruals basis, while both the Dundee Trust and the Lord Provost of Dundee Charity Fund are prepared on a receipts and payment basis.

**41.** We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in the independent auditor's reports that:

- the financial statements give a true and fair view (or properly present for receipts and payments basis) of each section 106 charity's financial position and are properly prepared in accordance with charities legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

**42.** We set separate materiality levels for the audits of the charities' accounts. On receipt of the charities' accounts we reviewed our materiality calculations. Our final materiality levels are summarised in Exhibit 4 below.



## Exhibit 4

### Trust materiality levels

Trust	Planning materiality *	Performance materiality **	Lower performance materiality ***	Reporting threshold
Dundee City Council Charitable Trusts	£113,000	£85,000	£700	£6,000
Lord Provost Charity Fund	£957	£718	£100	£100
Dundee Trust	£1,400	£1,050	n/a ****	£100

\* planning materiality based on 2% of the net asset value

\*\* higher performance materiality based on net asset value.

\*\*\* lower performance materiality based on gross revenue expenditure.


\*\*\*\* Dundee Trust expenditure in 2018/19 equates to the net assets therefore no lower performance materiality required.

43. Significant findings from our audit of the three section 106 Charitable Trusts are summarised in Exhibit 5. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

## Exhibit 5

### Significant findings from the audit of the section 106 Charitable Trusts financial statements

Issue	Resolution
<p><b>1. Removal of cottage (Dundee City Council Charitable Trusts)</b></p> <p>The Trust removed a cottage in the Camperdown Estate Trust from its accounts and recognised Other Recognised Losses in the Statement of Financial Activities of £112,500. This resulted in a reduction in Tangible Fixed Assets of £112,500 matched by a reduction in the Revaluation Reserve.</p> <p>This removal of the cottage was incorrect as the property was still held by the Trust. A revaluation of the property as at 31 March 2019 indicates a value of £157,000 for this property. The Camperdown Estate Trust Net Movement on Funds is therefore understated by £157,000 with an equivalent understatement of the Tangible Fixed Assets and Revaluation Reserve.</p>	<p>The audited accounts have been amended.</p>
<p><b>2. Depreciation (Dundee City Council Charitable Trusts)</b></p> <p>Dundee City Council Charitable Trusts have not depreciated its tangible fixed assets. We were advised that this is because tangible fixed assets are revalued each year and therefore depreciation is not required. In our view depreciation should be charged in accordance with accepted accounting practices and any difference between the</p>	<p>The audited accounts have not been adjusted in 2018/19. Management consider that a relatively small proportion of the asset base would be subject to depreciation but has committed to undertaking an exercise for 2019/20 to review the asset base with a view of calculating depreciation going forward.</p>

Issue	Resolution
depreciated value and the revaluation amount recognised in a revaluation reserve. We also note that certain assets e.g. infrastructure assets are valued at depreciated historical costs and are therefore not subject to regular revaluation.	 Recommendation 4 (refer <a href="#">appendix 1</a> , action plan)

Source: Audit Scotland

## Other findings

**44.** Our audit identified some presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts

## Objections

**45.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations. There were no objections to the accounts.

## Whole of Government Accounts

**46.** The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted its consolidation pack for audit on 25 July 2019. We will complete the audit of the return and submit it to the Scottish Government by the due date of 28 September 2019.

# Part 2

## Financial management



### Main judgements

**Financial management is effective with a budget process focussed on the council's priorities.**

**Overall the council has delivered services within budget. However, the City Development service overspent by £2.767 million in 2018/19 and an overspend of £3.564 million is projected for 2019/20.**

**Systems of internal control operated effectively in 2018/19 although there was scope for improvements in some areas.**

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

### Financial performance in 2018/19

**47.** The council approved its 2018/19 budget in February 2018. The budget was set at £351.085 million. This was an increase of £8.576 million over the final adjusted budget for 2017/18. The 2018/19 budget included a package of savings of £14.465 million. The council did not anticipate the use of reserves to fund expenditure.

**48.** During 2018/19, the council made in-year budget revisions, with the latest revenue monitoring report as at the end of February 2019 identifying an increase to the budget of £5.531 million, funded by additional Scottish Government funding and the application of committed carry forward reserve balances from 2017/18.

**49.** The council achieved savings of £3.318 million against its amended budget. This was after planned use of carry forward reserves of £3.299 million. This resulted in a surplus of £0.019 million for the council. The achievement of the surplus increased the general fund balance from £13.846 million as at March 2018 to £13.865 million as at 31 March 2019.

**50.** Of the overall underspend, £1.210 million related to service expenditure. While services underspent overall, the City Development Service overspent by £2.767 million. The current projected financial position for the City Development Service for 2019/20 is £3.564 million and mitigating action, including review of staff vacancies and voluntary early retirement is being considered to reduce the overspend.

### Housing revenue account

**51.** The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to a level which will at least cover the costs of its social housing provision.

**52.** In January 2018, the Council approved a 3% increase in the average weekly rent levels for tenants for 2018/19. The rent level set reflected the income required to fund the revenue budget of £52.759 million.

**53.** The deficit in the net cost of HRA services for 2018/19 was £14.692 million. This reverses the trend of rising net cost of services with the 2017/18 net cost of services reported as £20.574 million and 2016/17 as £15.009 million. After statutory adjustments, the HRA incurred a surplus for 2018/19 of £0.081 million. This surplus was transferred to the council's Renewal and Repair Fund.

## Capital programme

**54.** Total capital expenditure in 2018/19 was £114.468 million. Significant elements of capital expenditure included:

- Regional Performance Centre                      £18.519 million
- Council Houses    £12.361 million
- Waterfront Development Offices                      £12.055 million
- Dundee Railway Station                                      £8.224 million

**55.** The capital expenditure in 2018/19 represents an underspend of £13.907 million (10.8%) against the original budget of £128.375 million, however the 2018/19 budget included an element of 'over-programming' expenditure, with an allowance of £9.5 million built in for slippage.

**56.** The slippage in the programme is attributable mainly to changes in the profile of expenditure in relation to major projects being undertaken by the council.

**57.** The Council approved the capital programme 2019-24 in December 2018. The programme includes £347.188 million of expenditure planned over the period and has been summarised into the strategic themes that reflect the council's vision and aims, as published in the City Plan. The programme is front loaded with £124.406 million planned for 2019/20 alone and £222.782 million for the remaining 4 years.

**58.** The capital programme clearly plays a significant role in managing the assets required to enable the council to achieve its strategic objectives. There is no significant level of slippage above that programmed into the 2018/19 capital plan and the slippage has not had any adverse impact on the council's ability to provide services and meet its strategic priorities.

## External debt in 2018/19

**59.** The council's external debt at 31st March 2019 was £695.2 million, an increase of £64.0 million on the previous year. This position reflects the borrowing required to fund the council's current capital programme, and other ongoing commitments, including £24.9 million for its investment in the Baldovie waste management facility. Borrowing is in line with the approved treasury management strategy and elected members are kept informed of the council's treasury management activity throughout the year, with six monthly reports presented to the Policy and Resources Committee.

## Budgetary process

**60.** The council's budget is aligned to its strategic service structure, which reflects the council's objectives. The links from the budget to the more detailed service plans will be reviewed as part of our future Best Value work.

**61.** The detailed scrutiny of financial performance is delegated to the Policy and Resources Committee which receives regular revenue and capital monitoring reports. From our review of these reports we concluded that they provided an

overall picture of the budget position at service level. The reports forecast out-turn position for the year and include narrative explanations for significant variances against budget. They allow both elected members and officers to carry out scrutiny of the council's finances.

# Part 3

## Financial sustainability



### Main judgements

The financial position of the council and its group is sustainable in the short term but a deficit of £2.809 million is currently forecast which needs to be funded from increased savings or reserves.

The council's usable reserves are in line with the reserves policy approved in its long-term financial strategy. However, the council's reserves remain low, as a proportion of revenue expenditure and could be reduced further in 2019/20. The council is keeping the level of reserves under review.

The council has made good progress in financial planning with the introduction of a long-term financial strategy. Future financial plans are challenging but the council is well placed to address projected funding gaps.

The success of the C2022 transformation programme will be critical to achieving financial balance and improving the council's services.

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

### Changing landscape for public financial management and medium to long term financial planning

**62.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity

**63.** A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018 and followed this up with an update in May 2019. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

**64.** The council has used the MTFS to help inform its assumptions on future levels of Scottish Government funding and thus shape its longer-term financial planning.

### Financial planning

**65.** It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the council's strategies, and which reflect the impact of future pressures on the council.

**66.** The Accounts Commission's March 2019 report on [Local government in Scotland: Performance and challenges 2019](#) highlights the importance of medium to long-term financial planning, given the continuing pressures that councils will face into the future. The Accounts Commission recommended that councils should undertake long-term financial planning to set out how they will deliver national policy commitments, while continuing to sustain local services with reducing budgets and increasing demand. By doing this, they would be prepared for various levels of funding.

**67.** The 2019/20 revenue budget, which was approved by elected members on 21 February 2019, set out the savings requirements for the next three years based on four scenarios of a 'flat cash' grant allocation and 1%, 2% and 3% grant allocation reductions. The funding gaps for the period 2019/20 to 2021/22 under each of the four scenarios range from £38.3 million to £55.1 million.

**68.** In our 2017/18 Annual Audit Report we highlighted the importance of longer-term financial strategies (typically covering five to ten years) being in place which link spending to the council's strategies and would evolve over time to include a range of options to mitigate the longer-term funding gaps and support the delivery of the council's strategic priorities. We recommended that medium to longer term financial planning should be further developed, incorporating scenario planning and risk assessment of the likely impact of any changes in assumptions.

**69.** On 19 August 2019, the Policy and Resources Committee approved a report on the long-term financial outlook and financial strategy for 2020-2030. The report noted the projected revenue requirements for the period to 2030, the projected savings and efficiencies required over the period to deliver balanced budgets and recommended the adoption of the long-term financial strategy which, critically, would be linked to the council's Changing for the Future transformational change programme, (C2022).

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## Good practice

### The council presents a long-term financial outlook and financial strategy covering the 10 year period 2020-30 for approval by elected members.

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**70.** We have concluded that the council has made good progress with longer term financial planning. The council recognises that this now needs to be linked to C2022.

## Financial position and savings plans

**71.** The council approved its 2019/20 revenue budget in February 2019. The council's net expenditure to be funded from local taxation and central revenue support funding was £353.705 million. The 2019/20 budget included savings of £17.039 million and was based on a 3% increase in council tax. The council did not anticipate the use of reserves to fund revenue expenditure in 2019/20.

**72.** The latest projected outturn position presented to elected members in September 2019 projects an overspend of £2.809 million for 2019/20. The projected overspend primarily relates to:

- an overspend of £3.564 million in the City Development Service (due in the main to the planned rationalisation of property not being fully implemented and increased reactive repairs and maintenance costs)
- an overspend of £0.775 million in the Dundee City IJB
- offset by capital financing costs/interest on revenue balances savings of £1.000 million.

**73.** Work is ongoing to identify scope for improving the outturn. Council-wide initiatives are underway, including reviewing the requirement for overtime working, a focus on absence rates and increase vacancy control and an ongoing review of discretionary spend and other opportunities for efficiencies and budget savings. The council is also working closely with Dundee City IJB on the IJB costs.

## Reserves

**74.** One of the key measures of the financial health of a local authority is the level of reserves held. As shown in Exhibit 6, the level of usable reserves held by the council increased slightly from £26.762 million in 2017/18 to £26.824 million in 2018/19.

### Exhibit 6 Usable reserves

Reserve	31 March 2018 £' million	31 March 2019 £' million	Change £' million
General fund	£13.846	£13.865	£0.019
Repair and renewal fund	£5.850	£6.621	£0.771
Insurance fund	£1.563	£2.573	£1,010
Capital grants unapplied account	£3.393	£3.139	£(0.254)
Capital fund	£2.110	£0.626	£(1.484)
<b>Total usable reserves</b>	<b>£26.762</b>	<b>£26.824</b>	<b>£0.062</b>

Source: Dundee City Council 2018/19 Annual Accounts

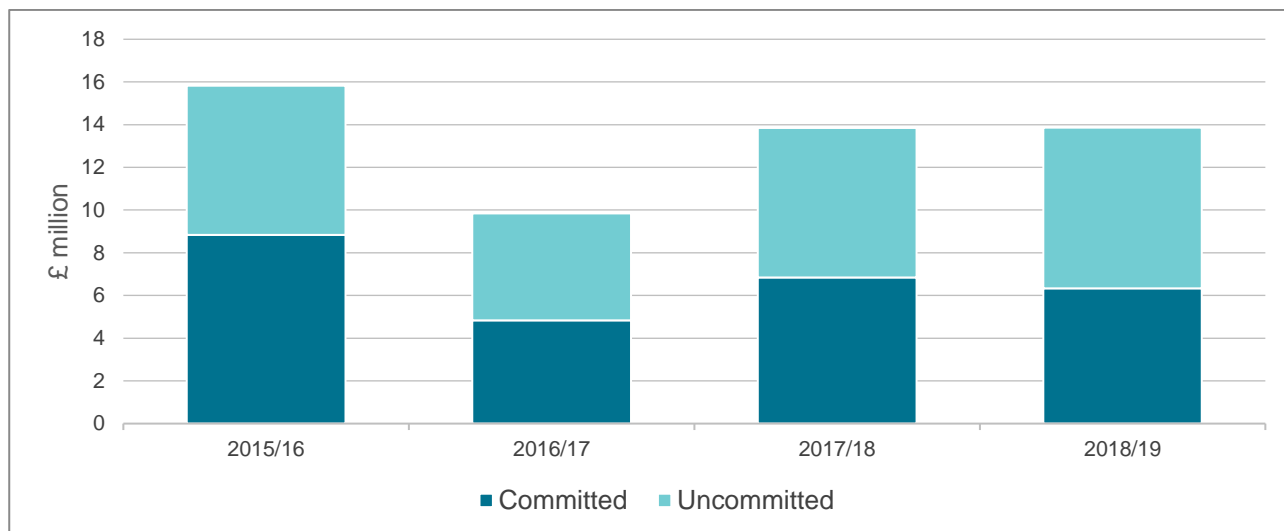
**75.** With a balance of £13.865 million as at 31 March 2019, the general fund is the largest of the council's usable reserves and is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

**76.** Of the £13.865 million general fund balance, £7.528 million is uncommitted, with £6.337 million committed for the following specific uses: transformation initiatives under the Organisational Change Fund (£1.411 million), funding of new social housing (£1.024 million), committed carried forward expenditure (£1.801 million), funding for future liabilities arising from the sale of Dundee Energy Recycling Ltd (warranties) (£1.75 million) and funding for future car parking projects (£0.351 million). Exhibit 7 provides an analysis of the general fund over the last 4 years, split between committed and uncommitted balances. This shows that the uncommitted balance has risen since 2016/17, albeit only slightly during 2018/19.



## Exhibit 7

### Analysis of general fund over last four years



Source: Dundee City Council Annual Accounts 2015/16 to 2018/19

**77.** The council reviews the level of its uncommitted reserves when setting the budget each year. The council's approved reserves strategy for 2018/19 specified that uncommitted reserves should be maintained at a minimum of around £5 million (1.5% of budgeted net expenditure). The level of uncommitted general fund reserves as at 31 March 2019 was £7.528 million which is in line with the council's strategy.

**78.** In approving the 2019/20 revenue budget, the Policy and Resources Committee agreed the Executive Director of Corporate Service's recommendation that after taking into account the strategic, operational and financial risks facing the council, the "minimum level of uncommitted balances that the Council should maintain is around £7.0m (around 2.0% of budgeted net expenditure)" and that "no amounts should be taken from General Fund balances" for 2019/20. The increase in the approved reserves strategy is included in the council's long-term financial strategy which was approved by elected members on 19 August 2019.

**79.** We have regularly reported during our audit appointment that although uncommitted reserves are in line with the council's reserve strategy, the reserve balance is one of the lowest in Scotland in relative terms. The balance on the general reserve has only increased by £0.019 million in 2018/19 and therefore the balance remains relatively low.

**80.** The council is currently projecting an overspend of £2.809 million for 2019/20. If this crystallises, and in the absence of mitigating action, this is unsustainable, given the level of uncommitted reserves held.

### Recommendation 1

**The council should continue to monitor its level of reserves, in light of the projected overspend for 2019/20.**

### City Deals

**81.** Since 2016, the four local authorities in Fife and Tayside (Angus, Dundee City Council, Fife and Perth and Kinross), together with the regions' universities and colleges, have been working with the Scottish and UK Governments to develop a transformational and inclusive Tay Cities Region Deal.

**82.** A Heads of Terms tripartite agreement between the Scottish Government, UK Government and regional partners was signed on 22 November 2018. This set out a commitment by both Governments to jointly invest up to £300 million over the next 10 to 15 years subject to final approval of robust business cases. Partners believe that this investment will have the potential to secure over 6,000 jobs and result in over £400 million in investment.

**83.** Since November 2018, partners have been working with both Governments on developing businesses cases and the necessary deal documentation to commence the programme of investment. A full deal is expected to be reached by the end of November 2019.

## Business transformation

**84.** Audit Scotland's [\*Local government in Scotland – challenges and performance 2019\*](#) (April 2019) highlighted that planning and implementing changes to find efficiencies alone is no longer enough and the redesign of service delivery is needed.

**85.** The council has a transformation change programme, 'Changing for the Future' which is supported by an Organisational Change Fund to provide funds for transformation on a 'spend to save' basis. The council is at phase 5 of the programme with its 'Changing for the Future programme – C2022'. This phase of the programme will run until 2022.

**86.** The programme aims to transform the delivery of services while contributing to the achievement of short to medium term savings to address the financial challenges and support the delivery of the Dundee Partnership's City Plan and Council Plan objectives.

**87.** The Council Management Team is the Programme Board and supports the Chief Executive and the Corporate Improvement Team in the delivery of the C2022 programme. The governance arrangements are being revised to take forward the transformation programme. The Programme Board is supported by a Programme Management Office (PMO).

**88.** The programme is built around the Scottish Government's approach to service design and proposes more partnership and commissioning of services, use of digital technology and making best use of resources and people. 20 projects have been identified for the programme with the PMO focussing on 5 key projects:

- community hubs (schools)
- supporting learning and care in Dundee
- mobile digitally enabled workforce
- workforce for the future
- charging, concessions and commercialisation.

**89.** Work continues to identify areas of savings through efficiencies and service redesign as projects are further defined and developed.

**90.** 2018/19 was a year of setting up the projects, assigning staff and clarifying objectives and workstreams. An update to the Policy and Resources Committee on 19 August 2019 reports that at that time the four year programme was 28% complete (based on the completion percentages sourced from the Pentana Performance Management software).

**91.** Following the council's annual review of the programme, the mobile digitally enabled workforce and workforce for the future projects have been considered as being in a position to no longer require Corporate Improvement Team support and

are being taken forward by services. Further projects have been included in the prioritised project list to move forward “at pace”:

- third party payments
- property management and utilisation
- supporting services using benchmarking data (including the Health and Social Care Partnership and Leisure and Culture Dundee).

**92.** The council is committed to embedding its approach to transformation and seek improvements in the next year, including:

- increasing public, partner and employee engagement
- continuing to support both the City Plan and the budget setting process through transformation
- developing a risk register for the C2022 programme management.

**93.** Internal audit carried out a review of the C2022 programme and will report its findings to the Scrutiny Committee in September 2019. Internal Audit concluded that there are weaknesses in the system which should be addressed and made a number of recommendations including:

- more regular Transformation Programme update reports should be submitted to Committee
- clarification by the PMO to services of the specific objectives of their project, as well as roles and responsibilities
- project management training should be provided to key staff involved in the C2022 Transformation Programme
- a specific risk register for the C2022 Transformation Programme should be developed and maintained
- the C2022 Transformation Programme should be reviewed and revised in order to ensure that: the scope of each project is clearly defined; what the project aims to achieve is accurately described; and the specific actions required to realise the project vision are detailed
- Pentana should be reviewed and updated to accurately reflect the completion percentages against the scope of each project. Guidance should be provided on the methodology for assessing completion percentages.

**94.** We have concluded that the council has made reasonable progress with its transformation programme, but further improvements have been identified and improvement actions agreed. The success of the C2022 transformation programme will be critical to achieving financial balance and developing improved services going forward.

## Workforce planning

**95.** Audit Scotland's [\*Local government in Scotland – challenges and performance 2019 \(April 2019\)\*](#) report highlighted that integrated workforce planning is essential for robust medium and long-term planning and effective transformation. This should include an analysis of what the council will need in the future, where the gaps lie and how to address them, either through training, recruitment, restructuring current resources, shared arrangements with other organisations, or procuring specialist skills.

**96.** We reported in our management report submitted to the Scrutiny Committee in June 2019 that the council has an ‘*Our People Strategy*’ and annual updates demonstrate the council’s commitment to workforce planning, however, it currently does not have an overarching plan which includes an analysis of what workforce requirements the council will need in the future, where the gaps lie and how to address them.

**97.** In response to our management report action plan point, management advised that a revised *Our People Strategy* which will include the council’s approach to strategic workforce planning was being developed by the Head of Human Resources and Business Support. This is scheduled to be presented to the Policy and Resources Committee on 30 September 2019.

## EU Withdrawal

**98.** There remains significant uncertainty surrounding the terms of the UK’s withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services
- funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports
- regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**99.** Audit Scotland produced guidance to support auditors in making judgements on preparedness for EU withdrawal as part of the 2018/19 audit work and this guidance has been shared with the council. This guidance sets out 14 criteria which illustrate what a public body that is under prepared, partly prepared or well prepared might look like and highlights that public bodies’ preparation for EU withdrawal should be proportionate to the level of risk.

**100.** An assessment against this guidance has been undertaken with the council being well or partly prepared against the 14 criteria (6 well prepared and 8 partly prepared).

**101.** The 8 criteria where the council is considered as partly prepared represents areas where:

- the risks are not considered significant by the council (e.g. impact on its long-term workforce planning)
- work is ongoing both at a national level (e.g. COSLA) or with the third sector and private organisations that provide services in partnership with the council (e.g. rules & regulations considerations; establishing the impact on other organisations).

**102.** Elected members continue to be updated on the work done in the council in preparation for EU withdrawal.

**103.** Our overall conclusion is that the council has taken reasonable action in relation to the risks associated with EU withdrawal and should continue to liaise at a national level and with the third sector and private organisations that provide services in partnership with the council.

# Part 4

## Governance and transparency



### Main Judgements

**Governance arrangements operated effectively during the year.**

**The committee structure is “unusual” in that all elected members are members of all committees (except the scrutiny and licensing committees). Officers and elected members feel the structure works well for the council and supports elected members to make informed decisions. The downside of this structure is that meetings can be lengthy.**

**The council demonstrates a commitment to transparency in the way it conducts its business.**

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.

### Governance and accountability arrangements

**104.** Elected members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

**105.** The decision-making structure of the council was approved at the first meeting of the new Council in May 2017 and has remained largely unchanged. The council has six standing committees which comprise all 29 elected members as well as a number of other committees, sub-committees and boards, including the Scrutiny Committee which provides scrutiny of governance and performance.

**106.** We carried out a review of the council’s governance and accountability arrangements as part of our 2018/19 Best Value work. As part of this review, we observed the operation of committee meetings.

**107.** A number of pre-agenda meetings take place before each committee meeting. The level of pre-agenda meetings will depend on the complexity of the reports that go to committees. However, for the main committees, the process is as follows:

- discussion with the Convenor/Depute Convenor at regular meetings with relevant management teams
- a pre-agenda meeting with the Convenor and Depute Convenor
- depending on the subject there could be a detailed briefing for all elected members
- officers will also brief opposition politicians if required.

**108.** Reports are then discussed at the relevant committee. For scrutiny specific reports there is an officers' meetings, a pre-agenda with the Convenor and Depute Convenor and then a briefing with the administration group members.

**109.** Officers say that the approach works well and allows for discussion and clarity on any points. Officers also believe the main aspect of scrutiny is at the committees, which are open to the public, whereby officers will be asked questions around the reports and discuss relevant action plans around areas for improvements.

**110.** From our attendance at committee meetings we believe there is good scrutiny and do not have any concerns regarding the level of pre-agenda meetings negatively impacting on scrutiny.

**111.** The committee structure is "unusual" in that all elected members are members of all committees (excluding the scrutiny and licensing committees). In addition, at each Council meeting, the minutes of each of the Community Safety & Public Protection Committee, Neighbourhood Services Committee, City Development Committee and Policy & Resources Committee are considered. The various committees' meetings precede each other and in between each meeting, the corresponding conveners and depute conveners rotate.

**112.** Officers and elected members acknowledge that there are disadvantages to having all elected members as part of each committee (as reflected in paragraph 113 below) but believe that these are outweighed by the advantages to the council. The advantages identified by the elected members and officers interviewed were:

- officers believe this improves scrutiny during committee meetings as elected members have a greater awareness of all issues impacting on the council
- elected members believe it helps them to inform their constituents and enhances their role in the community as they have a fuller understanding of council business
- it allows any elected member to substitute for other standing members in meetings with external partners, with an informed understanding.

**113.** However, from attendance at committee meetings, we have observed that meetings can last longer than what would be considered the norm. Given that the meetings also start in the evening there is a risk that scrutiny may not be as effective towards the end of the meetings. With lengthy meetings, covering a multitude of committees, there may be insufficient time available to discuss agenda items in appropriate detail. This is a risk that the council needs to keep under review.

**114.** The council recognises that working collaboratively with other agencies and citizens is essential to realise Dundee's potential, and promotes local governance or 'city leadership' in addition to recognising the importance of delivering best value in local government.

**115.** The City Plan (Local Outcome Improvement Plan) provides a strategic framework and set of shared goals for all stakeholders in Dundee. This sets the context for the council's own Council Plan and also provides an agenda for change and transformation in Dundee that other public agencies, third sector organisations, the business community and citizens widely support.

**116.** Social justice and fairness are important policy priorities in Dundee, and the council has actively supported independent commissions, local community planning structures, inter-agency partnerships and large scale citizen consultations in recent years to help shape thinking and create action plans on tackling poverty, addressing drug-related harm and identifying local spending priorities.

**117.** No significant risks were identified from our review of the governance and accountability arrangements in the council and we recognise that the council is content with the structure in place and that it has its benefits, especially for a council and city of its size.

## Openness and transparency

**118.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.

**119.** A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

**120.** We have concluded that the council demonstrates a commitment to openness and transparency. There is evidence from several sources which demonstrate the council's commitment to transparency. Members of the public can attend meetings of the full Council, the Policy and Resources Committee and other committees. Minutes of these committee meetings and supporting papers are readily available on the council's website.

**121.** The council's website allows the public to access a wide range of information including the annual accounts, performance information (Dundee Performs), register of members' interests, current consultations and surveys and how to make a complaint. The council also actively promotes the use of social media.

## Internal audit

**122.** Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

**123.** We reviewed the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. Overall, we concluded that the internal audit service generally complies with PSIAS and has sound documentation standards and reporting practices in place.

**124.** In line with the requirements of PSIAS, internal audit has a Quality Assurance and Improvement Programme (QA&IP) in place. An update on progress with the QA&IP Action Plan was presented to the Scrutiny Committee in June 2019 and included a small number of improvement actions that were ongoing, including:

- developing the internal audit performance management and monitoring framework for the Service to feed into the Corporate Finance Service Scorecard
- developing the use of assurance mapping.

**125.** In our 2018/19 annual audit plan we highlighted that we did not plan to place reliance on the work of internal audit for our financial statements work, however to support our wider dimension audit responsibilities we planned to consider internal audits reports on the following areas:

- transformational change
- Dundee Health & Social Care Partnership
- internal financial controls
- General Data Protection Regulation

- communication strategy
- risk management
- housing capital plan
- fraud governance.

**126.** Internal audit reports on these areas have been considered and where appropriate, used to inform our findings in this 2018/19 Annual Audit Report.

**127.** Our Annual Audit Plan highlighted new procedures implemented during 2018/19 where the Scrutiny Committee considers progress against the internal audit plan. The first progress report was considered in February 2019 and highlighted slippage against the 2017/18 and 2018/19 plans.

**128.** In April 2019 the Scrutiny Committee considered a review of the 2018/19 Internal Audit Plan with a view to confirming the ongoing relevance of the outstanding individual assignments. This assessment was risk based and resulted in several areas being removed from the 2018/19 plan. Internal audit considers the work carried out in 2018/19 is sufficient for them to provide an opinion on the system of internal controls which informs the Annual Governance Statement.

## Systems of Internal Control

**129.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**130.** Our findings were included in our management report that was presented to the Scrutiny Committee on 26 June 2019. We concluded that no significant key control weaknesses were identified from our interim audit work, although we did identify some areas where there is scope for improvement and included recommendations for improvements which were included in an action plan agreed by management.

**131.** Our report highlighted that action relating to a weakness reported in our previous year management report, relating to authorisation of journals, was implemented in January 2019. Consequently, we carried out additional work to extend our testing of journal entries prior to January 2019. This testing did not identify errors or issues that would impact on the reliability of information within the financial statements.

## Standards of conduct for prevention and detection of fraud and error

**132.** The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy, anti-bribery policy and codes of conduct for elected members and officers. The council also has an Integrity Group which was set up to improve the council's resilience to crime, fraud and corruption.

**133.** We assessed these arrangements to ensure that they were appropriate and that documents are readily available to staff and regularly reviewed to ensure they remain relevant and current. We concluded that overall the council's arrangements are appropriate.

**134.** Internal audit has reviewed fraud governance in the council and will report their findings to the Scrutiny Committee in September 2019. Internal audit concluded that whilst there is a basically sound system of controls, there are some areas where improvements can be made. The main recommendations made by internal audit for which improvement actions were agreed are:

- preparation of a fraud risk register recording the key fraud risks



- once the fraud register is prepared, fraud management information should be reported to the council's Integrity Group and senior management on a regular basis.

**135.** We reported last year on a significant ICT fraud that had been discovered in 2016. The fraud was covered in a [report](#) by the Controller of Audit, which was considered by the Council in April 2018. The circumstances of the fraud were reviewed by internal audit through their then co-source partners.

**136.** Internal audit has followed up the action taken on the recommendations identified in the initial review and reported their findings to the Scrutiny Committee in June 2019. The report concluded that Corporate Services has significantly enhanced the control environment but there are some areas where further improvements could be made:

- documentation of reconciliations and evidence of senior officer review has not always been retained
- documentation of key systems, processes and accounting pathways has not yet been completed but is being compiled as new systems are introduced.

**137.** An action plan has been agreed to implement further improvements.

**138.** We are not aware of any other specific issues that we require to bring to your attention.

## National Fraud Initiative

**139.** The National Fraud Initiative in Scotland (NFI) is a counter-fraud exercise coordinated by Audit Scotland. It brings together data from local government, health boards and other public and private sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud

**140.** NFI activity as at 9 September 2019 is summarised in Exhibit 8.

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## Exhibit 8 NFI activity



**22,344**

**Matches**



**6,121**

**Matches investigated**



**6,076**

**Completed/closed  
investigations**

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

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**141.** Matches are categorised into low, medium and high risk. 100% of high risk cases are investigated, together with a sample of medium and low risk cases. The council has processes in place to ensure cases are reviewed timeously. The current NFI review highlighted 42 errors, with recovery of £30,631 as at 9 September 2019.

**142.** NFI activity is reported annually to the Scrutiny Committee. An annual report on the NFI will be presented to the Scrutiny Committee in September 2019.

**143.** We have concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

## Risk Management

**144.** Our 2017/18 Annual Audit Report highlighted that work on the risk management framework was ongoing and development of the risk management framework was to continue in 2018/19. The council's risk management improvement plan identified agreed actions to be addressed to improve the process.

**145.** Internal audit undertook a review of risk management in 2018/19 and reported its findings to the Scrutiny Committee in June 2019. Internal audit concluded that significant progress has been made in enhancing the risk management arrangements at the council. Key areas of progress are:

- enhanced governance arrangements are now embedded through the Corporate Risk Management Working Group
- approval of a revised risk management policy and strategy, which includes a standardised approach to scoring risk and a newly defined risk appetite methodology to support strategic decision making
- a Corporate Risk Management Co-ordinator (CRMC) was appointed in July 2018, responsible for driving forward and co-ordinating implementation of the Risk Management Improvement Plan
- the CRMC is facilitating risk management workshops within each service
- following a review of the Corporate Risk Register, the Dundee Health and Social Care Partnership has been considered as an individual risk in its own right.

**146.** The council's 2019/20 continuous improvement agenda continues to reflect improvements required in the risk management arrangements, with actions identified to develop the risk management framework, including finalisation of service level risk registers by 30 September 2019.

**147.** Good progress has been made with the corporate risk management arrangements, but arrangements have still to be embedded within services.

## Information and Communications Technology (ICT)

**148.** We highlighted in our Annual Audit Plan, a risk around ICT capacity in moving to cloud-based services e.g. Office 365. We have reviewed progress in this area. We have also obtained an update on other key ICT developments within the council's social work system (Mosaic) and the provision of computer desktop services across the council.

### Microsoft Office 365

**149.** The council has committed to the adoption of Microsoft Office 365 as its platform for desktop productivity and collaboration. A budget was established for consultancy skills to assist in the migration and setup of new services and the IT strategy recognises the need to evaluate existing staff skillsets and where appropriate reskill and retrain staff. This work is ongoing.

**150.** The council is in the process of establishing the governance of the project to layout the overall aims, scope and timeline for the implementation. Progress to date has seen the council successfully connect to the cloud-based service.

### Mosaic

**151.** The primary case recording and monitoring facilities of Mosaic were implemented on schedule and in budget in November 2016. Elements of social care finance have been implemented in phases since then, with the final elements of adult finance being implemented on 1 July 2019. The council has been successful in replacing the previous in-house systems which were based on outdated technology with a modern web-based application supported by an industry leading supplier.

### Citrix

**152.** Citrix thin client services provides computer desktops for the vast majority of the council's 4000+ IT users via a centralised infrastructure. Most of the council's ICT is delivered via a Server 2012 desktop with up to 250 specialist users on a Windows 10 VDI desktop. Plans are currently being prepared for a migration to a Server 2019 desktop with cloud delivery of the platform under consideration.

### Integration of health and social care

**153.** The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

**154.** The Dundee City Integration Joint Board (IJB) is provided in partnership with the council and NHS Tayside. 2018/19 is the third year of operation.

**155.** The IJB budget was increased by £11.601 million during the year to £261.283 million. The increase was funded by the IJB's partners and the Scottish Government. The increase was due to year-end adjustments for costs outwith the IJBs control such as pension costs (£4.820 million funded by the council), additional NHS Tayside cost pressures (£1.254 million – funded by NHS Tayside) and additional Scottish Government priorities relating to health services (£5.527 million – funded by the Scottish Government).

**156.** The IJB reported an overspend of £1.794 million at 31 March 2019 which reduced its general reserve from £4.560 million to £2.766 million. Of this balance only £0.561 million is uncommitted (0.21% of its net revenue expenditure) which is very low in comparison to the IJB's approved reserve policy of up to 2% of net expenditure. There is a risk to the council that continued depletion of the IJB's reserves could impact on the council, under the risk sharing agreement set out in the IJB integration scheme.

**157.** The IJB is subject to a separate audit (also by Audit Scotland) and an Annual Audit Report, which will be published in due course, has been produced setting out the auditor's conclusions. The financial transactions of the IJB have been properly consolidated into the council's group accounts.

**158.** Regular meetings are held between the council's Chief Executive, the Chief Executive of NHS Tayside and the Chief Officer of the IJB to discuss the strategic direction of the IJB and there are a range of forums for dialogue between senior leaders from the statutory partners, including between Chief Officers, Chief Finance Officers and supporting officers. Other collaborative leadership and practices have also developed e.g. strategic planning for issues such as Carers, Mental Health and Substance Misuse, where collaborative leadership through Strategic Planning Groups is ensuring that all key stakeholders are collaborating to design integrated models of practice.

**159.** The IJB was able to articulate new ways of working for delivering integrated health and social care services. These are part of a continuous review to develop integrated services and included:

- Dundee's Enhanced Community Support Acute unit (DESCA) was set up in 2018 to provide acute support to people who experience a downturn in their

health. Care at home services are able to take prompt action to help reduce the risk of hospital admission for older people

- the Community Health Team worked with local people in the east end of Dundee to establish and support the Health Issues in the Community (HIIC) Group. Individuals in the group have had a major influence on service design and delivery through a number of activities.
- the Partnership was found to have a positive approach to collaboration with carers with positive relationship with carers representatives and close working relationships with the Carers Centre, together with significant investment.

**160.** A Scottish Government's Ministerial Strategic Group (MSG) for Health and Community Care undertook a review of integration of health and social care and its report was published in February 2019. The review used the framework set out in the Audit Scotland's report [Health and Social Care Integration- Update on Progress](#) (November 2018) which set out areas which need to be addressed by if integration is to make a meaningful difference to the people of Scotland. The aim of the MSG report was to convey a range of proposals for local delivery of health and social care.

**161.** A national self-assessment tool was developed for use in IJBs (in partnership with its partners) to determine local progress against the key themes identified in the Audit Scotland and MSG reports. The joint assessment for the IJB was submitted to the Scottish Government, together with proposed improvement action plans.

**162.** The outcome of the self-evaluation shows that while some progress has been made, the IJB and its partners have a significant amount of work to do to improve and further establish its governance arrangements.

**163.** We will continue to monitor progress as part of our 2019/20 audit work.

### Correspondence referred to the auditor by Audit Scotland

**164.** We received correspondence in 2018/19 covering issues related to housing developments at Blackness Road in Dundee. We considered the issues and evidence provided and were satisfied that this did not identify any issues which had an impact on our opinion on the financial statements.

**165.** The Scottish Housing Regulator (SHR) also received correspondence on this matter and responded to the correspondent. SHR concluded that on the face of it, the council had a duty to consult with the Dundee Federation of Tenants Association (DFTA) which was not carried out but goes on to say that it would be for the courts to interpret and determine the legal position on this issue.

**166.** SHR has advised that they understand that the council has had subsequent discussions on this matter with the DFTA and are working on developing clearer roles and responsibilities to help deal with any similar situation moving forward.

# Part 5

## Best Value



### Main judgements

Although service performance is improving, the pace of improvement is deteriorating over time.

Improvements are still being made to the council's performance management framework and it is too early to assess the impact of the new framework on the outcome for customers and citizens. This will be considered as part of our Best Value Audit review in 2020.

The council is continuing to improve its public performance reporting with six monthly reporting on performance to the Policy and Resources Committee and Scrutiny Committee to be introduced from November 2019 and December 2019 respectively

The council is currently developing its service planning arrangements to link to the performance management framework approved in August 2018. This is scheduled to be complete by December 2019.

Councils have a duty to secure Best Value through continuous improvement. This includes value for money which is concerned with using resources effectively.

### Best Value

**167.** Best Value is assessed over the five-year audit appointment as part of the annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR work for Dundee City Council is planned for 2020 and fieldwork will commence in March 2020.

**168.** The Best Value audit work carried out this year focussed on the council's arrangements for demonstrating effective vision & leadership and governance & accountability. Our findings on governance & accountability are reported at section 4 of this report.

### Vision & leadership

**169.** The vision of the council is rooted in the needs of the local community, in accordance with the challenges the city faces. The City Plan 2017-2026 sets out the Dundee partnership's shared vision for the city. The plan sets out one, three and ten year targets on a range of outcome measures across the partnership's priority themes.

**170.** The Council Plan 2017-22 sets out the part the council will play in achieving the city's vision as well as the council's own priorities. This plan details the council's priority outcomes supported by key measures and targets.

**171.** We reported in our management report that service plans were not in place in 2018/19. This means that the council cannot be clear to the extent that Council and City Plan objectives are embedded within the different directorate and service areas and there is a risk that the focus of work within the service areas may not be working directly towards achieving the wider objectives and vision for the city and the council.

**172.** The council is currently developing its service planning arrangements to link to the performance management framework approved in August 2018. This includes the development of digital dashboards to ensure that the council is clear on the extent to which the Council Plan objectives are embedded within services.

**173.** The action plan contained in our management report notes that this is targeted for completion by Executive Directors of Services by 31 December 2019.

**174.** The Chief Executive and the Leader of the Council, along with other elected members and senior officers, provide clear, focussed strategic leadership for the council. Officers and elected members are clear on their respective roles, which allows a constructive and professional working relationship between them.

**175.** Officers provide ongoing support to elected members. The briefings and seminars provided to elected members are wide ranging for e.g. revenue and capital budgets, mental health, community empowerment, participatory budgeting and management of high-risk offenders. In 2018/19, 14 elected member sessions were provided, and 8 written briefings were provided. From review of some of the presentations provided to elected members, they are comprehensive, outline the key points and are easily accessible.

**176.** Elected members' training records are not comprehensive and only show the numbers (not the individuals) attending each session. We requested the most up to date listing at the time of our review and found it to be incomplete, with some not recording a number. Recording of elected members' training activities requires improvement. Comprehensive records of elected members attendance at training events would help the council to assess the effectiveness of their member development programme and would help to ensure scrutiny is carried out to the highest standard.



## Recommendation 2

**Comprehensive records of individual elected member's attendance at training events should be kept. The linkage of Training Needs Analyses and Personal Development Plans for elected members to these training records should be considered.**

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## Performance management

**177.** Our 2017/18 Annual Audit Report highlighted that a new performance management framework was approved in August 2018 and is in the process of being embedded within the council.

**178.** We reported in our management report that work is continuing in this area including populating the performance management system (Pentana) and reporting of performance to elected members (current expectations is that this will be 6 monthly). Currently, reporting of in-year performance is not regularly presented to committee.

**179.** Without more regular, up-to-date information then elected members will not have a clear picture of council's performance against corporate objectives, or a complete and balanced picture of performance.

**180.** Management noted that the first in-year six month progress report (April to September 2019) is scheduled to be submitted to the Policy and Resources Committee and Scrutiny Committee in November 2019 and December 2019 respectively.

## Public Performance Reporting (including Statutory Performance Indicators (SPIs))

**181.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Accounts Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

**182.** For 2018/19 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value
- SPI 2: relates to the reporting of performance information as required by the [Local Government Benchmarking Framework](#) (LGBF).

**183.** The paragraphs which follow set out our observations and conclusions on the council's compliance with the Accounts Commission direction.

**184.** The council's website has a site 'Dundee Performs' which contains performance information including the results of the LGBF review, Annual Performance Indicators, the Council Plan 2017-22 and the latest Progress Report on the Plan, the City Plan 2017-26 and the Annual Citizen Survey.

**185.** The Annual Performance Indicators page provides a detailed overview of performance across all council services.

**186.** We have concluded that the council's arrangements satisfy the SPI requirements.

## Overview of service performance

**187.** The council is reporting that 61% of its Council Plan indicators have improved or been maintained. Its report on the LGBF indicators for 2017/18 (the latest LGBF data available) shows that performance has been maintained or improved for 73% indicators over the last 8 years. Whilst service performance indicators show improvements in the council over time, the pace of improvement has deteriorated.



### Recommendation 3

**The council should review the effectiveness of the new performance management framework to ensure it identifies and prioritises areas for improvement in line with the council's priorities.**

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## Council Plan 2017-22 Performance Indicators

**188.** The council published its second progress report on the Council Plan 2017-2022 in August 2019. The progress report sets out the council's performance information in the form of Service scorecards. A traffic light grading system is applied by the council as defined in Exhibit 9. 30 of the 90 indicators are based on 2017/18 data as the 2018/19 data was not available.

## Exhibit 9

### Traffic light grading system

Status	Definition
Green	Performance on target
Amber	Performance within target threshold
Red	Performance behind target

Source: Council Plan 2017-22 Progress Report 2018/19 year end

**189.** The progress report shows that performance has deteriorated in 2018/19 compared to the previous year. 62 (69%) of the 90 measures are graded as green/amber, as shown at Exhibit 10. This compares to 68 (76%) in the previous year. The report also shows that only 55 (61%) of the measures have been improved or maintained or improved, down from 64% in the previous year.

## Exhibit 10

### Performance reported in Council Plan 2017-2022 Progress Report (August 2019)

Services	Green	Amber	Red	Total	Improved or maintained indicators	% improved or maintained	Prior year %
<b>All Services</b>	<b>46</b>	<b>16</b>	<b>28</b>	<b>90</b>	<b>55</b>	<b>61</b>	<b>64</b>
Children and Families	8	5	6	19	11	58	58
City Development	9	3	2	14	9	64	86
Health and Social Care Partnership	6	3	3	12	7 out of 9 (no trend data for other 3)	78	43
Neighbourhood Services	10	4	9	23	15	65	71
Leisure and Culture	2	2	0	4	1	25	50
Corporate Services	7	1	4	12	10	83	75
Chief Executive's Department	3	1	2	6	4	67	50

Source: Council Plan 2017-22 Progress Report 2018/19 year end

**190.** The Performance Management Framework continues to bed in and we plan to review the accuracy of performance reporting and the processes that the council has put in place for reviewing its targets to ensure they remain stretching to demonstrate continuous improvement as part of our BVAR work in 2020.

**191.** The progress report highlighted the most improved and most deteriorating indicators. Exhibit 11 shows examples of the indicators included within these categories.



## Exhibit 11

### Most improved and most deteriorating performance

Most improved indicators	Most deteriorating indicators
% Looked After School Leavers Achieving Literacy and Numeracy at SCQF Level 5 (included last year in the most deteriorating indicators).	Drug deaths.
% of Looked After School Leavers Achieving Literacy and Numeracy at SCQF Level 4 (included last year in the most deteriorating indicators).	% of new tenancies sustained for more than one year.
Bed days lost after being registered as fit for discharge (also included last year in the most improved indicators).	Days lost per Full Time Equivalent for teachers.
Visits to council funded museums in person per 1,000 population.	Residential cost per week per resident for people aged 65+.

Source: Council Plan 2017-22 Progress Report 2018/19 year end

### Overview of performance targets - LGBF

**192.** The council participates in the LGBF. The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

**193.** In early 2019, the Improvement Service's published its [National Benchmarking Overview Report 2017/18](#) and the most recent LGBF performance data, covering all 32 local authorities in Scotland. A report on the council's participation in the LGBF was submitted to the Policy and Resources Committee in April 2019.

**194.** The council's analysis highlights:

- that the *Council Plan 2017 – 2022* includes a target of finishing in the top half of performances of its peer authorities also known as Family Group for 55% of the LGBF indicators. In 2017/18, the council obtained an overall performance rate of 44%
- that the trend analysis of individual indicators shows that the council has maintained or significantly improved performance for 73% of the LGBF indicators over the last 8 years
- that the council also compares its performance in relation to the other main cities of Aberdeen, Edinburgh and Glasgow as regards top performance finishes and has performed well in comparison (ranked 1 in 30% of indicators)
- areas where the council is performing better than peers and areas identified where improvement should be prioritised.

**195.** One of the council's key priorities identified through its performance results from the LGBF is in improving educational attainment. Audit Scotland has selected Dundee City Council as part of a national study on 'Improving outcomes for young people through school education'. This work will commence later in 2019 and the audit will determine how effectively the Scottish Government, councils and their partners are improving outcomes through school education.

## Annual satisfaction surveys

**196.** The council and the Dundee Partnership jointly commissioned an annual survey to help evaluate progress towards achieving the objectives set out in the City Plan and Council Plan.

**197.** A total of 1,300 interviews were carried out by an independent market research company, with a representative sample of Dundee residents during October and November 2018. This sample size is designed to allow analysis for each Local Community Planning Partnership and Community Regeneration Area.

**198.** The survey results were generally positive. A summary of the key results for each ward has been sent to the Chair and Communities Officer for each Local Community Planning Partnership to identify any local action for improvement. The survey results were also made available to Community Regeneration Forums to help inform their decisions on funding priorities.

**199.** The survey is one of the ways in which the council gathers and reports on feedback from its customers. Other examples include the council's Community Infrastructure Fund budget consultation exercise (Dundee Decides), an annual report on Improving Services Through Listening to Customers and an annual report on Complaints

**200.** As part of our BVAR work in 2020 we plan to consider the council's results from any staff surveys.

## National performance audit reports

**201.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports were issued which are of direct interest to the council. These are outlined in Appendix 3.

**202.** National reports examine issues of public interest across the public sector. They are intended to make a positive difference to the use of public money and the way public services are delivered, by making recommendations and highlighting good practice. Reports frequently include self-assessment checklists and guidance for elected members on where attention should be focused.

**203.** Currently the national reports are reviewed by officers and taken for elected members' consideration where appropriate.

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Reserves</b></p> <p>The council is currently projecting an overspend of £2.809 million for 2019/20. In the absence of mitigating action, this is unsustainable, given the level of uncommitted reserves held.</p> <p><b>Risk:</b> reserves could be depleted to an unsustainable level which could impact on the council's ability to support service expenditure.</p>	<p>The council should continue to monitor its level of reserves, in light of the projected overspend for 2019/20.</p> <p><a href="#">Paragraph 80</a></p>	<p>Reserve levels will continue to be monitored regularly through the 2019/20 revenue monitoring process, with appropriate recommendations being made where relevant.</p> <p>Responsible officer: Executive Director of Corporate Services.</p> <p>Agreed date: 30 June 2020.</p>
2	<p><b>Elected members' training</b></p> <p>Elected members' training records are not comprehensive. Comprehensive records of elected members' attendance at training events would help the council to assess the effectiveness of their member development programme and would help to ensure scrutiny is carried out to the highest standard.</p> <p><b>Risk:</b> elected members may not be fully effective in scrutinising council activity.</p>	<p>Comprehensive records of individual elected members attendance at training events should be kept. The linkage of Training Needs Analyses and Personal Development Plans for elected members to these training records should be considered.</p> <p><a href="#">Paragraph 176</a></p>	<p>We will ensure that a record is taken and stored of attendance by members at all training / briefings, and a closer link made between this and the implementation of Personal Development Plans for those members who undertake CPD.</p> <p>Responsible officer: Corporate Planning Officer.</p> <p>Agreed date: 31 December 2019.</p>
3	<p><b>Performance management framework</b></p> <p>Whilst service performance indicators show improvements in the council over time, the pace of improvement has deteriorated.</p> <p><b>Risk:</b> the council is unable to demonstrate effective continuous improvement.</p>	<p>The council should review the effectiveness of the new performance management framework to ensure it identifies and prioritises areas for improvement in line with the council's priorities.</p> <p><a href="#">Paragraph 187</a></p>	<p>The council will review its Performance Management Framework to ensure it is prioritising improvement in its key priorities.</p> <p>Responsible officer: Transformation and Performance Manager.</p> <p>Agreed date: April 2020.</p>
4	<p><b>Dundee City Council Charitable Trusts – Depreciation</b></p> <p>Dundee City Council Charitable Trusts have not depreciated its</p>	<p>Dundee City Council Charitable Trusts should review the practice of not depreciating its tangible fixed assets and undertake a</p>	<p>A review of the tangible fixed assets held by the Charitable Trusts will be undertaken prior to the 2019/20 accounts close-down exercise. This</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>tangible fixed assets. We were advised that this is because tangible fixed assets are revalued each year and therefore depreciation is not required. In our view depreciation should be charged in accordance with accepted accounting practices.</p> <p><b>Risk:</b> the Trust may not be complying with accepted accounting practices.</p>	<p>review of its assets with a view to depreciating appropriate assets for the 2019/20 annual accounts.</p> <p><a href="#">Paragraph 43</a></p>	<p>review will identify those assets where depreciation should properly be charged and depreciation will be included in the 2019/20 accounts, as required.</p> <p>Responsible officer: Accounting Strategy Manager.</p> <p>Agreed date: 31 December 2019.</p>

#### Follow up of prior year recommendations

PY1	<p><b>Long-term financial strategy</b></p> <p>It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the council's strategies. The strategy would evolve over time to include a range of options to mitigate the longer-term funding gaps and support the delivery of the council's strategic priorities</p> <p><b>Risk: Without a longer-term strategy future funding gaps may not be addressed timeously, and the council's objectives may not be achieved.</b></p>	<p>Medium to longer term financial planning should be further developed, incorporating scenario planning and risk assessment of the likely impact of any changes in assumptions.</p>	<p>Updated response: The council has introduced long term financial planning processes. This is referred to at paragraph 69.</p>
PY2	<p><b>Journals</b></p> <p>There was a considerable level of back-dating of transactions throughout the year. Each month over three hundred journals were posted to periods two or more months in the past.</p> <p><b>Risk:</b></p> <p>Significant backdating of journals during the year may make it more difficult for budget holders to track year to-date and monthly expenditure.</p>	<p>Management should review the level of backdating of journals</p>	<p>Updated response: Action has been taken to reduce the level of backdating in 2018/19.</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>We used data analytics to analyse feeder and journal transactions to review for patterns of inconsistent activity.</p> <p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not show any instance of bias.</p> <p>Focussed testing of regularity and cut-off assertions did not reveal any lapses in controls.</p> <p>No significant transactions outside the normal course of council business were identified.</p> <p><b>Conclusion:</b> There is no evidence of management override of controls.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>ISA 240 The auditor's responsibilities relating to fraud in an audit of financial statements includes certain requirements relating to the auditor's consideration of fraud.</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant.</p> <p>The council receives a significant amount of funding from the Scottish Government, however income is received from other</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income/expenditure.</li> <li>• Testing of key internal financial controls</li> <li>• Detailed testing of transactions focusing on the areas of greatest risk.</li> <li>• Review the council's involvement in the National Fraud Initiative.</li> </ul>	<p>Sample testing of income and expenditure transactions to confirm that these were in the normal course of business.</p> <p>We obtained satisfactory explanations for any significant increases or decreases in income/expenditure.</p> <p>Our sample cut-off testing confirmed that transactions were processed in the correct accounting year.</p> <p>The council has adequate counter-fraud arrangements.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>sources, including council tax, housing rents etc.</p> <p>Additionally, the Code of Audit Practice requires consideration of the risk of fraud over expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>		<p>The council is pro-active in investigating matches and reporting the outcomes from National Fraud Initiative activity.</p> <p><b>Conclusion:</b> The council has effective arrangements in place to minimise the risk of fraud over income/expenditure.</p>
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Review of the work of an expert in accordance with ISA 620. This will apply to the work of the actuary and the property valuer.</li> <li>Focused testing of non-current assets, pensions and provisions.</li> </ul>	<p>We considered the council's accounting policies and whether these were appropriate.</p> <p>A number of estimations and judgements in the accounts were based on the opinion of experts. We assessed the reliability of these experts and reviewed their work.</p> <p>We tested non-current asset, pension and provisions disclosures and confirmed them to appropriate evidence.</p> <p><b>Conclusion:</b> estimations and judgements included in the accounts are supported by appropriate audit evidence.</p>
<p><b>4 Group entities consolidation</b></p> <p>The council's group accounts bring together the council's interests in entities which would be regarded as subsidiaries, associates and joint ventures. The council's relationships with organisations need to be reviewed annually to identify the group boundary for the accounts. Changes this year include:</p> <ul style="list-style-type: none"> <li>Dundee City Developments Limited being wound up.</li> <li>The establishment of a new body in relation to the Tay Cities Deal.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the council's consideration of related parties to ensure all group entities are appropriately recognised</li> <li>Review of accounting basis for preparation of the group accounts.</li> </ul>	<p>We reviewed the consolidation of group entities into the council's group accounts ensuring entities treated in line with the Code.</p> <p>We reviewed the accounting basis for the preparation of the group accounts was in line with requirements.</p> <p><b>Conclusion:</b> The council is accounting appropriately for its group entities.</p>
<p><b>5 Service concession assets</b></p> <p>A service concession arrangement is an arrangement whereby the council contracts with a private operator to develop, operate and maintain an asset. A significant service concession arrangement in relation to waste management project is currently under</p>	<ul style="list-style-type: none"> <li>Review of service concession model and disclosures in the accounts including asset valuation and liability.</li> </ul>	<p>We reviewed and agreed the council's accounting treatment for the waste management asset and related liability as part of the service concession asset arrangements.</p> <p><b>Conclusion:</b> The council is accounting appropriately for service concession assets.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>construction. The council needs to consider whether this service concession asset and associated liability should be recognised in the financial statements in 2018/19. There is a risk that this arrangement is not appropriately recognised in the financial statements.</p>		
<p><b>6 Code of practice on local authority accounting</b></p> <p>The main changes to the 2018/19 Code since last year include:</p> <ul style="list-style-type: none"> <li>• <i>IFRS 15 Revenue from contracts with customers</i>, with additional guidance on the principles of revenue recognition</li> <li>• amendments in respect of segmental reporting requirements</li> <li>• the adoption of IFRS 9 Financial instruments</li> <li>• removing the requirement to disclose the analysis of debtors and creditors.</li> </ul> <p><i>IFRS 16 Leases</i> also requires consideration as its application can be considered once IFRS 15 has been adopted.</p> <p>There is a risk that these changes are not appropriately recognised in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Review the financial statements and supporting information to ensure areas have been accounted for appropriately.</li> </ul>	<p>We reviewed the accounts to ensure appropriate recognition of the Code changes in 2018/19.</p> <p><b>Conclusion:</b> No significant issues noted.</p>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>7 Financial sustainability</b></p> <p>The council is facing the prospect of having to make significant budget savings. The council has a relatively low level of usable reserves in comparison with other authorities and continues to face increasing demands. This position is exacerbated through the uncertainty presented by EU withdrawal. There is a risk that the council is unable to deliver the efficiencies required to balance its budget whilst meeting its strategic priorities.</p>	<ul style="list-style-type: none"> <li>• Review the council's process for monitoring the transformation programme progress.</li> <li>• Review financial monitoring reports and the financial position.</li> <li>• Review how well the audited body has prepared for EU withdrawal and how the council is responding to any emerging risks.</li> <li>• Review any debt reprofiling to ensure compliance with regulations, financial sustainability and compliance with the council's treasury management strategy</li> </ul>	<p>We monitored the financial sustainability of the council based on information gathered over the course of the audit:</p> <p><b>Conclusion:</b> The council's financial position is sustainable in the foreseeable future although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the council's capacity to deliver services at the current levels. The council's transformation programme C2022 will be key to achieving financial balance going forward and delivering improved services.</p>
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Audit risk	Assurance procedure	Results and conclusions
<p><b>8 Performance management</b></p> <p>The council's performance management framework is going through significant changes.</p> <p>A revised performance management framework was approved in August 2018. This framework includes the introduction of service scorecards which align service performance with key priorities and outcomes</p> <p>The council uses the Pentana performance management system to record performance management data and this forms the basis of reporting to management and elected members. The system is still in its infancy with many elements still being populated to ensure the system is an embedded management tool within services.</p> <p>Our 2017/18 Annual Audit Report highlighted that it is too early to assess the impact of the new framework on the outcome for customers and citizens.</p> <p>Until the framework and system are fully operational there is a risk that the elected members cannot effectively scrutinise and take informed decisions on the allocation of resources and the prioritisation of improvement actions in services.</p>	<ul style="list-style-type: none"> <li>Review progress with performance reporting and the use of the Pentana system, including an update on internal audit's recommendations</li> </ul>	<p>We reviewed the progress with the performance management framework, including performance reporting.</p> <p><b>Conclusion:</b> Improvements are still being made to the council's performance management framework and it is too early to assess the impact of the new framework on the outcome for customers and citizens. This has been carried forward to Appendix 1. Item 3.</p>
<p><b>9 Risk management</b></p> <p>Our 2017/18 Annual Audit Report highlighted that work on the risk management framework is ongoing and development of the risk management framework continues to feature in the 2018/19 corporate governance improvement agenda. The risk management improvement plan identified agreed actions to be addressed to improve the process.</p> <p>Until the framework is fully embedded within services there remains a risk that the council is not mitigating risks to an acceptable level</p>	<ul style="list-style-type: none"> <li>Monitor the progress in implementing the improvements to the risk management arrangements.</li> <li>Review the content of the Annual Governance Statement regarding risk management.</li> <li>Review the council's considerations to establish the extent, value and nature of key supplier dependencies and the robustness of the business continuity arrangements in place.</li> </ul>	<p>We monitored progress with risk management.</p> <p><b>Conclusion:</b> Improvements continue to be made to the risk management arrangements.</p>
<p><b>10 Internal audit</b></p>	<ul style="list-style-type: none"> <li>Review progress against plans to ensure this is appropriately reflected in</li> </ul>	<p>We reviewed progress with the Internal Annual Audit Plan. The 2018/19 plan was</p>



Audit risk	Assurance procedure	Results and conclusions
<p>The first internal audit plan progress report was considered by the Scrutiny Committee in February 2019. This recognises slippage in the plans with 5 areas from the 2017/18 internal audit plan yet to be reported. Several other areas from the 2017/18 plans were carried forward to the 2018/19 plan.</p> <p>From the 2018/19 internal audit plan only four areas are noted as complete.</p> <p>This presents a risk to obtaining the necessary assurances management and elected members require for the Annual Governance Statement.</p>	<p>the assurances provided in the Annual Governance Statement.</p>	<p>reassessed and some areas removed from the plan. Internal audit consider coverage sufficient to inform their opinion on internal control arrangements.</p> <p><b>Conclusion:</b> Internal audit coverage is adequate for providing assurance over the system of internal controls.</p>
<p><b>11 Capital expenditure</b></p> <p>The council's capital programme 2019-24 was approved in October 2018 and includes a programme of £347 million of expenditure planned over the period. The programme is front loaded with £124 million planned for 2019/20 alone.</p> <p>Our 2017/18 Annual Audit Report highlighted that capital expenditure in 2017/18 was underspent by £32.4 million (20.3%) against the original budget.</p> <p>There is a risk that the council is unable to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area due to delays in investment or improvements to the asset base.</p>	<ul style="list-style-type: none"> <li>Review capital expenditure monitoring reports and the progress with projects.</li> </ul>	<p>We monitored progress with the capital programme in 2018/19. Underspend against budget was £13.907 million. Slippage of £9.500 million had been included in the 2018/19 capital budget for programmed slippage.</p> <p><b>Conclusion:</b> the slippage has not had any adverse impact on the council's ability to provide services and meet its strategic priorities.</p>
<p><b>12 Journal backdating</b></p> <p>Our 2017/18 Annual Audit Report highlighted that there continued to be a considerable level of back-dating of transactions throughout the year. There is a risk that significant backdating of journals during the year may make it more difficult for budget holders to track year to-date and monthly expenditure. This also increases the risk of fraud or error.</p>	<ul style="list-style-type: none"> <li>Review actions to address issues by client and review the level of backdating being undertaken</li> </ul>	<p>Refer Appendix 1, PY2.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>13 ICT capacity</b></p> <p>The council is planning to move to cloud services e.g. Office 365. The skills set required for this work is relatively new and the service acknowledge action is required to develop capacity in this area. The enterprise architecture skills required are in high demand in both the public and private sector. There is a risk that the council is unable to deliver the planned move to cloud services.</p>	<ul style="list-style-type: none"> <li>Review actions to address issues by client and monitor progress in implementing cloud services in the council.</li> </ul>	<p>We monitored progress with the move to cloud-based services.</p> <p><b>Conclusion:</b> No significant issues were noted.</p>

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# Appendix 3

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

# Dundee City Council

## 2018/19 Annual Audit Report

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