

REPORT TO: FINANCE COMMITTEE - 13 NOVEMBER 2000

**REPORT ON: DUNDEE CITY COUNCIL'S ANNUAL ACCOUNTS 1999/2000
EXTERNAL AUDITOR'S REPORT TO MEMBERS**

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 727-2000

1 PURPOSE OF REPORT

This report is a response to the report prepared by the Council's External Auditor, Henderson Loggie, on the audit of the City Council's Accounts for the year ended 31 March 2000. A copy of the External Auditor's report and the Audited Abstract of Accounts for the City Council and its DLO and DSOs are included on the Finance Committee agenda as separate items.

2 RECOMMENDATION

It is recommended that the Committee:-

- i endorses this report as its formal response to the External Auditor's report.
- ii instructs the Director of Finance to arrange for the completion of the Action Plan appended to the External Auditor's report.

3 FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report, or from the External Auditor's report.

4 LOCAL AGENDA 21 IMPLICATIONS

There are no direct Local Agenda 21 implications.

5 EQUAL OPPORTUNITIES IMPLICATIONS

There are no direct equal opportunities implications.

6 BACKGROUND

Dundee City Council's Accounts for the financial year 1999/2000 were audited by Henderson Loggie, Chartered Accountants, Dundee. The External Auditor's report is submitted in terms of Section 102(1) of the Local Government (Scotland) Act 1973. The response to the points raised by the External Auditor are set out below.

7 AUDIT COMPLETION

- 7.1 The External Auditor has noted that the City Council's 1999/2000 draft Accounts were submitted for audit by the statutory deadline of 30 June 2000. The audit itself was completed in accordance with the deadline of 30 September 2000, as set by the Accounts Commission.
- 7.2 The 1999/2000 Audited Accounts will now be incorporated within the Council's 1999/2000 Annual Report and this will be issued during December 2000.

8 AUDIT CERTIFICATE

- 8.1 The External Auditor has issued a certificate which is unqualified. This means that the Council's 1999/2000 Accounts have effectively been given a "clean bill of health". It should

be noted that due to a variety of reasons, in the main attributable to the 1996 local government reorganisation, the City Council received qualified audit certificates for its first three financial years. The City Council's 1999/2000 Accounts are the first to receive an unqualified (or "clean") audit certificate.

- 8.2 The External Auditor has also reported that all of the DLO/DSO defined activities operated by the Council during 1999/2000 had successfully achieved the financial objectives set by the Scottish Executive.

9 **SIGNIFICANT MATTERS**

The main substance of the External Auditor's report commences in Section 3, page 7 ("Significant Matters") and the following are comments on these matters.

9.1 **Revenue Account Outturns (Section 3.1)**

The net outturn on the Consolidated Revenue Account for 1999/2000 showed an underspend of £1.286m against a budgeted deficit of £1.914m. It can be concluded that the control of revenue expenditure during 1999/2000 was highly effective, with an underspend of £1.286m against a net Revenue Budget of £207.4m.

9.2 **Significant Changes in Accounting Practice (Section 3.2)**

The External Auditor has outlined the significant changes in Accounting Practice for 1999. The External Auditor has noted that the Council had successfully complied with all of the relevant professional accounting guidance relating to the preparation of the 1999/2000 Accounts.

9.3 **Prior Year Adjustments (Section 3.3)**

The External Auditor has noted that a prior year adjustment (net credit of £643,000) had been made in the 1999/2000 Consolidated Revenue Account. This was a technical accounting adjustment relating to amendments to previous years' accounts which have now been properly reflected in the 1999/2000 Accounts.

9.4 **Duplication of Housing Benefit Overpayments (Section 3.4)**

The External Auditor has noted that a correction had been made in the 1999/2000 Accounts in respect of debtors that had been previously double-counted. It should be noted that this was a purely technical accounting adjustment which was identified as part of an ongoing review by the Finance Department. It should be noted that this correction had no impact on individual housing benefit claimants.

9.5 **Property Revaluation (Section 3.5)**

The External Auditor has noted that the Council had successfully complied with the requirement to re-value all of its property assets (excluding Council Houses) as at 1 April 1999. Council Houses are revalued annually and it was noted that, due to the exceptionally high sales discount factor prevailing in 1999/2000, the revaluation calculation had produced a 16% decrease on the previous valuation.

9.6 **Dundee Contract Services - Creditor Sales Suspense Account (Section 3.6)**

The External Auditor has noted that there are elements within this Dundee Contract Services suspense account which could have been taken to the 1999/2000 revenue account and which, once adjusted in 2000/2001, will increase the reported surplus for that year. The Director of Finance agrees that the adjustment of £70,415 should be made in the 2000/01 Accounts.

9.7 **Community Charge Debtors and Provisions (Section 3.7)**

The External Auditor has noted that, due to the good collection levels in April to July 2000, it had been possible to release £700,000 of the community charge bad debt provision to the 1999/2000 revenue account.

9.8 **Debt Rescheduling (Section 3.8)**

The External Auditor has noted that the Council had rescheduled part of its loan debt with the Public Works Loan Board (PWLB). The element of rescheduled debt (£21.9m) represents 9.5% of the total loan debt outstanding with the PWLB. The rescheduling is considered to be part of a prudent debt management strategy and the Council will enjoy a net cash flow saving in interest of £4.384m over the next 8 years. This rescheduling of loan debt was reported to the Finance Committee as part of the Treasury Management report.

9.9 **Performance Indicators (Section 3.9)**

The External Auditor has noted that the statutory performance indicators had been published in the local press in accordance with the Regulations and within the statutory deadline of 30 September 2000. It was also concluded that the systems in operation for the production and publication of these indicators were reliable for all but three of the sixty-one indicators. The Council has, however, already taken appropriate steps to address the reliability of these three indicators, in line with the External Auditor's recommendations.

9.10 **Follow Up Points from 1998/99 Report (Section 3.10)**

The External Auditor has outlined the progress made against the four recommendations which were included in the 1998/99 Report to Members, and these are as follows:

- 1 **Bank Reconciliations**
The External Auditor noted that additional staff resources have been deployed in this area and the systems are now up-to-date and operating properly. It should be noted that the Council's audit certificate had been qualified in previous financial years due to deficiencies in this area.
- 2 **Ex-Tayside Regional Council Debtors**
The Council has continued to try to collect debtors that were inherited from Tayside Regional Council. The sum of £33,000 remained to be collected at 31 March 2000 and monitoring and recovery procedures are continuing to try to collect these sums.
- 3 **Code of Guidance on Funding External Bodies and Following the Public Pound**
The procedural guidance for Departments has still to be finalised. The draft guidance is at an advanced stage and should be issued to Departments in final form by December 2000.
- 4 **Internal Audit Needs Assessment and Coverage**
The Strategic Internal Audit Plan 2000-2005 and the 2000/01 detailed Internal Audit Plan have been prepared and presented to the Council's Audit Sub-Committee.

10 **KEY ISSUES FOR THE FUTURE**

The External Auditor has identified three key issues for the future and brings these to the attention of the Committee:

- 1 **Internal Audit**
The External Auditor will undertake a review of the Council's Internal Audit function during 2000/2001, as part of the centrally directed programme of Value for Money studies. The External Auditor has previously expressed concerns regarding

resourcing and strategic planning within the Council's Internal Audit Section and appropriate action has been taken to address these issues.

2 Corporate Governance

A joint CIPFA/SOLACE consultation document has been issued on this subject, recommending that a local code of corporate governance be put in place by December 2001. The External Auditor has recommended that both elected members and officers should monitor the progress of the development of the guidance and take appropriate action once it has been finalised. This recommendation will be addressed in due course by bringing forward reports to the appropriate Committees. It must be appreciated, however, that this process is still at the early consultation stage.

3 Verification Framework

The External Auditor has noted that, due to the implementation of a new computer system (First Software), there has been slippage in the original timetable for bringing the Verification standards into line with the Verification Framework. In accordance with the External Auditor's recommendation, a revised timetable is being prepared and will be submitted to the Finance Committee for approval in early course.

11 **REGULARITY WORK**

11.1 The External Auditor undertakes a cyclical review of all the key accounting systems within the Council, including an assessment of their integral internal control mechanisms. During 1999/2000, the External Auditor reviewed the following areas:

Payroll
Banking Services
Payment Control - Creditors
General Ledger - Powersolve
Debtors - Powersolve
Non-Domestic Rates
Council Tax
Members' Services
Capital Accounting
Computer Audit
Council Tax and Housing Benefit

A summary of the main findings in each area is included in Section 5.3 of the External Auditor's report.

11.2 The External Auditor's overall conclusion for the above reviews is that there were no material problems discovered which would warrant a reference in the Council's audit certificate. There were some areas identified where improvements could be made and these are being positively addressed by the relevant Chief Officer(s).

12 **LEGALITY, FRAUD AND CORRUPTION**

12.1 Legality

The External Auditor has a duty to independently assess the Council's arrangements for ensuring the legality of financial transactions and must report any problems discovered to the Controller of Audit. The External Auditor has confirmed that there are no issues which require to be reported for the financial year 1999/2000.

12.2 Fraud and Corruption

The External Auditor has a duty to assess the adequacy of the Council's systems and arrangements for preventing and detecting fraud and corruption. The External Auditor

makes returns to the Accounts Commission regarding fraud and irregularities detected during the year, including an annual return for Housing Benefit claimant fraud. The External Audit has concluded that the Council's general arrangements in this area appear to be satisfactory. The incidences of reported fraud in 1999/2000 are summarised thus:

	<u>No</u>	<u>1999/2000</u> <u>Value (£)</u>
First Tier Fraud (>£500)	3	11,774
Second Tier Fraud (<£500)	4	1,254
Housing Benefit Claimant Fraud	546	494,035

There has been an increase in the incidences of reported fraud between 1998/99 and 1999/2000 and this is generally considered to be a reflection of improvements in the Council's fraud detection procedures.

13 **OVERALL ARRANGEMENTS**

- 13.1 The Council has a statutory duty to make proper arrangements for securing economy, efficiency and effectiveness in the use of its resources and the External Auditor is required to review these arrangements and confirm that they are satisfactory.

The areas reviewed by the External Auditor in 1999/2000 are as follows:

13.2 **Management Arrangements**

The External Auditor was satisfied that the Council had implemented and continued to develop appropriate systems, policies and procedures in this area.

13.3 **National Studies**

The External Auditor worked in conjunction with the Accounts Commission to obtain information from the Council to facilitate the publication of national value for money reports in the following areas:

Rent Arrears Management
Monitoring Information in DLO/DSO
Refuse Collection

A summary of the main findings from these studies within Dundee City Council is outlined in Section 7.3 of the External Auditor's report.

13.4 **Performance Management and Planning (PMP) Audit**

Each Council is required to develop a Performance Management and Planning (PMP) framework under its arrangements for Best Value. Dundee City Council's approach to PMP is incorporated within the Council Plan and individual Service Plans.

The PMP audit fulfils the duty of the External Auditor to evaluate that the Council has in place appropriate arrangements to secure value for money. During 1999/2000 the External Auditor reviewed three services, Dundee Contract Services, Social Work and Neighbourhood Resources and Development (Libraries and Community Information). The External Auditor concluded that all three areas have made reasonable progress in the development of their PMP framework and are committed to ensuring implementation of improvement actions.

The Accounts Commission has recently published a national overview report on the 1999/2000 PMP Audit. The report highlighted that Social Work and Libraries and Community Information services within Dundee City Council had made above average

progress ranking them in the top 17 out of the 96 services reviewed across Scotland. The overview report will be circulated to elected members and will also form part of the next evaluation report to the Best Value Sub-Committee.

Furthermore, the Council's Best Value Review training and log book was highlighted as an example of best practice.

13.5 **Code of Guidance on Following the Public Pound**

As outlined in para 9.10, the Council's draft procedural guidance will be finalised and issued by December 2000. The External Auditor has, however, been able to undertake some interim review work in this area and is satisfied that the voluntary code is being implemented.

14 **ACTION PLAN**

Following on from the five recommendations included in the External Auditor's report, an Action Plan now requires to be completed by the Council outlining how and by whom these issues will be taken forward within a specified completion date. The Director of Finance will take forward the External Auditor's recommendations.

15 **CONCLUSIONS**

The External Auditor's report on the 1999/2000 Accounts is both fulsome and extensive. The preparation of the 1999/2000 Accounts and the subsequent audit were both completed within the relevant deadlines and this, in part, was achieved through a high degree of co-operation between the External Auditor and the Council. It is gratifying to note that the External Auditor has concluded the audit of the 1999/2000 Accounts by issuing an unqualified (or "clean") audit certificate.

DAVID K DORWARD
DIRECTOR OF FINANCE

BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.