

**REPORT TO : FINANCE COMMITTEE – 13 NOVEMBER 2000**

**REPORT ON : DUNDEE CITY COUNCIL REPORT TO MEMBERS AND THE  
CONTROLLER OF AUDIT - AUDIT YEAR TO 31 MARCH 2000**

**REPORT BY : REPORT BY EXTERNAL AUDITOR**

**REPORT NO : 781-2000**

**DUNDEE CITY COUNCIL**

**Report to Members  
and the Controller of Audit**

**Audit Year to 31 March 2000**

External Audit Report Number: 00/11

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# **1. INTRODUCTION**

## **1.1 Introduction**

- 1.1.1 We are pleased to submit our fourth annual report covering significant matters arising during the course of our audit of Dundee City Council for the year ended 31 March 2000.
- 1.1.2 We have been appointed by the Accounts Commission as external auditors to the Council for a five year term covering the period 1996/97 to 2000/01. The Accounts Commission has the responsibility of procuring the external audit of all local government bodies in Scotland.
- 1.1.3 The matters raised in this report have been discussed with the Chief Executive and the Director of Finance.
- 1.1.4 We would like to take this opportunity to thank the Director of Finance and his staff, together with those members of staff of other directorates who assisted in our work.

## **1.2 Respective Responsibilities of Auditors and Members**

- 1.2.1 Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of a public sector body.
- 1.2.2 That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.
- 1.2.3 It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.
- 1.2.4 The Authority and the Director of Finance's responsibilities for the Statement of Accounts are set out on page 3 of the accounts. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and report that opinion to you.

### 1.3 Scope of the Audit

1.3.1 Our responsibilities and duties as auditors are defined under the Local Government (Scotland) Act 1973 as amended.

1.3.2 These responsibilities and duties are summarised in the Accounts Commission's Code of Audit Practice, which sets out the auditors objectives as being to consider and assess the following:-

- whether the statement of accounts presents fairly the financial position for the Council,
- the adequacy of the main financial systems,
- the adequacy of the arrangements in place for the prevention and detection of fraud and corruption,
- the performance of particular services and activities,
- the effectiveness of overall management arrangements,
- the effectiveness of the systems in place for the production of Statutory Performance Indicators.

1.3.3 We have, therefore, wider responsibilities and duties than would be expected of external auditors in the private sector.

1.3.4 Our audit comprises:-

***Audit opinion***

The scope of the work required to audit the accounts takes various forms. It includes detailed testing of account balances to substantiate their material accuracy and completeness, and to ensure that the financial out-turn is presented in accordance with approved accounting standards. It also encompasses an assessment of the integrity of the fundamental financial control systems operating during the year, responsibility for the effective maintenance of which rests with management. Our findings are noted in Section 2.

***Value for Money***

The value for money studies advised by the Accounts Commission for national application relevant to the Council this year are:

- Rent arrears management.
- Performance information in DLO/DSOs.

In addition, we reported our findings on our review of Refuse Collection. Our findings are noted in Section 7.

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

We have undertaken a review of the Council's progress in developing its PMP framework at service level. Three separate and distinct service areas were selected for audit. Our findings are noted in Section 7.

### 1.3 Scope of the Audit (Cont'd)

#### 1.3.4 Continued

❑ ***Overall Arrangements***

We have undertaken an overall review of the effectiveness of management arrangements within the Council to secure economy, efficiency and effectiveness in the use of resources. Our findings are noted in Section 7.

❑ ***Legality, fraud and corruption***

We have also undertaken a review of the procedures implemented to prevent instances of fraud and corruption and for ensuring the legality of transactions. Our findings are noted in Section 6.

## **2. AUDIT COMPLETION AND CERTIFICATION**

### **2.1 Audit Completion**

- 2.1.1 The 1999/2000 accounts were due for submission for audit by 30 June 2000, with 30 September 2000 as the date by which the audit certificate should be issued. We are pleased to report that the target dates for the accounts submission and certification were met.
- 2.1.2 Various planning meetings were held with the Director of Finance and his finance team at which target dates for the production of accounts and working paper requirements were agreed. We issued our year-end client assistance schedule to aid the year-end accounts and audit process. Overall, we are satisfied that further improvement in the year-end procedures processes and working papers has been achieved this year.
- 2.1.3 Matters arising from the audit were discussed at various meetings with the Director of Finance and his finance colleagues during August and early September. Ongoing issues continued to be subject to audit consideration during the period up to the date of the issue of the audit certificate.

### **2.2 Significant Adjustments to the Accounts**

- 2.2.1 A number of audit adjustments were agreed with DCC responsible finance officers during our audit. The final audited accounts have been amended to include all of the agreed adjustments.
- 2.2.2 The overall effect on the Consolidated Revenue Account was a £417,000 reduction of the deficit for the year. The revised deficit taken to general fund balance for the year amounted to £628,000.

## 2.2 Significant Adjustments to the Accounts (Cont'd)

2.2.3 The main elements of the final audit adjustments effecting the Revenue Account were:

	<b>£'000</b>
(i) Release of bad debt provisions:	
Community Charge	700
Tayside Regional Council sales ledger	160
	-----
	860
(ii) Release of surplus statutory additions income where Sheriff Officer fees not payable	400
(iii) Increase Tay Road Bridge disaggregation creditor	(107)
(iv) Housing Benefit overpayments – duplication of Income net of overstated provision (refer para 3.4 )	(766)
(v) Adjustment of earlier years unallocated bank reconciling items	218
(vi) Revised final contributions to Police and Fire Boards	(169)
(vii) Other miscellaneous items	(19)
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<b>Total credit to revenue</b>	<b>417</b>
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## 2.3 Annual Financial Statements

2.3.1 The unaudited accounts for Dundee City Council for the financial year ended 31 March 2000 were signed by the Director of Finance on 21 June 2000 and submitted to the Finance Committee on 26 June 2000. Following amendment to the accounts for final audit adjustments, we signed our audit certificates on 29 September 2000. Our audit opinion on the financial statements is unqualified.



## 2.3 Annual Financial Statements (Cont'd)

### Prescribed Financial Objective Statements

2.3.2 On 29 September 2000 we certified that the DLO / DSOs of Dundee City Council met all their prescribed financial objectives for the year to 31 March 2000.

<i>DLO/DSO</i>	<i>Objective</i>	<i>Actual Return</i>	
		<i>1999/2000</i>	<i>1998/99</i>
		<i>£</i>	<i>£</i>
<b><i>DLO</i></b>			
New construction above £50,000	Break-even	<b>134,591</b>	7,982
Maintenance	Break-even	<b>246,281</b>	174,793
New construction under £50,000	Break-even	<b>26,218</b>	(65,496)
<b><i>DSO</i></b>			
Refuse collection and other cleaning	Break-even	<b>87,354</b>	127,445
Leisure and recreation management	Break-even	<b>126,059</b>	126,193
Ground maintenance	Break-even	<b>127,566</b>	9,067
Cleaning of buildings	Break-even	<b>32,822</b>	28,564

### 3. SIGNIFICANT MATTERS

#### 3.1 Revenue Account Out-turns

3.1.1 The following table summarises the budgeted and actual out-turn on the Consolidated Revenue Account for the year to 31 March 2000 and 31 March 1999.

	<i>Budget</i>		<i>Actual</i>		<i>Variance</i>	
	<i>£m</i>		<i>£m</i>		<i>£m</i>	
	<i>1999/2000</i>	<i>1998/99</i>	<i>1999/2000</i>	<i>1998/99</i>	<i>1999/2000</i>	<i>1998/99</i>
<b>Expenditure</b>						
Amounts to be met from Governments grants and local tax payers	<b>207.418</b>	202.830	<b>205.529</b>	202.073	<b>1.889</b>	0.757
<b>Income</b>						
Government grants	<b>157.055</b>	154.039	<b>157.177</b>	154.414	<b>0.122</b>	0.375
Local taxpayers	<b>48.449</b>	46.572	<b>47.724</b>	45.751	<b>(0.725)</b>	(0.821)
Total income	<b>205.504</b>	200.611	<b>204.901</b>	200.165	<b>(0.603)</b>	(0.446)
<b>(Deficit) for the financial year</b>	<b>(1.914)</b>	(2.219)	<b>(0.628)</b>	(1.908)	<b>1.286</b>	0.311

#### 3.2 Significant Changes in Accounting Practice

3.2.1 In line with the changes in the updated Local Authority Code of Practice for 1999, additional disclosures have been included in the financial statements for the Year 2000 and costs associated with the Euro.

3.2.2 Additional information has also been disclosed in the financial statements with regard to Teachers' and other employees' pension funds in line with the 1999 Code of Practice requirements.

3.2.3 The 2000 Code of Practice requires additional pension fund disclosure regarding future liabilities with respect to added years and ex-gratia payments and this information will be disclosed in next year's financial statements.

3.2.4 There was no liability arising from the EU working time directive to be brought into the Council's accounts at 31 March 2000.

3.2.5 Related party transactions have been disclosed in the financial statements. The Council has the following investments in two limited companies; Dundee Energy Recycling Ltd - loan of £5,063,000 and Dundee City Developments Ltd - loan of £500,000. Neither company had commenced trading at 31 March 2000.

### **3.3 Prior Year Adjustments**

- 3.3.1 The notes to the financial statements include a summarised breakdown of the significant items totalling £643,000 credited to the Consolidated Revenue Account relating to the period prior to 31 March 1999 and included three significant elements relating to the bank reconciliations; the net credit amounted to £483,000, ex-Tayside Regional Council income of £381,000 (refer para 3.10) and Housing Benefit overpayments £221,000 (refer para 3.4).
- 3.3.2 Management, after consultation with us, decided to amend the unaudited accounts to reflect the items relating to prior years as prior year adjustments.

### **3.4 Duplication of Housing Benefit Overpayments**

- 3.4.1 As a result of an on-going review, the Finance department identified that housing benefit overpayments had been recorded twice in the accounting systems operated by the Council, once through the housing rent system and once through the sales ledger. Additional audit testing was carried out to substantiate the amount of double counting. We are satisfied that income has been double counted and a final audit adjustment was agreed (refer para 2.2.3).
- 3.4.2 The double counting of income resulted in an overstatement of debtors at 31 March 1999 and in turn, an overstatement in bad debt provision. In consequence, the final audit adjustment to correct the double entry of income and provision resulted in a prior year adjustment of £221,000 (refer para 3.3).

### **3.5 Property Revaluation**

- 3.5.1 In line with the Accounting Code of Practice capital accounting rules, all of the operational and non-operational property excluding Council dwellings, owned by the Council, were revalued in 1999/2000. The effective date of the revaluation was 1 April 1999 and the revised property values have been incorporated into the financial statements by adjusting the opening balances brought forward as at 1 April 1999.
- 3.5.2 The overall gain on revaluation of £60,662,000 has been taken to the Fixed Asset Restatement Reserve (FARR) in the balance sheet. This adjustment has no effect on the revenue account for the year. Details of the revaluation are disclosed in the financial statements.
- 3.5.3 The council dwellings are revalued on an annual basis and a £43million reduction in value over the year has been written off to the FARR. This represents a decrease of 16% on the previous valuation of council dwellings and on average, a drop in the value of each council house of approximately £1,905. The method of the valuation takes account of discount factors that are influenced by sales of council houses in the financial year. Another variable known as the "Multiplier" also influences the valuation of the remaining council houses at the year end. The discount factor used in some of the sales was exceptionally high this year and is not expected to continue at this level in future years.

### **3.6 Dundee Contract Services – Creditor Sales Suspense Account**

- 3.6.1 Within Trade Creditors of £915,576 at 31 March 2000 is a balance of £188,560 on Creditor Sales Suspense Account. The suspense account balance is made up of mispostings and processing errors. Items totalling £124,870 have been identified leaving a balance of £63,690 requiring further investigation. No adjustment has been made in the accounts for the identified and unidentified element of the suspense account.
- 3.6.2 While not material in the context of the financial statements of the Council as a whole, the impact on the accounts of Dundee Contract Services for the amendments necessary for the identified items is significant. Had amendment for the identified items been made, the reported surplus for the year for Dundee Contract Services would have increased by £70,415. The decision not to make the amendments did not affect the ability of the organisation to meet its prescribed financial objectives.
- 3.6.3 The extent to which the elements of the unidentified balance would affect the surplus of the organisation is not known but would not, if identified, have resulted in a failure to meet its prescribed financial objectives.
- 3.6.4 Taken together, the amendments necessary to correct the suspense account balance in 2000/2001 will be significant. In addition to the £70,415 referred to above, any element of the unidentified balance that is of a revenue nature will fall to the credit of the income and expenditure account and will therefore augment any achieved surplus in the year to 31 March 2001.

### **3.7 Community Charge Debtors and Provisions**

- 3.7.1 The total debt outstanding for community charge amounted to £8,105,000 with a related bad debt provision of £6,202,000 giving a net amount outstanding of £1,903,000 at the year-end.
- 3.7.2 The unaudited accounts included a provision of £6,902,000. Following discussions with senior management, the provision was reduced by £700,000 (refer para 2.2.3 final audit adjustments).
- 3.7.3 The provision was revised to take account of higher than expected collections of this debt in the four-month period following the year-end.

### 3.8 Debt Rescheduling

- 3.8.1 During the year, debt re-scheduling was undertaken to clear Public Works Loan Board debts early using cheaper replacement debt. The amount of debt involved was £21,938,066. A premium charge of £2,512,855 was paid. For cash flow purposes, the actual net interest saving in the first 8 years of the new debt's operation will be £4,384,481.
- 3.8.2 The Annual Treasury Management Activities Report for 1999/2000 containing a summary of the rescheduling of this debt was submitted to the Finance Committee on 11 September 2000.

### 3.9 Performance Indicators

- 3.9.1 1999/2000 was the seventh year that Councils were required by the Accounts Commission for Scotland to produce statutory performance indicators. These were published in the local press on 28 September 2000. There were new indicators in five departments this year and changed indicators in ten departments.
- 3.9.2 It is our responsibility to review and test the systems in place to produce and publish performance indicator information. As a matter of good practice, the internal audit section was involved in this review.
- 3.9.3 We concluded that the systems in operation for the production and publication of the statutory performance indicators were reliable for all but three of the indicators. The three indicators reported as unreliable were:
- Benefits Administration – PI 1 Administration Costs;
  - Benefits Administration – PI 2 Processing Times;
  - Finance – PI 3 Payment of Invoices.

With the implementation of the new housing and council tax benefits computer system, which will go live in November 2000, the Council has taken steps to address the reliability of the Benefits Administration indicators. Management has also taken steps to improve the accuracy of Finance – PI 3 by reiterating to staff advice on the recording of invoice received dates and introducing the requirement for regular sample checking to ensure that this advice is being followed.

#### **Recommendation**

- R1 The Director of Finance should ensure that appropriate action is taken to ensure that the systems in place for all indicators are reliable.**

### **3.10 Follow Up Points from 1998/99 Report**

#### **Bank Reconciliations**

- 3.10.1 As an action point in our 1998/99 Report to Members, we recommended that approval be given to the proposal put forward by the Director of Finance for improved arrangements to provide adequate resources for the review of procedures and implementation of robust and regular bank reconciliations. Approval was received and additional resources were deployed during March 2000.
- 3.10.2 The bank reconciliations for the four principal bank accounts for the year ending 31 March 2000 were given priority. Amendments for identified errors and write offs were made throughout the period from March to September 2000. In addition, reconciliations of bank accounts for the first quarter to 30 June 2000 were carried out satisfactorily during the period to September 2000.
- 3.10.3 Following amendments to the bank accounts for the agreed errors and write offs, including the write off of the unidentified income for prior years referred to at paragraphs 2.2.3 and 3.3.6, and the bank reconciliations for the quarter to 30 June 2000, we are satisfied that this area of the Council's systems is now up to date and operating properly.
- 3.10.4 We will continue to monitor this aspect of the Council's financial systems to ensure that on-going reconciliations are regularly carried out.

#### **Ex-Tayside Regional Council Debtors**

- 3.10.5 We reported in our previous years' reports the position regarding debtors inherited from Tayside Regional Council and detailed in last year's report the total debts and provision that were outstanding at 31 March 1999. We recommended that collection procedures should be initiated as soon as possible.
- 3.10.6 Further collections and adjustments (refer para 3.3.7) during the year have reduced the debt outstanding at the year-end to £33,000 net of bad debt provision.
- 3.10.7 The bad debt provision brought forward of £754,000 in respect of ex-Tayside Regional Council debts has been reduced through the release of £160,000 to contingencies and unforeseen items in the Consolidated Revenue Account (refer 2.2.3 – final audit adjustments).

#### **Code of Guidance on Funding External Bodies and Following the Public Pound**

- 3.10.8 We recommended that the procedural guidance drafted for adoption be finalised and issued for application by departments, when involved in funding arrangements with external bodies. At the time of writing this report, the guidance has still to be finalised.
- 3.10.9 Noted at para 7.5 is our conclusion from our review of the Council's application of the code of guidance.

### **3.10 Follow Up Points from 1998/99 Report (Cont'd)**

#### **Internal Audit Needs Assessment and Coverage**

3.10.10 Our recommendation that the internal audit needs assessment is completed by 31 March 2000 was met. The strategic internal audit plan covering the period 2000 to 2005, together with the detailed plan for 2000/01, has been presented to and noted by the Audit Sub Committee.

3.10.11 Noted at para 4.1 is our conclusion from our review of internal audit during 1999/2000.

## 4. KEY ISSUES FOR THE FUTURE

### 4.1 Internal Audit

- 4.1.1 We reported in previous years our concerns regarding the level of resources within Internal Audit and the need for Internal Audit's work plan to be based on a sound assessment of financial, operational, regulatory and business risk.
- 4.1.2 During 1999/2000 the Internal Audit Section continued to function for the majority of the period without two members of the team, who were seconded to other duties. In May 2000 one of the seconded team members transferred, on a permanent basis, to another section within the Finance department and an internal audit post is now vacant. Restructuring is currently being undertaken within the Finance department and internal audit resources are being considered as part of this exercise. The reduction in resources has impacted on the completion of the internal audit plan of work for 1999/2000. An internal audit needs assessment has, however, taken account of the slippage in the internal audit programme and this has been reflected in the internal audit plan for 2000/2005.
- 4.1.3 The strategic Internal Audit plan for 2000/2005 is based on a detailed risk assessment. However, its translation into annual work plans is based on a prioritisation of risk areas to match existing internal audit resources rather than determining the level of resource required to address all risks.
- 4.1.4 Audit Scotland is proposing to carry out a review of internal audit provision across all councils in Scotland as part of the 2000/2001 centrally directed programme of Value for Money studies. Resources and strategic planning are two of the areas that will be assessed in the study. The intention is that benchmarking information will be made available following the central collection of locally gathered data.

### 4.2 Corporate Governance

- 4.2.1 CIPFA and SOLACE issued a consultation draft "Corporate Governance in Local Government – A Keystone for Community Governance" in July 2000. The document draws on issues previously addressed by the Cadbury Report ① the Nolan (now Neill) Committee ②, the Hampel Report ③, and the Turnbull Report ④, and puts the issues into a Local Authority context. It defines Corporate Governance as "... *the system by which local authorities direct and control their functions and relate to their communities.*", and in its Aims and Objectives states "... *The principles of good corporate governance..... should be transparent to all stakeholders*".

① *The Report of the Committee on the Financial Aspects of Corporate Governance*

② *The Committee on the Standards in Public Life*

③ *The Report of the Committee on Corporate Governance*

④ *Internal Control – Guidance for Directors on the Combined Code (The Turnbull Report 1999)*



## 4.2 Corporate Governance (Cont'd)

- 4.2.2 The document notes that local government is the only area of the public services that has not yet responded formally to the recommendations of Cadbury and Hampel. It provides a framework to be used for establishing a local code of corporate governance, which is envisioned, should be in place by December 2001.
- 4.2.3 It also proposes that each local authority should publish a statement within its annual report regarding how the authority is complying with the framework, including how the effectiveness of corporate governance has been monitored in the year and plans for its modification in the coming period.
- 4.2.4 The Government's modernising agenda, Best Value and the initiatives following on from the McIntosh report <sup>⑤</sup> all impact on the same issues, and progress in taking these forward will affect the development of corporate governance.

### Recommendation

- R2 Members and Officers should monitor progress of the development of the corporate governance guidance and take appropriate action once it has been finalised.**

## 4.3 Verification Framework

- 4.3.1 Following the visit of the Benefit Fraud Inspectorate to the Council in February 1999 and, receipt of their report in July 1999, the Council committed to prepare and submit plans to bring verification standards in line with the Verification Framework. A target of 2000/2001 was set for the implementation of the Verification Framework and a target of 31 December 1999 set for the preparation and submission of a costed business case for funding. Due to the implementation of the new computer system, the business case for funding has not been prepared, and to date a revised target has not been set.
- 4.3.2 The current position is that the Council expect to become fully compliant with the Verification Framework in March 2001 at the earliest, although a date in 2001/2002 is more likely.

### Recommendation

- R3 A new timetable for the implementation of the Verification Framework should be established. Thereafter, members should monitor the Council's progress against the new timetable.**

<sup>⑤</sup> *The Report on Local Government and the Scottish Parliament (The McIntosh Commission)*

## **5. REGULARITY WORK**

### **5.1 Introduction**

- 5.1.1 We conduct a cyclical review of all the key accounting cycles within the Council. As part of our review, we assess the internal controls that form an integral part of each cycle. An effective internal control system is an essential part of the efficient management of any organisation and responsibility for this rests with the members and officers of the Council.
- 5.1.2 On 11 April 2000 we issued our detailed audit plan for 1999/2000. This plan took account of our review of the Council's business and operational risks and issues identified through review of previously issued internal and external audit reports for the Council. In addition, we liaised with the Council's internal auditors and took their planned work into consideration to avoid unnecessary duplication of audit effort.
- 5.1.3 Audit planning is always subject to re-evaluation and during the year our original plan was revised to take account of changing circumstances. There were some areas we postponed work on, and which will be re-considered for inclusion in our 2000/2001 plan. This will be prepared during October 2000.

### **5.2 Overall Conclusion**

- 5.2.1 From our regularity work, we were satisfied that there were no material matters arising which adversely affected our audit certificates for the year to 31 March 2000.
- 5.2.2 Separate management reports detailing our regularity audit have been issued and discussed with the Director of Finance and the relevant service Directors. Action plans as necessary have been agreed or are currently being discussed.

### **5.3 Summary of Main Findings**

#### **Payroll**

- 5.3.1 Our 1999/2000 interim work on the ISIS payroll system was conducted in the Education department. This followed on from our 1998/99 work on the central processing of ISIS payroll in the Finance department. The Education department was chosen taking into account the fact that no internal audit involvement was planned, the size of the payroll budget and the number of staff employed.
- 5.3.2 The 1999/2000 Education department revenue budget for staff costs was £57.4m (82.5% of the net Education budget of £69.5m) with a total of some 3,095 personnel on the payroll at February 2000.

### 5.3 Summary of Main Findings (Cont'd)

#### Payroll (Cont'd)

- 5.3.3 The Education department operates five payrolls either on weekly or monthly timetables. Information to be input into the payroll system is received from the department's own staffing section which carries out the personnel function for the Education department. The department, on a weekly, fortnightly and monthly basis, also undertakes payroll processing for Dundee College under a Service Level Agreement.
- 5.3.4 In general, the ISIS payroll system operates satisfactorily with adequate internal controls in place. However, a number of weaknesses were identified during our testing and an action plan was agreed to address them. Good practice points were also identified and detailed in the report.

#### Banking Services

- 5.3.5 This area of our work was given high priority due to the difficulties with the bank reconciliation and cash recording processes that have previously given rise to audit qualification. Our work in this area was spread over the whole year and involved:
- Review and testing of the new Powersolve reconciliation systems, including the main and sales bank accounts.
  - Review of the revised arrangements for the control of the bank reconciliation process.
  - Year-end testing on bank reconciliations.
  - Income Collections – continuation of central documentation for the cash receipting system (CREST) and the local tax account. Specific testing carried out within Housing department.
- 5.3.6 At all stages of our review the findings were discussed with the relevant member of staff. Issues were identified and incorporated into the development of the systems to address agreed system weaknesses.
- 5.3.7 We concluded that although there is still some improvement to be made to the systems and processes, there has been significant improvement in control in this area. The new arrangements for control of the bank reconciliation process are progressing and we acknowledge the additional effort and input into this area by the staff involved. As a result of the improvements in the controls for cash recording and reconciliation of the bank, the issues giving rise to the qualification of the audit certificate in previous years did not recur.
- 5.3.8 While there has been continual improvement in this area of the Council's activities there are a number of further improvements that can be implemented. A separate management letter, incorporating an agreed action plan to address the areas of improvement will be issued shortly.

### 5.3 Summary of Main Findings (Cont'd)

#### Payment Control – Creditors

- 5.3.9 Weaknesses in controls identified by us from previous audit work helped inform the audit of this area of the Council's activity in 1999/2000. An agreed approach with internal audit resulted in our review of output from their work on this area across various departments. From this review, we were satisfied that action had been taken to address the previously reported weaknesses and, while minor weaknesses have been identified, overall reliance on the system of controls was assured.

#### General Ledger – Powersolve

- 5.3.10 An ongoing review of systems of control within the general ledger has been carried on from work undertaken during our 1998/99 audit. This work was linked to the reviews of other main systems, especially debtors. The use and clearance of suspense accounts and processing of journal entries was also examined.
- 5.3.11 Our conclusion is that generally the controls in place are adequate and are operating satisfactorily.

#### Debtors – Powersolve

- 5.3.12 Linked with our work on the general ledger and Banking Services, we carried on an ongoing review of debtors systems with emphasis on receipts and controls issues. Detailed work was also carried out in the Social Work department covering invoice raising, prepaid revenues and cash receipt processing.
- 5.3.13 A number of control issues were noted and have been discussed with relevant staff. A report covering our findings and including an action plan to address weaknesses will be issued shortly.

#### Non-Domestic Rates

- 5.3.14 With effect from 1993/94 all Non Domestic Rate Income (NDRI) collected is paid into a national pool and redistributed in proportion to the resident population of each local authority. The amount of NDRI distributed to each Council is fixed for each financial year with any surplus or deficit being reflected in future year's rates. The Uniform Business Rate is set by the Secretary of State.
- 5.3.15 For 1999/00 the Uniform Business Rate for properties with a rateable value below £10,000 was set at 48 pence (1998/99 – 46.5pence) and 48.9 pence (1998/99 – 47.4pence) for properties with a rateable value greater than £10,000.
- 5.3.16 Our audit work involved the documentation and review of systems and controls in place within the Non Domestic Rates section covering annual billing, collection, banking and recovery and enforcement. We also followed up a number of issues that were reported in our year-end management letter for 1998/99.

5.3.17 From our testing we concluded that the Non Domestic Rates systems are operating satisfactory, however a number of weaknesses, including one issue from 1998/99, were identified and have been included in an action plan in our report.

### **Council Tax**

5.3.18 The Council Tax system is the Council's main revenue raising system. Income generated from council tax for the year ended 31 March 2000 was £47m (1999 - £45m).

5.3.19 The system in use is an in-house bespoke system. This will be replaced during the financial year 2000/2001 by a new system that combines the council tax and housing benefit records, thus eliminating duplication between the two areas. Thirteen other local authorities in Scotland already use the new system. The current system is due to close down on 24 October 2000 with the new system going live by 15 November 2000. We began reviewing the implementation of the new system during 1999/2000 and will complete the review as part of our 2000/2001 work.

5.3.20 Our review on the operation of the system during 1999/2000 focussed on annual billing, and the recovery and enforcement procedures in operation.

5.3.21 Our review concluded that the Council Tax system is operating satisfactorily, however, a small number of weaknesses were identified which have been included in the action plan within our report. Instances of good practice were also noted in the report.

### **Members' Services**

5.3.22 Following the local elections and changes to the Elected Members, we performed tests to ensure that the allowances and expense claims of re-elected, new and resigning councillors were properly accounted for. Some minor weaknesses in the procedures were noted in our management letter concluding on the work undertaken.

### **Capital Accounting**

5.3.23 Under the current system of capital accounting, as defined by the Code of Practice on Local Authority Accounting in Great Britain, all of the Council's fixed assets are included in the balance sheet at their current value except for infrastructure and community assets, which are included at historical cost. All assets included at current value must be revalued at intervals of not more than 5 years.

5.3.24 The Council's properties were previously valued, before reorganisation, by the demitting authorities at 1 April 1994. A special exercise has been carried out during 1998/99 and 1999/2000 to revalue all of the Council's land and buildings with the effective date of 1 April 1999. All non-operational properties were also revalued. Council dwellings were not included in this exercise as the Council has an annual programme in place for reviewing and valuing these assets. The financial statements, fixed asset registers and the underlying records of the Council are required to reflect the revalued assets.

### **5.3 Summary of Main Findings (Cont'd)**

#### **Capital Accounting (Cont'd)**

- 5.3.25 Our overall audit objective was to ensure that the revaluation exercise had been properly carried out in accordance with the capital accounting rules, council procedures and arrangements; and that the fixed asset registers, underlying financial records and the financial statements properly reflect the revaluation of assets. We reviewed the Council's planning and control of the revaluation exercise together with the procedures adopted in carrying out the revaluation. We considered the professional qualification of the valuers, use of appropriate valuation methods and the integration of the revalued assets into the fixed asset registers, underlying financial records and the financial statements. Specific audit testing of a sample of properties covering each department, category, class and basis of valuation was conducted.
- 5.3.26 A number of audit issues were identified reflecting concerns over planning and control, valuation methods, maintenance of fixed asset registers and underlying records, and reporting. These issues were included in our report on the work undertaken. All necessary adjustments were made by Council staff in the preparation of the unaudited accounts. Following further year end testing we concluded that the revaluation of the Council's fixed assets has been carried out in accordance with the requirements set out in the Capital Accounting rules.

#### **Computer audit**

- 5.3.27 A number of computer audit issues have been addressed throughout the audit work summarised above and where necessary issues will be reported within these individual projects.
- 5.3.28 In 1999/2000 specific audit work was undertaken to ensure preparedness for the movement to Year 2000 dates and the well-publicised potential problems that this might give rise to. The Council's internal computer auditors were involved in reviewing progress of preparation and we were required by the Accounts Commission to report to them on progress.
- 5.3.29 The millennium period passed without major IT incident.

#### **Council Tax and Housing Benefit**

- 5.3.30 Audit work has been undertaken to document and test the systems in place to process benefits and compile data for the council tax and housing benefit subsidy claim. The work also covered a follow-up of the action taken by officers in response to the reports previously issued by both us and the Benefit Fraud Inspectorate (BFI), a review of the progress in implementation of the BFI verification framework, and the consideration of the implementation of new software. The audit work will now be concluded following receipt of the subsidy claim on 4 October 2000.



## 6. LEGALITY, FRAUD AND CORRUPTION

### 6.1 Legality

#### Responsibilities

- 6.1.1 External auditors have a duty to give an independent assessment of the audit body's arrangements for ensuring the legality of transactions that might have a financial consequence.
- 6.1.2 It is the responsibility of audited bodies and their officers to act within the law. It is the auditor's responsibility to bear in mind the question of legality and to take reasonable steps to inform themselves of significant financial transactions or events that are unusual or of questionable legality, for example by:
- reviewing the arrangements in place within the audited body for ensuring the legality of financial transactions
  - reviewing the minutes of committee and board meetings
  - holding discussions with officers
  - having regard to the audited body's implementation of significant new legislation or significant statutory requirements
  - reviewing the local applicability of relevant national issues
  - taking account of advice issued by the Accounts Commission/Audit Scotland
  - reviewing statutory requirements concerning the financial statements
  - having regard to matters which come to their attention where legality, losses or deficiencies may be an issue.
- 6.1.3 Where it is believed that a decision by an audited body or officer has incurred, or would involve, unlawful expenditure, or that some action has been, or would be, unlawful and likely to cause a loss or deficiency, then auditors must report the matter to the Controller of Audit.

#### Findings

- 6.1.4 We are able to confirm that there are no issues that we are aware of, or which have been brought to our attention, which require to be reported for 1999/2000.



## 6.2 Fraud and Corruption

### Responsibilities

- 6.2.1 Primary responsibility for the prevention, detection and investigation of irregularities including fraud and corruption rests with management who should institute an appropriate system of internal control including segregation of duties, proper authorisation and approval processes, reconciliation procedures and an effective internal audit function.
- 6.2.2 In accordance with the Code of Audit Practice, our responsibility is to assess the adequacy of the systems and arrangements made by management to prevent and detect fraud and corruption, and to plan our audit so that we have a reasonable expectation of detecting material mis-statement in the relevant financial statements resulting from fraud or irregularity.
- 6.2.3 We are required to make returns to the Accounts Commission regarding fraud and irregularities detected during the year. Items with a value of greater than £500 (first tier frauds) are reported individually as they are identified and items below £500 (second tier frauds) are summarised in an annual return. In addition, an annual return detailing housing benefit claimant fraud for the year to 31 March 2000 has been reported to the Accounts Commission.

### Findings

- 6.2.4 The Council's general arrangements for the prevention and detection of fraud and irregularity, including a Fraud Guidelines document that lays out the procedures to be followed when fraud is suspected or detected, appear to be satisfactory.
- 6.2.5 Three first tier fraud returns were reported in the year to 31 March 2000, with a total estimated value of £11,774. In each case, Internal Audit has been involved in the review and assessment of the cases and have identified and reported internal control weaknesses in the systems. Where necessary, systems of control have been improved. (1998/99 – 1 case with an estimated value of £2,200).
- 6.2.6 The annual return of second tier frauds included four cases with an estimated total of £1,254. (1998/99 – 2 cases with an estimated value of £360).
- 6.2.7 The annual return of housing benefit claimant frauds for 1999/2000 reported a total of 546 cases of fraud with a total estimated value of £494,035. (1998/99 - 458 cases with an estimated value of £255,515).

## **7. OVERALL ARRANGEMENTS**

### **7.1 Introduction**

7.1.1 We are required, as external auditors, to satisfy ourselves that the Council has made proper arrangements for achieving economy, efficiency and effectiveness in its use of resources. In order to do this we consider a wide range of issues and information gained in all areas of the audit. These include consideration of the organisation's management structure, the roles and responsibilities of the management team, and the recording, monitoring and reporting mechanisms both from an operational and strategic viewpoint. Studies that are centrally directed by the Accounts Commission also form part of this work.

### **7.2 Management Arrangements**

7.2.1 Management arrangements cover a wide range of procedures designed to allow management to discharge its responsibilities with regard to the stewardship of public funds. This should cover planning, appraisal, authorisation and control over the use of resources. Good internal and external communication and adherence to sound corporate governance principles are essential to the operation of the arrangements.

7.2.2 For the year to 31 March 2000 we are satisfied that Dundee City Council have implemented and continue to develop systems, policies and procedures designed to secure the economic, efficient and effective use of resources. In assessing the Council's arrangements we have taken into consideration the improvements in controls covering income recording and bank reconciliation procedures. Whilst recognising that there are still some issues to be addressed, we are pleased to report the improvements that have taken place in these areas.

### **7.3 National Studies**

7.3.1 The Local Government Studies Directorate of the Accounts Commission identified a programme of national value for money studies for 1999/2000. The studies applicable to Dundee City Council this year are:

- Rent Arrears Management
- Monitoring information in DLO/DSOs

Set out below is a summary of key objectives and main findings for the studies.

7.3.2 During the year we also reported on the findings of the Refuse Collection study undertaken during the 1998/99 audit year. A brief summary is included within this section.

## 7.3 National Studies (Cont'd)

### Rent Arrears Management

- 7.3.3 This was a joint study by the Accounts Commission and Scottish Homes, designed to examine how social landlords manage tenants' rent arrears. The study was prompted by the fact that rent arrears continue to be a problem area for many Scottish councils. Comparison of levels of rent arrears in councils that share similar population statistics and registered social landlords of a similar size and type suggests that differences in the management of rent arrears accounts to some extent for the differences in levels of arrears.
- 7.3.4 The study was designed to ascertain the extent to which recognised good practice is being applied and to gather contextual information on each organisation. It also examined the impact of delays or problems with housing benefit administration on rent arrears levels.
- 7.3.5 The review covered each of the four Area Offices within Dundee (Central, Happyhillock, Ardler, and Lochee) and Tenancy Services, which deals with former tenants.
- 7.3.6 During December 1999 the City Housing Manager and Central Area Housing Manager completed a self-assessment questionnaire examining the Council's management practices against statements of best practice. The information in the self-assessments was test checked through a mixture of interview with relevant officers, review of documentation and examination of a sample of rent arrears case files. The interviews and document examination were also used to collect the contextual information.
- 7.3.7 Following meetings with council officers to agree the information gathered, the completed questionnaires and contextual information were sent to the central study team at the Accounts Commission for central processing on 19 January 2000. Benchmarking information was subsequently returned to us in June 2000 and used to identify areas where there might be scope to improve performance. These areas have been discussed with the relevant council officers, and a draft report and action plan produced.
- 7.3.8 The Accounts Commission, through Audit Scotland, issued a National report "Managing Rent Arrears – Getting the Balance Right" in June 2000.

### 7.3 National Studies (Cont'd)

#### Rent Arrears Management (Cont'd)

7.3.9 The statements of good practice were split into six sections. We summarise below the overall compliance for the Council in each section, together with that for all councils and registered social landlords (RSLs):

	<i>Councils</i>	<i>RSLs</i>	<i>Dundee City</i>
<b>1. Strategy / policy</b>			
Compliance (out of 3 statements)			<b>2</b>
Percentage compliance	78%	83%	<b>67%</b>
<b>2. Arrears prevention</b>			
Compliance (out of 8 statements)			<b>5</b>
Percentage compliance	79%	89%	<b>63%</b>
<b>3. Arrears recovery procedures</b>			
Compliance (out of 14 statements)			<b>12</b>
Percentage compliance	69%	77%	<b>86%</b>
<b>4. Legal action</b>			
Compliance (out of 8 statements)			<b>7</b>
Percentage compliance	74%	69%	<b>88%</b>
<b>5. Former tenants arrears</b>			
Compliance (out of 4 statements)			<b>3</b>
Percentage compliance	81%	87%	<b>75%</b>
<b>6. Performance review and continuous improvement</b>			
Compliance (out of 6 statements)			<b>5</b>
Percentage compliance	69%	81%	<b>83%</b>

The above table shows that, in terms of the implementation of accepted good practice, the Council is particularly strong in arrears recovery, legal action and performance review / continuous improvement. The main area for improvement is arrears prevention. Issues to be addressed include ensuring housing staff are suitably skilled and aware to be able to offer assistance to tenants to help claim housing and other welfare benefits and, taking effective steps to ensure maximum return of housing benefit forms at every review cycle.

7.3.10 At the time of our audit, the department had already commenced a review of the existing rent arrears process with a view to identifying service delivery improvements. The majority of areas for improvement identified by us had already been identified from the department's own review and remedial action identified. An Action Plan was presented to the Housing Committee, by the Director of Housing, at its meeting on 20 March 2000. A number of the improvements set out in the Action Plan are, however, on hold pending the outcome of a Best Value review currently being undertaken by the department.

### 7.3 National Studies (Cont'd)

#### Monitoring information in DLO/DSOs

7.3.11 As part of the 1999/2000 programme of centrally directed studies the Management Information for DLOs and DSOs has been examined. The Accounts Commission report "Understanding our business – Management information for DLOs and DSOs and other operational services" published in December 1999 provides guidance and examples of good practice. The checklist contained within this report provided the framework for the audit work undertaken with a view to establishing the extent to which Dundee City Council are applying good practice in three key areas namely:-

- The role of councillors
- Corporate management
- Managing DLO and DSO businesses

7.3.12 The audit report has not been finalised but the main report findings to date can be summarised as follows:

- Significant investment has been made in computer hardware to allow the production of management information.
- Progress has been made in agreeing 3-year service plans for the DLO and DSOs.
- The DLO/DSO Financial Operating Statements submitted quarterly to the DSO Committee do not provide sufficient detail to allow councillors to fulfil their responsibilities effectively. At the time of our review, however, action was in hand to improve operational performance reporting to the DSO Committee. The first of the new operational performance reports is being presented in November 2000.

#### Refuse collection

7.3.13 The 'Benchmarking : Refuse Collection' study was carried out as part of our 1998/99 audit work. The main objectives of this study were to provide the Council with benchmarking information on the cost and quality of its refuse collection service. The key performance indicators developed as part of the work assisted the Council in identifying particular areas of the service which merit review. These indicators may be used by the Council to monitor its performance over time.

7.3.14 This study involved collecting 1998/99 data on a number of refuse collection topics, which enabled the Accounts Commission to prepare a core set of performance indicators for this service. Councils were arranged into comparable family groupings and benchmarks prepared for each group. Dundee City Council was grouped with the other 3 major cities (Edinburgh, Glasgow and Aberdeen) together with Falkirk, Renfrewshire, North Lanarkshire and West Dunbartonshire. The performance indicators developed for use in this audit cover issues relating to -

- Economy (cost of collection per property served per week, etc)
- Efficiency (tonnage collected per refuse vehicle per annum, etc)
- Quality (number of service complaints per year, etc)

### **7.3 National Studies (Cont'd)**

#### **Refuse collection (Cont'd)**

- 7.3.15 Data collection was made using pro-forma questionnaires. An overview interview schedule was also completed. Following validation of the data, COMPARE software was then issued to each of the 32 Councils. The refuse collection service (both trade and domestic) was subject to Best Value reviews in 1998/99 and resulted in the continuation of the service by the Council's DSO. These reports were referred to during this study.
- 7.3.16 The results from the analysis of the COMPARE data highlighted both good practice and areas where improvements could be achieved. An action plan has been agreed to address the areas identified for improvement.

### **7.4. Performance Management and Planning (PMP) audit**

- 7.4.1 Best Value requires councils to develop a Performance Management and Planning (PMP) framework. PMP is fundamentally about establishing clear standards and targets for all activities; identifying where and how improvements can be made; and reporting on performance. Best Value requires councils to develop a PMP framework through which an environment and culture of continuous improvement can develop and thrive.
- 7.4.2 As part of our audit this year we have reviewed the Council's progress in developing its PMP framework at service level. After consultation with the Chief Executive and senior officers in Corporate Planning three services were selected for audit; Dundee Contract Services, Social Work and Neighbourhood Resources and Development – Libraries and Community Information. These three service areas account for £61.52m (30.9%) of Council expenditure each year. Further PMP audits will be conducted over the course of the next four years covering all major service areas.
- 7.4.3 The objectives of the audit were to provide an independent external assurance that the Council is making progress on implementing PMP frameworks; to identify good practice and areas of concern; and to ensure that services are planning for improvement.
- 7.4.4 All three service areas have made reasonable progress in the development of their PMP framework and are committed through the PMP audit findings and the EFQM business planning process to ensuring implementation of improvement actions.
- 7.4.5 Many initiatives have been developed and piloted as part of the services' approach to service and best value reviews and general business improvement processes. There has been a good lead given to services from Corporate Planning in terms of guidance on Best Value and service reviews. The development of corporately driven Business Process Improvement Teams involving officers from different disciplines and service backgrounds will further aid the process of continuous improvement across all services and service boundaries.

## **7.4. Performance Management and Planning (PMP) Audit (Cont'd)**

7.4.6 Further development of the PMP framework in all three services is necessary. A number of areas for development will require corporate involvement and influence, these include determining the role of members in consultation and service reviews; development of improved management information systems; multi-year planning; resource planning; and monitoring and reporting arrangements.

7.4.7 A national overview report of the audit of the performance management and planning (PMP) arrangements in Scottish councils in 1999/2000 is expected to be issued by the Accounts Commission during October 2000. The report will aim to provide a snapshot of progress by councils in the implementation of performance management and planning within its service areas. The overview report, while providing a summary of the audit approach, main findings and key messages, also aims to help each council to assess the progress of its services against the overall picture across Scotland.

### **Recommendation**

**R4 Members and officers should review the national overview report and agree an action plan to address issues arising.**

## **7.5 Code of Guidance on Following the Public Pound**

7.5.1 We commented on progress towards implementing this code in our last report, and an action point was included to ensure that further progress was made. Draft guidance was circulated to all Chief Officers for comment in May 2000, but still remains to be finalised. It is important that the guidance is finalised as soon as possible and distributed to all officers and members who are involved or are likely to be involved with funding arrangements that fall within the code.

7.5.2 We reviewed the guidance used by several departments in their application of the code, following this up to the implementation of the code for specific projects in the year. Our review will be completed as part of our 2000/2001 audit. Our interim findings indicate that the code is being implemented in new project agreements and arrangements. Departments are working towards implementation of the code requirements into agreements with organisations that were in place before the code was introduced.

### **Recommendation**

**R5 Members should ensure that the draft guidance is now finalised without further delay and issued to all appropriate members and officers.**

## ACTION PLAN

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date
	<p><b>SIGNIFICANT MATTERS</b></p> <p><b>Performance Indicators</b></p>				
3.9	<p>R1 The Director of Finance should ensure that appropriate action is taken to ensure that the systems in place for all indicators are reliable.</p>				
	<p><b>KEY ISSUES FOR THE FUTURE</b></p> <p><b>Corporate Governance</b></p>				
4.2	<p>R2 The development of the local code of corporate governance should involve both members and officers. Thereafter, members should be involved in monitoring the implementation of the code.</p>				
	<p><b>Verification Framework</b></p>				
4.3	<p>R3 A new timetable for the implementation of the Verification Framework should be established. Thereafter, members should monitor the Council's progress against the new timetable.</p>				
	<p><b>OVERALL ARRANGEMENTS</b></p> <p><b>Performance Management and Planning (PMP)</b></p>				
7.4	<p>R4 Members and officers should review the national overview report and agree an action plan to address issues arising.</p>				



## ACTION PLAN

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date
7.5	<p><b>Code of Guidance</b></p> <p>R5 Members should ensure that the draft guidance is now finalised without further delay and issued to all appropriate members and officers.</p>				