

30 November 2002

Lord Provost and Members of the Council
Dundee City Council
21 City Square
Dundee DD1 3BD

Controller of Audit
Accounts Commission for Scotland
18 George Street
Edinburgh

Ladies and Gentlemen

REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2002

The audit of the Council's accounts for the year ended 31 March 2002 has now been completed.

As part of my responsibilities as external auditor to the Council a Final Report, addressed both to Members of the Council and to the Controller of Audit, is required to be submitted at the conclusion of each year's audit. I have pleasure in attaching the Final Report on the Council's audit for the year to 31 March 2002

This report aims to summarise all significant matters that have arisen during the course of the audit and which I feel are worthy of Members' attention.

I should like to take this opportunity to thank the Chief Executive, the Director of Finance and all officers of the Council who have assisted my staff in the course of the audit.

Yours faithfully.



Peter Tait
Chief Auditor

Encs

30 November 2002

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DUNDEE CITY COUNCIL

REPORT TO MEMBERS ON THE
2001/02 AUDIT

Executive Summary

Introduction

This report summarises my main responsibilities as auditor, the scope of the work undertaken and the issues arising from the audit of Dundee City Council for the year to 31 March 2002. My responsibilities and duties derive from the Local Government (Scotland) Act 1973 and are summarised in the Code of Audit Practice, which sets out my objectives as being to review and report on:

- ◆ whether the statement of accounts presents fairly the Council's financial position;
- ◆ the corporate governance arrangements including the prevention and detection of fraud and corruption, and the adequacy of the main financial systems;
- ◆ the Council's arrangements to manage its performance.

Audit findings and conclusion

The Council submitted their accounts for audit within the prescribed deadline. My overall conclusion is that the financial stewardship of the Council was of a satisfactory standard, in particular:

- ◆ there were no qualifications to my opinion in my auditor's report and I have concluded that the Annual Accounts present fairly the Council's financial position;
- ◆ all of the Council's Direct Service Organisations and the Direct Labour Organisation achieved their prescribed financial objective;
- ◆ except for one performance indicator, (housing benefit – change of circumstances) classed as '*unreliable*' and two indicators (housing benefit administration) classed as '*failed to report*', all other statutory Performance Indicator information provided by the Council has been assessed as '*reliable*' for the 2001/02 financial year;
- ◆ the Council achieved its overall financial target for General Fund revenue expenditure with a favourable underspend against budget, which increased the General Fund balance from £2.569 million brought forward at 1 April 2001, to £3.598 million carried forward to 2002/03, including £0.186 million reserved for schools under Devolved School Management.

I was able to conclude that the Council has many aspects of a sound corporate governance framework in place and I note that the Council has recently adopted a local Code of Corporate Governance. I was not, however, able to place as much reliance on the work undertaken by Internal Audit as I would have liked and this is the subject of discussion with the Director of Finance.

In my opinion, the Council is becoming increasingly dependent on its ICT systems and I would emphasise the importance of the need for effective management arrangements, especially in the areas of risk analysis, security and the testing of contingency plans. I would also highlight that the new Community Plan for Dundee presents new opportunities to develop an effective ICT Strategy for the future involving shared services and information.

I examined the progress made towards implementing the improvement actions agreed by the Council, as part of the previous audits of performance management and planning, and I am pleased to report

that good progress has been made in respect of the service reviews. Where progress was less than intended, appropriate remedial action has been planned. Detailed action plans covering the issues raised during the audit have been discussed with management.

A handwritten signature in black ink, appearing to read 'Peter Tait', with a large, stylized initial 'P'.

Peter Tait, Chief Auditor

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Introduction

- 1.1 I have been appointed as the external auditor for Dundee City Council for the five year period from 1 April 2001 to 31 March 2006. This is, therefore, my first report under the current appointment arrangements.
- 1.2 I would like to introduce this report by summarising my main responsibilities and duties and the way in which I approach the conduct of the audit. My responsibilities and duties as auditor derive from the Local Government (Scotland) Act 1973 and are summarised in Audit Scotland's Code of Audit Practice and Statement of Responsibilities, which sets out the auditor's objectives as being to review and report on
- ◆ the Council's financial statements;
 - ◆ the Council's corporate governance arrangements as they relate to:
 - the system of internal control,
 - the prevention and detection of fraud and irregularity,
 - standards of conduct and prevention and detection of fraud and corruption,
 - the Council's financial position; and
 - ◆ aspects of the Council's arrangements to manage its performance, and secure economy, efficiency and effectiveness in the use of resources, including compliance with the requirements in respect of Best Value and the publication of specified performance information.
- 1.3 Additionally, under the Local Government Planning and Land Act 1980 and the Local Government Act 1988, I am required to give a written opinion on the prescribed financial objectives applicable to the Council's direct labour and direct service organisations.
- 1.4 I have, therefore, significantly wider responsibilities than would be expected of external auditors in the private sector. This report is a summary of audit activity on the 2001/02 Audit, and reflects those wider responsibilities.
- 1.5 This report requires to be considered in the context of the stewardship responsibilities of the management of the Council. As the Audit Scotland Code of Audit Practice makes clear

“The prime responsibility for ensuring both that public business is conducted in accordance with the law and proper standards and that public money is handled with absolute integrity

and spent appropriately rests with the elected members and officials. To discharge this accountability, public bodies and those responsible for the conduct of their affairs require to establish and maintain proper arrangements for the governance of their affairs and the stewardship of resources at their disposal.”

- 1.6 The key issues arising from the audit which require action by the Council are set out in the Action Plan included as an appendix to this report.

Financial statements and related matters

- ◆ Audit opinion
 - ◆ Financial position
 - ◆ Issues arising
 - ◆ Legality
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Audit opinion

- 2.1 The financial statements of the Council are an essential means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. My Auditor's report on the accounts concluded that, in my opinion, the financial statements of the Council '*present fairly*' its financial position and the income and expenditure for the year ending 31 March 2002.
- 2.2 Direct Labour Organisations (DLOs) and Direct Service Organisations (DSOs) have a statutory requirement to break-even in each financial year. I have provided audit opinions for the Council's DLOs and DSOs and can confirm that the prescribed financial objective set by the Scottish Ministers has been achieved for all the works and defined activities in 2001/02.

Financial position

- 2.3 The Council's net revenue expenditure amounted to £218.233 million in 2001/02 and was met from government grants and local taxation of £219.076 million, resulting in a surplus for the year of £0.843 million.
- 2.4 In his Foreword to the financial statements, the Director of Finance summarises performance against budget in 2001/02. An underspend of £1.166 million on General Fund services was achieved with the prime reason being an exceptional receipt of £1.4 million in exchange for the renunciation of a lease of one of the Council's factory units (referred to in Note 2 on Page 8 of the Statement of Accounts).
- 2.5 The Housing Revenue Account recorded a deficit for the year of £0.479 million, against a budgeted break-even. This deficit was transferred to the Consolidated Revenue Account and was funded by a planned transfer from the Renewal & Repair Fund.
- 2.6 The General Fund balance of £2.988 million brought forward at 1 April 2001 has been increased to £3.598 million carried forward as at 31 March 2002, including £0.186 million reserved for schools under Devolved School Management. As at 31 March 2002, the Council had a total balance of £8.449 million as summarised below.

Balance at 31/3/01 £'000	Description	Balance at 31/3/02 £'000
2,988	General Fund	3,598

3,221	Renewal & Repair Fund	3,279
121	Dundee Contracts Reserve	126
2,010	Insurance Fund	915
391	Car Park Reserve	531
8,731	Total	8,449

- 2.7 Capital expenditure totalled £33.653 million in 2001/02 and was funded by borrowing of £20.116 million, capital receipts of £6.545 million, grants and contributions of £3.970 million, revenue contributions to capital of £2.345 million and other receipts of £0.677 million.
- 2.8 The Council requires consent under Section 94 of the Local Government (Scotland) Act 1973 to incur liability to meet capital expenses. Each year returns have to be prepared by the Council and submitted for audit. The returns show that spending was within the available Section 94 consent or the acceptable anticipation limit.
- 2.9 The returns are in the process of final audit review prior to being remitted to the Scottish Executive. Members will be aware that should adjustments be required they may impact on the consent available in subsequent financial years.

Issues arising

- 2.10 Under the Local Authority Accounts (Scotland) Regulations 1985, the Council's financial statements require to be submitted to the Controller of Audit not later than 30 June 2002. The Accounts Commission for Scotland set a target date of 30 September for the issue of the Auditor's report on the Statement of Accounts. In the case of the DLO/DSO accounts, the Local Government Act 1988 specifies that the annual report should be prepared by 30 September and submitted to the auditor by 31 October.
- 2.11 I am pleased to be able to advise members that, due to the considerable efforts of Council staff and my staff, the accounts were submitted for audit before the due date and the audit was concluded within the tight timescales set by the Accounts Commission.
- 2.12 With such a tight timescale it is doubly important that both sets of staff are able to co-operate in a professional manner, especially in the first year of a new audit appointment. I am, therefore, pleased to record that the help and co-operation provided by the Finance Department staff was of a very high standard and augurs well for the future.
- 2.13 In the normal course of events, matters arise during the audit of the financial accounts which result in discussions with the Director of Finance and his staff. The financial year 2001/02 was no exception and I am pleased to report that all such matters were either resolved for this year, or agreement reached to make the necessary adjustments in 2002/03 in accordance with the recommendations made.

Pension liabilities

- 2.14 Accounting for the costs of pensions and similar benefits presents one of the most difficult challenges in the field of financial reporting. The amounts involved are large, the timescale is long, the actuarial mechanisms used to match costs to years of employment are complex, and the estimation process involves many areas of uncertainty that are the subject of assumptions. Financial Reporting Standard 17 (Retirement Benefits) was issued in November 2000 with the ultimate aim that:

- ◆ financial statements reflect at fair value the assets and liabilities arising from an employer's retirement benefit obligations and related funding;
 - ◆ the operating costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned;
 - ◆ the financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.
- 2.15 FRS 17 is being implemented in a phased manner over a number of years and I am pleased to report that the Council has complied with the transitional requirements for 2001/02. Note 18 to the Consolidated Balance Sheet on Page 26 of the Statement of Accounts highlights that the Council's estimated pension liabilities at 31 March 2002 (including the estimated liabilities for discretionary pensions) exceeded its share of assets in the Tayside Superannuation Fund by £12.204 million. Full, rather than transitional, application of FRS17 would require a provision to be made for this sum in the Council's financial statements.
- 2.16 A full actuarial valuation of the Tayside Superannuation Fund at 31 March 2002 is currently underway, with any net liability in the fund being recouped through increased employers' contributions in future years.

Superannuation fund accounts

- 2.17 The Council is responsible for the management and administration of two superannuation funds – the Tayside Superannuation Fund and the Tayside Transport Superannuation Fund. The investment assets for both funds are under the management of external fund managers and over the recent past the net investment assets have declined, largely due to falls in the equity market.

Market Value of Investments managed externally	31/03/01 £m	31/03/02 £m	30/09/02 £m
Tayside Superannuation Fund	910.9	913.0	736.5
Tayside Transport Superannuation Fund	37.4	35.6	29.8

- 2.18 The market value of the funds managed by the Tayside Superannuation Fund at 31 March 2002 was £913 million. The market value of investments can go up as well as down and I note that the market value of the Fund's investments had fallen to £736.5 million (a fall of 19.3%) as at 30 September 2002. Dundee Council's share of the Fund's assets at 31 March 2002 amounted to 42.6% of the Fund's net assets.
- 2.19 The Funds' actuary is presently carrying out his normal three year review of funding requirements and will be advising the Council in due course on the recommended rate of employers contributions to enable the Funds to remain in balance over the longer term. The Council are in the same position as other local authorities in reviewing the adequacy of its pension funds and I will monitor this situation closely in the coming year.

Dundee Energy Recycling Limited (DERL)

- 2.20 DERL is a special purpose company, originally formed between BICC plc, Kvaerner Investments and Dundee City Council under a Private Finance Initiative, and was created to develop, own and operate the 'waste to energy' plant. The plant was designed to handle up to 120,000 tonnes per year of waste and export up to 8.3MW of electricity to the national grid. Dundee City Council are contracted to supply DERL with 75,000 tonnes of waste and Angus Council are contracted to supply a further 30,000 tonnes each year.
- 2.21 The construction consortium consisted of Balfour Beatty Projects and Engineering Ltd and Kvaerner Enviropower AB. The completed plant was taken over from the construction consortium on 31 March 2000 and on the same date a 20 year contract commenced between the Council and DERL for the disposal of domestic refuse.

- 2.22 The original Council investment in DERL amounted to 40% of the equity, with 20% held by Balfour Beatty, 20% by Macquarie Infrastructure Investments and the remainder owned by BZW. The Council has two officers (the Director of Finance and the Director of Environmental and Consumer Protection) as Directors on the Board of DERL, which is comprised of six Directors.
- 2.23 I have been informed that a major fire had taken place at the plant in September 2000. This caused serious damage requiring reconstruction and the plant was non-operational until April 2001.
- 2.24 The Accounting Code of Practice (ACOP) requires local authorities with material interests in subsidiary and associated companies and joint ventures, to prepare summarised Group Accounts as supplementary information. As shown in Note 4 on Page 20 of the Statement of Accounts, the Council has a sum of £5.063 million invested in DERL, in the form of an interest free loan repayable in 18 years time. The Council's interest in DERL is deemed to be '*material*' and is considered to constitute a '*joint venture*' in terms of ACOP.
- 2.25 The Council have complied with the terms of ACOP and have included the '*Group Accounts*' at pages 31 to 33 of the Statement of Accounts. I note that DERL's accounting period is to 31 December and that for the purposes of disclosure in the Group Accounts, figures from DERL's management accounts to 31 March 2002 were used. This indicates that the Council's share (40%) of the loss for the year to 31 March 2002, amounts to £2.677 million.
- 2.26 The Council's share of the loss reported by DERL is included in the '*Joint Venture and Associated Companies Profit and Loss Account*', which forms part of the Group Accounts. The Director of Finance has highlighted in the Group Accounts that the impact of consolidation on the Balance Sheet is to decrease the Group's net assets and reserves when compared to the Council's balance sheet. I would also draw your attention to the fact that, in the context of the Group Accounts, the £4.050 million cumulative deficit on the '*Joint Venture and Associated Companies Profit and Loss Account*' exceeds the Council's General Fund balance of £3.598 million at 31 March 2002.
- 2.27 In early 2002, DERL, in discussion with its Lenders and Shareholders, agreed to commission the development of a recovery plan. An interim Managing Director and Chairman were employed in April 2002 to develop and manage the implementation of the recovery plan.
- 2.28 In October 2002, independent experts completed a comprehensive technical performance review. Based on the outcome of this review, discussions are now ongoing with the plant contractor, lenders, shareholders and customers on the long-term commercial and financial arrangements relating to the plant.
- 2.29 I have been informed that, the Directors of DERL consider that the company will reach a satisfactory resolution to its technical difficulties and thereafter the lenders will agree revised funding arrangements with the company. I have discussed the above issues with the Corporate Finance Manager and will monitor this situation closely in the coming year.

Legality

- 2.30 All auditors plan and perform their audit recognising that non-compliance with statute or regulations may materially affect the financial statements. Public sector auditors also have wider responsibilities relating to the legality of transactions and activities to ensure that funds are expended for duly authorised purposes.

2.31 I fulfil my duties with regard to legality by the:

- ◆ inclusion of all significant legal requirements in audit programmes and checklists used in the conduct of the audit;
- ◆ deployment of staff who have substantial experience of the public sector's legal framework;
- ◆ assessment of the arrangements the Council has in place to ensure compliance with, and obtain advice on, legal matters;
- ◆ consideration of the impact of new legislation and guidance when planning the audit;
- ◆ review of Council minutes, making further enquiries where necessary;
- ◆ provision of written confirmation from the Director of Finance that the financial transactions of the Council are in accordance with the relevant legislation and regulations governing its activities.

2.32 The Director of Finance confirmed on 12 September 2002 that, "*the financial transactions of Dundee City Council are in accordance with the relevant legislation and regulations governing its activities*".

2.33 I am pleased to report that there were no issues of legality arising from the audit work in 2001/02.

Corporate Governance

- ◆ Corporate governance overview
 - ◆ Fraud and corruption arrangements
 - ◆ Internal audit
 - ◆ Systems of internal control
 - ◆ Information, Communication and Technology (ICT) arrangements
-

Introduction

- 3.1 Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Three fundamental principles of corporate governance apply equally to all public sector bodies: openness, integrity and accountability. The Council has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
- 3.2 As auditor, I have a responsibility to review and report on the Council's corporate governance arrangements. This section of the report highlights, for the interest and attention of members, the main findings from the principal areas examined in 2001/02.

Corporate governance overview

- 3.3 In conjunction with the Society of Local Authority Chief Executives and Senior Managers (SOLACE), the Chartered Institute of Public Finance and Accountancy (CIPFA) has developed a framework of the principles of corporate governance for adoption by local government. The new framework "*Corporate Governance in Local Government – A Keystone for Community Governance*" was launched in May 2001. In January 2002, a working group set up by the 'CIPFA Directors of Finance Section' in Scotland produced a template for the development of a local corporate governance code by Councils.
- 3.4 A corporate governance overview was conducted as part of the audit planning process for the five-year audit appointment from 2001/02 to 2005/06. Detailed work covering the areas listed below will be conducted throughout the duration of the appointment and results from this work will inform an ongoing assessment of the Council's corporate governance arrangements. As part of our 2001/02 audit, I have conducted an overview of the Council's corporate governance arrangements in relation to:
- ◆ the structures and processes for decision making;
 - ◆ risk management and systems of internal control;
 - ◆ arrangements for the prevention and detection of fraud and irregularities,
 - ◆ standards of conduct, integrity and openness;
 - ◆ reporting arrangements and monitoring of the Council's overall financial position.

3.5 This part of my report does not consider the ‘*performance management*’ components of CIPFA’s framework as it is examined in detail as part of the Best Value / Performance Management and Planning (PMP) audit programme, which is reported in Section 4.

3.6 The audit planning process and overview has enabled me to conclude that the Council has many aspects of a sound corporate governance framework in place, in particular that it:

- ◆ has addressed key issues in its decision making structures and processes in relation to the roles of elected members, arrangements for political management, the conduct of business and the delegation of authorities;
- ◆ has developed an underlying ethos that is based around consultation with stakeholders about the future direction of services;
- ◆ reviews its risk management through the risk management and insurance section and internal control arrangements, primarily through the operation of its internal audit service, which forms a key element of the Council’s internal control system;
- ◆ has satisfactory arrangements in place for developing, promoting and monitoring compliance with Standing Orders and financial instructions;
- ◆ has recently introduced arrangements aimed at ensuring that members and employees are not influenced by prejudice, bias or conflicts of interest, including the adoption of a formal code of conduct for elected members and staff, a formal whistle blowing policy and maintenance of registers of interests and gifts;
- ◆ has arrangements in place to ensure compliance with statutory financial requirements and the achievement of financial targets;
- ◆ produces financial statements in line with statutory requirements and undertakes a range of public performance reporting at both corporate and service levels.

3.7 The Council has made good progress on the above aspects, however, I would draw to your attention that in a number of areas, further work will be necessary to ensure that all aspects of the SOLACE/CIPFA framework are addressed. In particular:

- ◆ the introduction of formal risk management systems with structured processes, including quality control, to identify and evaluate all significant operational risks;
- ◆ risk management processes require to be embedded in strategic and operational planning activity;
- ◆ the review of current systems of internal control to ensure that appropriate control strategies are adopted and the resources available to control risk are targeted at established priorities;
- ◆ development of the necessary arrangements to support the inclusion of an internal financial control statement in the 2002/03 financial statements.

- 3.8 A draft management letter on Corporate Governance is currently being prepared and will be the subject of discussion between the Chief Executive and myself. At this stage I note that the Council has adopted a local Code of Corporate Governance and has many aspects of a sound corporate governance framework in place. Once agreed with the Chief Executive, a detailed management letter will be issued which will include an action plan, if appropriate. I will include details of this work in my Report to Members on the 2002/03 Audit.
- 3.9 More detailed work on 'fraud and corruption' and 'internal audit' as key elements of the Council's corporate governance arrangements were the subject of separate management letters and these are summarised in the following paragraphs.

Fraud and corruption arrangements

- 3.10 Public money raised through taxation should only be used for approved purposes. There is, therefore, a need for high standards of probity in the public sector and proper stewardship of public funds. The importance of this area has recently been emphasised with the introduction of the Ethical Standards in Public Life (Scotland) Act 2000 which, among other measures, will lead to the introduction of a Standards Commission for Scotland and the requirement for the setting up of a register of interests for councillors.
- 3.11 An examination of the arrangements within the Council for the prevention and detection of fraud and corruption was undertaken. This focused on the existence of overall controls, such as the provisions within Standing Financial Instructions and fraud policies, and the arrangements for receiving and investigating complaints of suspected fraud and corruption.
- 3.12 In broad terms, I was able to conclude that the Council has a satisfactory series of guidelines aimed at the prevention and detection of fraud and corruption, in particular:
- ◆ Standing Orders and Financial Regulations set out a broad framework and address the main risk areas. A local Code of Conduct for Members and Officers has also been in place within Dundee Council since March 2000. This is based on national guidance and deals with issues such as conflicts of interest and gifts and hospitality;
 - ◆ an 'Anti Fraud and Corruption Policy and Strategy on Local Taxation and Benefits' has also been established since October 1999. This sets out a series of measures aimed at preventing fraud in a high risk area such as housing and council tax benefits, including the use of data matching and the establishment of a Fraud Hot-Line;
 - ◆ in September 2002, the Council approved and formally adopted a policy covering the arrangements for fraud and financial irregularities in the other major financial systems;
 - ◆ the Council has also introduced a 'Help line for Employees – Disclosure of Information' policy which is aimed at encouraging staff to act as 'whistleblowers' and alert management to the possibility of fraud or corruption.
- 3.13 A detailed management letter has been discussed with the Director of Finance and I will continue to monitor progress in this area as part of my 2002/03 audit work.

Internal Audit

- 3.14 The Council has a dedicated internal audit service, which forms a key element of the Council's corporate governance framework. The main duty of internal audit is to provide an assurance to management on the accounting and internal control systems within the Council. The procedures used to provide that assurance are broadly similar to those used by external audit. As a result, I attempt to place as much reliance as possible on internal audit both to reduce our input and avoid unnecessary duplication of audit effort.
- 3.15 As part of our 2001/2002 audit I conducted a general overview of procedures operating within the Council's internal audit service to determine:
- ◆ an overall assessment of the adequacy, strengths and weaknesses of the internal audit service;
 - ◆ the extent to which we can place formal reliance on the work of internal audit in 2001/2002.
- 3.16 The overview did not include a detailed examination of internal audit files to assess the adequacy of the work undertaken, sufficiency of audit evidence obtained, appropriateness of conclusions reached and the quality of audit working papers. This will be undertaken during a more comprehensive review of internal audit, which will form part of a future audit.
- 3.17 I noted that there were wide variances between the planned and actual level of audit work for 2001/02. This was due to a significantly increased level of sickness within the service, unplanned activities and new staff. This resulted in a number of planned assignments that were started but not completed during 2001/2002. In addition, a number of planned exercises did not commence during 2001/2002 and I note that internal audit's Annual Plan for 2002/2003 includes 240 days for the finalisation of 2001/2002 audit assignments.
- 3.18 Internal audit's Annual Plan for 2001/2002 contained a number of assignments where I might have been able to place reliance on the work of internal audit. Unfortunately, as the planned work was not undertaken during 2001/2002, I could not take the expected level of reliance on the work of internal audit.
- 3.19 The Accounts Commission published a national report on the provision of internal audit services in Scottish local government '*A Job Worth Doing*' in August 2001, which contained a number of good practice indicators. The study found that there was room for improvement in all Councils but that some councils perform significantly better than others. I noted that Dundee City Council was rated in Band 2 achieving up to 81% compliance with the CIPFA Code of Practice for Local Government.
- 3.20 I also note that my predecessor issued a local management letter '*Review of Internal Audit Arrangements 2000/01*', in November 2001, which included a detailed action plan containing 14 recommendations with agreed 'completion dates' ranging from March 2002 to June 2003.

- 3.21 I intend to monitor closely the progress made by internal audit in implementing the agreed action plan as part of the 2002/03 audit. I will also be discussing the level of internal audit cover achieved in 2001/02 and the extent to which I can place reliance on the work of internal audit in the future, with the Director of Finance as part of the 2002/03 audit planning process.

Systems of internal control

3.22 The Council has a responsibility to develop and implement systems of internal control, including systems of financial, operational and compliance controls and risk management. This involves undertaking a proper assessment of the risks facing the Council and implementing systems and procedures to address those risks.

3.23 During the course of this year's audit I reviewed '*matters from previous years*' and the following internal control systems

- ◆ comparison of rateable values;
- ◆ payroll;
- ◆ main accounting system.

3.24 I would like to emphasise that the weaknesses identified are only those which have come to my attention during the course of the normal audit work in accordance with the Code of Audit Practice and therefore are not necessarily all of the weaknesses which may exist.

Matters from previous years

3.25 In previous years, reviews were undertaken by my predecessor, Henderson Loggie, on Loans Fund; Members Services; Superannuation Investments and Housing: Income Collection. These reviews resulted in a number of recommendations being made, with agreement to take action on these recommendations within a set timescale being reported to the Audit and Risk Management Sub-Committee. The results of the follow-up reviews to ascertain the actions taken are listed below.

Previous reviews:	2001/02 Audit Finding:
<i>Loans Fund and Members Services:</i>	All of the agreed recommendations have been addressed
<i>Superannuation Investments:</i>	Two of the seven agreed recommendations due to be completed had not been fully addressed. The main deficiencies that still existed were: <ul style="list-style-type: none"> ▪ an independent review of Fidelity's internal controls by the Society of County Treasurers had not been carried out; ▪ the review of the structure of the Fund was still ongoing. It is my understanding that the review has now been completed and reported to the Superannuation Investment Sub-Committee in October 2002.
<i>Housing: Income</i>	Three of the sixteen agreed recommendations had not been fully

<i>Collection:</i>	addressed. It is my understanding that remedial action has been taken.
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Comparison of rateable values

- 3.26 A review was carried out of the Valuation and Assessment Rolls and a report setting out the findings was submitted to the Audit and Risk Management Sub-Committee on 10 June 2002.
- 3.27 The review examined the controls in place to ensure that the Assessment Roll maintained by the Finance Department for billing purposes was in accord with the Valuation Roll maintained by the Tayside Valuation Joint Board.
- 3.28 The review established that regular reconciliations take place between the Rolls and are operating satisfactorily.

Payroll

- 3.29 The budgeted staff costs for the Council in the financial year 2001/2002 were approximately £135 million, which equates to approximately 44% of the total revenue budget. It is essential, therefore, that a sound system of control exists within the payroll system to ensure the proper financial management of such a material area of expenditure.
- 3.30 A review of the ISIS Payroll System was carried out as part of the 2001/02 audit of the Council and submitted to the Audit and Risk Management Sub-Committee on 23 September 2002. The scope of the review examined the procedures and controls within the Central Payroll Team focusing on five key areas of control:
- ◆ payments are made only to valid employees;
 - ◆ all data input to the system is properly authorised;
 - ◆ data (particularly standing data) is accurate and complete;
 - ◆ payments are correctly calculated in accordance with contracts of employment, pay scales, hours worked, other authorised allowances etc;
 - ◆ payroll costs are correctly recorded in the financial ledger.
- 3.31 Overall, the review found that of the twenty-nine expected system controls operated by the Central Payroll Team, all but four appear to be operating properly. Several omissions and weaknesses were highlighted, however, the most important of which were:
- ◆ procedural instructions for the Central Payroll Team did not cover all tasks undertaken by the Team;
 - ◆ the Revenues Administration and the Finance Office Services Sections of the Finance Service did not have procedural instructions for starters, leavers and amendments to payroll;
 - ◆ there was no authorised signatory list to ensure that input documents received from Services had been properly authorised;

- ◆ instances arose where original documentation for both starters and amendments to the payroll had not been signed or authorised by the employee's line manager, but had still been processed;
- ◆ instances were noted where there was a lack of evidence of checks carried out.

Main accounting system

3.32 The Council are statutorily required to keep accounts of all transactions relating to funds of the authority. This is achieved through the Council's main accounting system, the operation of which was reviewed to ensure that:

- ◆ prior year balances were correctly brought forward;
- ◆ all data input to the system was properly authorised;
- ◆ data from feeder systems was correctly transferred to the financial ledger;
- ◆ output properly reflected the financial data within the system;
- ◆ output was produced in accordance with a prescribed timetable and in a format which contributed to the financial management of the body.

3.33 A report setting out the following findings has recently been completed and will be submitted to the next Audit and Risk Management Sub-Committee. Overall, nineteen of the twenty-one expected controls were operating satisfactorily and I am of the opinion that the current Powersolve system was satisfactorily controlled and the information held in the financial ledger was accurate.

3.34 There were, however, areas of weakness highlighted by the review, the most important of which were:

- ◆ procedural instructions required to be updated to incorporate arrangements for bringing forward prior year balances;
- ◆ authorisation arrangements for control of journal entry data input should be reviewed to segregate the tasks of raising, authorising and inputting of journals. Non standard journals should be strictly controlled.

Management action – systems of internal control

3.35 The management letters referred to in this section on '*systems of internal control*' have been discussed and agreed with officers. Once agreed, management letters are submitted to the Audit Sub-committee in due course for scrutiny and follow-up as part of a future audit.

Information Communications and Technology (ICT) arrangements

Background

3.36 The use of Information, Communications and Technology (ICT) is essential to the efficient and effective operation and management of Dundee City Council. The Information Technology Division of the Chief Executive's Department manages ICT within the Council. As part of the 2001/02 audit therefore, we reviewed the provision of Information, Communications and Technology (ICT) within the Council.

3.37 This study reviewed the following key areas of the provision of ICT services and compared the practice within the Council with expected good practice:

- ◆ Strategy
- ◆ Structure
- ◆ Installation Management
- ◆ Service Delivery
- ◆ Security of ICT Assets
- ◆ Contingency Planning and Business Continuity
- ◆ Network

Strategy

3.38 My aim was to establish whether the Council had a formally documented and agreed ICT Strategy which enabled it to plan formally for the introduction of information systems which would meet its corporate business objectives.

3.39 The review highlighted that the Council set up an ICT Working Group chaired by the Chief Executive with responsibility for developing and reviewing the ICT Strategy. The latest ICT Strategy document was agreed by the Council in November 2000 and was aligned with the Council's Corporate Plan. As expected, it concentrates on addressing the e-government agenda.

3.40 Since adopting the existing ICT Strategy in November 2000, the Council in partnership with other organisations in Tayside have developed the first community plan for Dundee (*Dundee in Partnership*) covering the period 2001 to 2006. The plan covers a range of issues, with agreed approaches including: integrated services, combining resources, joint planning, sharing information and working together.

3.41 The action plan arising from the audit recommended that the Council introduce formal procedures for reviewing and updating the ICT Strategy and I would add that this should be linked to the shared business objectives as set out in the Community Plan.

Structure

3.42 The audit review considered whether the Council had introduced a structure to ensure that corporate, departmental and local information needs could be provided. In particular, who has been delegated the authority for the provision of ICT services and that there are defined roles and responsibilities for the delivery of corporate, departmental and local ICT services.

3.43 I noted that the Head of IT reports direct to the Chief Executive and that the IT Division has been given the authority to provide ICT services. The Division was restructured two years ago and the current structure is geared to support technological developments, with '*implementation of new systems*' and '*desktop support*' being handled by different teams.

- 3.44 I was surprised to find that the expertise of the small number of network specialists is also distributed between teams. This issue has been discussed with the Head of IT and there are plans to set up a 'Networking Group' to monitor the efficient working of the Corporate Network. I will follow up this issue during the 2002/03 audit.

Installation Management

- 3.45 The computer installation management arrangements were reviewed to ensure that secure procedures and appropriate standards / working practices were provided for control over both local and remote sites. The scope of the review covered: access controls, environmental protection, segregation of duties and formally documented standards and working practices for the personnel engaged in information processing activities.
- 3.46 I noted that the IT Division has obtained ISO 9001 accreditation and that evidence was available of documented standards that promote good working practices. The review also revealed a number of weaknesses and I would draw to your attention that security at one of the Council's three main sites is inadequate. The above issues have been discussed with management and I will follow up the agreed action plan as part of the 2002/03 audit.

Service Delivery

- 3.47 The IT Division's service level arrangements were reviewed to ensure that prescribed levels of service were agreed between Council departments as purchasers and the IT Division as the providers. In particular, I looked for the ability of the 'purchaser' to prescribe the level of ICT service, which it required, to meet its business and objectives.
- 3.48 The audit work identified several areas of good practice which assisted the provision of customer service, in particular:
- ◆ the maintenance of a catalogue that defines the services of the IT Division e.g. service name and description, deliverables, dependencies on other services and basis of charge;
 - ◆ that service level agreements for maintenance have been agreed with internal customers;
 - ◆ the Head of IT meets with Chief Officers twice a year, to discuss service delivery, and initiates meetings with others as situations demand;
 - ◆ the IT Service Plan is also used to define services to be delivered and a means of monitoring achievement.

Security of ICT Assets

- 3.49 The aim of the review was to seek assurance that the Council were able to protect their investment in the hardware, software and data assets and was able to comply with statutory and corporate requirements. In particular, I looked for:

- ◆ an ICT Security Policy, with specific personnel accountable for ICT security;
- ◆ an inventory which identifies the purpose, ownership and location of all ICT assets;
- ◆ a risk analysis / management method which identifies the appropriate level of security for the protection of all ICT assets; and
- ◆ a reporting mechanism to measure the level of compliance with the ICT Security Policy.

- 3.50 The audit revealed that the Council had a range of security measures in place, including regular back up procedures, guidelines issued to staff and the use of anti-virus software on clients' servers and other ICT equipment.
- 3.51 The review also revealed a number of security weaknesses and in particular, I would draw your attention to the following aspects noted during the review:
- ◆ the Council currently does not have a formal Security Policy; and
 - ◆ the Head of IT is responsible for overall security, however there is no nominated Security Officer in either the IT Division or in any department.
- 3.52 I was informed that a Working Group has been set up by the IT Division Management Team to look at developing a policy meeting BS7799 (Code of Practice for Information Security Management). The weaknesses have been discussed with management and a detailed action plan has been agreed. I will follow up the action taken as part of the 2002/03 audit.

Contingency Planning and Business Continuity

- 3.53 One of my key objectives was to ascertain whether the Council had formal contingency plans for maintaining the continuity of the organisation's business critical ICT systems. I also sought to evaluate the plans for the following:
- ◆ the use of risk analysis to identify business critical systems;
 - ◆ cost effective measures to minimise the risks to ICT services/systems;
 - ◆ identified time periods within which systems / services should be restored;
 - ◆ plans were tested to assess their effectiveness.
- 3.54 I was informed that the Risk Manager and an IT Strategy Officer were, at the time of the review, carrying out a risk assessment to identify the Council's business critical systems. I note that the last assessment was made before Year 2000. Meanwhile, the Social Work system has been duplexed over two sites, and servers to a standardised specification are being purchased with disaster recovery in mind.
- 3.55 A number of preventative contingency measures have been taken to minimise the risk to ICT services. I noted that there were suitably documented backup procedures in place, and for some applications an element of contingency was included e.g. payroll system.
- 3.56 The audit highlighted that Council officers developed Business Continuity Plans as part of the preparation for the Year 2000. Unfortunately, the good work carried out before Year 2000 has not been maintained and plans have not been updated nor tested since. Disaster Recovery plans have not been prepared and no scheduled testing has been carried out.

- 3.57 The need for Disaster Recovery plans (e.g. in the event of fire) was discussed with the Head of IT who has accepted the concept for such plans and I was informed that the IT Division was working with the Finance Department on a review of the most critical systems to the Council. I will follow up this issue as part of the 2002/03 audit.

Network

- 3.58 The use of ICT in the Council is dependant on the use of communications networks and, as part of the audit review, I sought an assurance that they were adequate, reliable and secure. In particular I looked for a formally documented and agreed network strategy with standards and procedures in place to control the use of the network.
- 3.59 I was informed that the IT Division's Management Team determines the Network Strategy for the Council in line with the overall Council ICT Strategy. At the time of the audit, the Network Strategy had not been documented, however, I noted that the network has been built on sound principles and in a structured manner.
- 3.60 I also noted that a risk assessment of critical components of the network has been carried out with the result that critical components are held in stock and other equipment can be sourced in four hours. The network is, however, reliant on two major distribution points (nodes), and provision has not been made to minimise the loss of one of these major nodes. I will follow up this issue as part of my 2002/03 audit.

Overall Conclusion

- 3.61 Several areas of good practice were identified and the review established that the overall arrangements for the provision of Information, Communications and Technology within the Council are geared to customer service and are addressing the '*e-government*' agenda.
- 3.62 A number of areas were identified where improvements could be introduced and these issues were discussed with the Head of IT and other managers. A detailed management letter was submitted which included an agreed action plan. This was submitted to the Audit and Risk Management Sub-Committee on 10 June 2002.
- 3.63 In my opinion, the Council is becoming increasingly dependent on its ICT systems and I would emphasise the importance of the need for effective management arrangements, especially in the areas of risk analysis, security and the testing of contingency plans. I would also highlight that the new Community Plan for Dundee presents new opportunities to develop an effective ICT Strategy for the future involving shared services and information.
- 3.64 I will continue to monitor the Council's ICT arrangements throughout the term of my appointment as auditor.

Performance Management

- ◆ Performance management and planning
 - ◆ Centrally directed studies
 - ◆ Performance Indicators
 - ◆ Management action
-

Introduction

- 4.1 My review of the Council's arrangements to secure value for money from the use of resources includes three main activities:
- ◆ appraisal of the Council's performance management and planning processes;
 - ◆ undertaking local fieldwork on topics which form part of Audit Scotland's Performance Audit Directorate's centrally directed studies programme;
 - ◆ reviewing arrangements for collecting, recording and publishing directed performance information.
- 4.2 This section of the report highlights, for the interest and attention of members, the main findings from the principal areas examined in 2001/02. Nine detailed reports to management, including agreed action plans, were submitted to officers during the year outlining findings from reviews of the performance management and planning framework, performance indicators, trading standards and pre-school education.

Performance management and planning

- 4.3 The purpose of Best Value is to ensure that Councils provide services that meet the needs of their customers and citizens and provide value for money. Councils must also demonstrate that they are accountable and delivering continuous improvement. Performance management and planning (PMP) is a means to help achieve these objectives by establishing clear standards and targets for all activities, identifying where and how improvements can be made, and reporting on performance.
- 4.4 Best Value has been progressing in Scottish Councils since 1997, with the Best Value Task Force's second report issued in July 1998 requiring Councils to develop a PMP framework which delivers continuous improvement. The PMP audit is designed to review the progress that Councils are making in implementing this framework.
- 4.5 The 2001/02 audit at Dundee City Council was carried out in accordance with guidance issued by Audit Scotland and involved three main elements:
- ◆ a review of progress made towards implementing corporate level improvement actions agreed by the Council as part of the 2000/01 audit;

- ◆ a service level audit of progress in developing a framework within two services selected for review by agreement between the Council and Audit Scotland (Environmental & Consumer Protection and Finance);
- ◆ follow up of progress made towards implementing improvement actions identified by services covered as part of the 1999/2000 and 2000/01 audits.

Corporate level progress update

- 4.6 The Council has made limited progress in implementing the corporate level actions agreed in 2000/01, with only two out of eight improvement actions having progressed as planned. In the six cases where progress was less than intended, remedial action was planned to recover the slippage. At November 2002, the situation may be summarised as:
- ◆ bringing together the Corporate Plan and the Services Plans on the Council's Web site has started and is ongoing;
 - ◆ action to improve performance reporting has been rescheduled for April 2003;
 - ◆ whilst there has been some progress with consultation, the adoption of a 'Best Value Plan' has been carried forward until May 2003 when it will be presented to the new Council together with an update of the Corporate Plan.
- 4.7 Particular achievements as highlighted in the Council's performance report as 'Things to Celebrate' include:
- ◆ the development of the 'Dundee in Partnership' community plan;
 - ◆ the publication of the 'Dundee City Council Performance Report 2002';
 - ◆ the transfer of 1,400 houses to Ardler Housing Association as part of an £80 million regeneration project;
 - ◆ the adoption of a Local Cultural Strategy (*the first in Scotland to do so*);
 - ◆ the reduction of the Council Tax level by £10 in 2001/02 (*the first in Scotland to do so*).

Service Reviews

- 4.8 Separate PMP reviews were carried out at two Services within the Council: Environmental & Consumer Protection and Finance. The audit was based on a self-assessment completed by the Service. This used ten criteria, each broken down into a series of prompts based on good practice. The audit task was to verify this self-assessment to supporting evidence, suggest revisions, and agree recommendations.
- 4.9 In each of these Services, we found a clear commitment to the Best Value process, with many elements of a sound approach already in place for most of the criteria. There was, however, scope for further improvement and a series of recommendations has been agreed with each of the Services. These will form the basis of a follow-up audit in 2002/03. Issues were identified in both of the Service Reviews, which relate to the Council's corporate approach and therefore require to be addressed at a corporate level. These included:
- ◆ although service plans follow the corporate format, there needs to be further detail within the plans to identify the method by which objectives are to be achieved and the resources allocated;
 - ◆ at the time of the PMP reviews, Member involvement in PMP was minimal and was recognised as an issue for all Services;

- ◆ Public performance reporting requires further development.

4.10 These issues will be discussed with the Chief Executive as part of a detailed management letter (*a corporate management report*) covering the PMP work for 2001/02.

Review of First and Second Series PMP Audits

4.11 As part of the first series (1999/2000) PMP audit, a review was carried out on three Services within the Council: Neighbourhood Resources and Development, Dundee Contract Services, and Social Work. Each of these reviews resulted in a series of recommendations.

4.12 Final follow-up reviews of these issues were undertaken as part of the 2001/02 audit. I noted that substantial progress has been made in implementing the agreed recommendations with Neighbourhood Resources and Development being completed and Social Work being virtually complete. Revised target dates have been agreed for all of the remaining items.

4.13 The Services reviewed in the second PMP series (2000/01) were Architectural Services, Housing and Planning & Transportation. Each of these reviews also resulted in a series of recommendations.

4.14 Varying degrees of progress can be reported following our review of progress towards implementing the identified improvement actions.

Service	Completed Actions	Current position
Architectural Services	12 out of 18	<i>Good progress</i> - four of the outstanding actions were planned to be completed by June 2002
Housing	11 out of 19	<i>Satisfactory progress</i> - appropriate remedial action planned to recover from slippage
Planning & Transportation	2 out of 6	<i>Good progress</i> - only one action should now still be outstanding

Next steps

4.15 Nine detailed reports outlining the findings from the PMP audit have been issued to relevant officers. A corporate management report pulling all the relevant issues together is being prepared and will be issued in due course. Progress made on implementing improvement actions identified by Environmental & Consumer Protection and the Finance Department this

year, and outstanding improvement actions agreed by management in the 2000/01 PMP audits, will be reviewed as part of the 2002/03 audit.

- 4.16 A new approach to the audit of Best Value is currently being developed by Audit Scotland, with a programme of informal consultation with Councils taking place in November 2002.

Centrally directed studies

Trading Standards

- 4.17 A national review was carried out on Trading Standards which resulted in a report by the Accounts Commission on 3 October 2002 entitled '*Made to measure?: An overview of trading standards services in Scotland*'. The key findings from the national report included:
- ◆ small trading standards services (those with less than eight staff) perform worse overall than their larger counterparts and there is a risk they do not have the capacity to improve;
 - ◆ councils with larger trading standards services generally provide a fuller range of services. They employ specialist staff to deal with customer enquiries and complaints and debt counselling services;
 - ◆ some councils spend twice as much on trading standards services as others of a similar size with spend ranging from £2 to £4 per head of population. A higher spend per head of population generally results in better services;
 - ◆ consumer advice and debt counselling are the most fully developed services whereas consumer education and information are most poorly developed;
 - ◆ most trading standards services fall well short of meeting their targets for inspecting business premises. On average, only 76% of planned visits to high risk premises was achieved.
- 4.18 The local report, tailored to the position in the Council, is in the course of preparation and will be issued in due course.

Pre-school education

- 4.19 In March 2001, Audit Scotland published a report '*A good start: Commissioning pre-school education*' on behalf of the Accounts Commission. The report examines how Scottish Councils manage the expansion of pre-school education in a mixed economy of providers and how they work with these partners to provide quality places.
- 4.20 The Scottish Executive has funded by specific grant the expansion of this provision, with the target of universal free, high quality, part-time pre-school education places being available for all eligible children in Scotland by Summer 2002. The process of expansion has involved all 32

councils commissioning places from partners in the private and/or voluntary sectors in addition to their own direct provision.

- 4.21 The audit examined the grant claim and payment arrangements, particularly in relation to Section 23 and Section 25 grant claimed from the Scottish Executive. The audit also evaluated the Council's systems to check that grant paid for education places for pre-school children and ante-pre-school children was being disbursed appropriately and to ensure that the Council's contractual arrangements with partner providers were meeting the required standards.
- 4.22 In addition, a discretionary audit was carried out to assist the Council in evaluating the effectiveness of current arrangements in achieving high-quality, value-for-money services. The local report, tailored to the position in the Council, is in the course of preparation and will be issued in due course.

Follow-up of previous management letters

- 4.23 In January 1997, the Accounts Commission published '*A safer place: property risk management in schools*', which identified a number of recommendations, aimed at improving property risk management.
- 4.24 A national follow up exercise was completed and reported during 2000/01 by my predecessor, Henderson Loggie.
- 4.25 Our review of the progress against this action plan found that the two agreed actions identified in the action plan had been fully implemented.

Performance Indicators

- 4.26 The Council has a statutory duty under the Local Government Act 1992 to ensure that arrangements are in place for collecting, recording and publishing performance indicators and, so far as is practicable, that the information is accurate and complete. The Accounts Commission issue a Direction each year detailing the indicators that local authorities are required to publish.
- 4.27 The external auditor has a statutory duty to review the Council's arrangements to collect, record and publish the directed information. I am also required to return details of the performance indicators, and give an opinion on the reliability of the indicators, to Audit Scotland headquarters to enable compilation of national reports on performance.
- 4.28 I was able to conclude that except for one performance indicator (housing benefit – change of circumstances), classed as '*unreliable*', and two indicators (housing benefit administration) classed as '*failed to report*', all other statutory Performance Indicator information provided by the Council has been assessed as '*reliable*' for the 2001/02 financial year.

- 4.29 Each year Audit Scotland produces a number of pamphlets containing comparative information and all authorities are encouraged to use this information to identify scope for improvement and to contribute to their programme of service reviews.
- 4.30 As a result of the work carried out on the statutory performance indicators prior to publication, it is intended that a review of the Council's arrangements for the production of these indicators will be carried out in 2002/03.

Management action

- 4.31 The management letters referred to in this section have been, or are being, discussed and agreed with officers. Once agreed, management letters are submitted to the Audit and Risk Management sub-Committee in due course for scrutiny and follow-up.

Concluding remarks

- 5.1 I am pleased to formally conclude the audit of Dundee City Council for 2001/02. My report on the audit has covered:
- ◆ whether the statement of accounts presents fairly the Council's financial position;
 - ◆ the corporate governance arrangements including the prevention and detection of fraud and corruption, and the adequacy of the main financial systems;
 - ◆ the Council's arrangements to manage its performance.
- 5.2 My overall conclusion is that that the financial stewardship of Dundee City Council in 2001/02 was of a satisfactory standard, in particular:
- ◆ there were no qualifications to my opinion in my auditor's report and I have concluded that the Annual Accounts present fairly, the Council's financial position;
 - ◆ the Council's DLOs and DSOs achieved their prescribed financial objective;
 - ◆ almost all the statutory Performance Indicator information provided by the Council has been assessed as 'reliable' for the 2001/02 financial year;
 - ◆ the Council achieved its financial targets for net revenue expenditure with a £0.843 million surplus.
- 5.3 Issues referred to in my report include events affecting the existing long-term investment in Dundee Energy Recycling Ltd and the impact of falls in the equity market on the Superannuation Fund accounts. I will be monitoring these issues as part of the 2002/03 audit.
- 5.4 The Council has recently adopted a local Code of Corporate Governance and has many aspects of a sound corporate governance framework in place. A draft management letter on Corporate Governance is currently being prepared and will be the subject of discussion between the Chief Executive and myself. I will also discuss the extent to which I can place reliance, on the work of internal audit, with the Director of Finance as part of the 2002/03 audit planning process.
- 5.5 In my opinion, the Council is becoming increasingly dependent on its ICT systems and I would emphasise the importance of the need for effective management arrangements, especially in the areas of risk analysis, security and the testing of contingency plans. I would also highlight that the new Community Plan for Dundee presents new opportunities to develop an effective ICT Strategy for the future involving shared services and information.
- 5.6 A total of twenty two detailed reports to management, including agreed action plans, have been, or will be, submitted to officers during the audit covering the review of financial systems and performance management arrangements. Management letters have been or will be submitted to the Audit and Risk Management sub-Committee for scrutiny and follow up. Key issues, which require action at a corporate level, are set out in the form of an Action Plan at Appendix A.

5.7 This is the first year of my audit appointment and I would like to take the opportunity to record my thanks to those officers and members of the Council with whom we have had contact during the audit for their courteous and helpful co-operation.

A handwritten signature in black ink, appearing to read 'Peter Tait', with a large, stylized initial 'P'.

Peter Tait, Chief Auditor

Action Plan

Report Section	Issue and Audit Recommendation	Responsible Officer	Agreed	Management Response	Completion Date
<p>Section 2 (paragraph 2.20 to 2.29)</p>	<p><i>Dundee Energy Recycling Ltd (DERL)</i></p> <p>The Council's share of the loss reported by DERL is included in the '<i>Joint Venture and Associated Companies Profit and Loss Account</i>', which forms part of the Group Accounts. The Director of Finance has highlighted in the Group Accounts that the impact of consolidation on the Balance Sheet is to decrease the Group's net assets and reserves when compared to the Council's balance sheet.</p> <p><i>The Audit & Risk Management sub-Committee should, via the Chief Executive, undertake a comprehensive risk analysis of the Council's existing long-term investment in DERL.</i></p>	<p>Chief Executive</p>			

Report Section	Issue and Audit Recommendation	Responsible Officer	Agreed	Management Response	Completion Date
<p>Section 3 (paragraph 3.3 to 3.7)</p>	<p>Corporate governance overview</p> <p>The <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> requires that, from 2002/03, authorities include in their accounts either a statement on the system of internal financial control and/or a more wide-ranging statement on the adoption of a local code of corporate governance.</p> <p>In advance of these requirements, the Council has adopted a local Code of Corporate Governance and has many aspects of a sound corporate governance framework in place.</p> <p>With effect from 2002/03, the Council's Statement of Assurance on Corporate Governance signed by both the Leader of the Council and the Chief Executive / or a Statement of Internal Financial Control signed by the Director of Finance will be subject to audit review and will be covered by the Auditor's Report on the accounts.</p> <p><i>Arrangements should be put in place for each Director of the Council to provide formal assurance on the adequacy, operation and effectiveness of the system of internal controls in their area to support completion of the statement of assurance.</i></p>	<p>Chief Executive</p>			

Report Section	Issue and Audit Recommendation	Responsible Officer	Agreed	Management Response	Completion Date

Report Section	Issue and Audit Recommendation	Responsible Officer	Agreed	Management Response	Completion Date
<p>Section 3 (paragraph 3.3 to 3.7)</p>	<p><i>Corporate governance overview</i></p> <p>Although the Council has many aspects of a sound corporate governance framework in place, further progress is required to ensure that all aspects of a rigorous framework are in place. In particular, a comprehensive risk management strategy requires to be finalised and risk management processes embedded in strategic and operational planning activity.</p> <p><i>The Council should implement the previously adopted risk management strategy to ensure that strategic plans, priorities and targets are developed through formal risk management mechanisms and that the approach is embedded throughout the organisation.</i></p>	<p>Director of Finance</p>			

Report Section	Issue and Audit Recommendation	Responsible Officer	Agreed	Management Response	Completion Date
<p>Section 3 (paragraph 3.15 to 3.21)</p>	<p><i>Internal audit</i></p> <p>The Accounts Commission published a national report on the provision of internal audit services in Scottish local government ‘<i>A Job Worth Doing</i>’ in August 2001, which contained a number of good practice indicators. I also note that my predecessor issued a local management letter ‘<i>Review of Internal Audit Arrangements 2000/01</i>’ in November 2001, which included a detailed action plan containing 14 recommendations with agreed ‘<i>completion dates</i>’ ranging from March 2002 to June 2003.</p> <p><i>The Audit and Risk Management sub-Committee via the Director of Finance should monitor the implementation of the agreed action plan.</i></p>	<p>Director of Finance</p>			
<p>Section 3 (paragraph 3.22 to 3.35)</p>	<p><i>Systems of Internal Control</i></p> <p>The Council has a responsibility to develop and implement systems of internal control, including systems of financial, operational and compliance controls and risk management.</p> <p><i>The Audit and Risk Management sub-Committee via the Director of Finance should monitor the implementation of agreed action plans, arising from the work of both internal and external audit. If appropriate, senior managers should be invited to attend the sub-Committee to account for the completion of agreed action plans.</i></p>	<p>Director of Finance</p>			

Report Section	Issue and Audit Recommendation	Responsible Officer	Agreed	Management Response	Completion Date
<p>Section 3 (paragraph 3.36 to 3.66)</p>	<p><i>Information, Communication & Technology (ICT)</i></p> <p>In my opinion, the Council is becoming increasingly dependent on its ICT systems and I would emphasise the importance of the need for effective management arrangements, especially in the areas of risk analysis, security and the testing of contingency plans. I would also highlight that the new Community Plan for Dundee presents new opportunities to develop an effective ICT Strategy for the future involving shared services and information.</p> <p><i>The Council via the Chief Executive and the Head of IT should:</i></p> <ul style="list-style-type: none"> ▪ <i>review and update the ICT strategy linking it to the shared objectives as set out in the Community Plan;</i> ▪ <i>develop a formal Security policy for adoption by the Council and consider the need for a nominated Security Officer;</i> ▪ <i>develop and test disaster recovery plans as part the Council's contingency arrangements.</i> 	<p>Chief Executive / Head of IT</p>			

Report Section	Issue and Audit Recommendation	Responsible Officer	Agreed	Management Response	Completion Date
<p>Section 3 (paragraph 4.3 to 4.16)</p>	<p><i>Performance management and planning (PMP)</i></p> <p>The Council has made limited progress in implementing the corporate level actions agreed in 2000/01, with only 2 out of 8 improvement actions having progressed as planned.</p> <p>Issues were identified in both of the 2001/02 Service Reviews which relate to the Council's corporate approach and therefore require to be addressed at a corporate level, these included:</p> <ul style="list-style-type: none"> ▪ there needs to be further detail within the plans to identify the method by which objectives are to be achieved and the resources allocated; ▪ Member involvement in PMP was minimal; ▪ Public performance reporting requires further development. <p><i>The Council via the Chief Executive should:</i></p> <ul style="list-style-type: none"> ▪ <i>consider the action necessary to accelerate the implementation of the improvement actions first agreed as part of the 2000/01 audit.</i> ▪ <i>develop a strategy to improve the Council's overall approach to Best Value/PMP process;</i> ▪ <i>monitor and report the outstanding improvement actions to the Audit and Risk Management sub-Committee.</i> 	<p>Chief Executive</p>			

