

**REPORT TO: FINANCE COMMITTEE – 9 DECEMBER 2002**

**REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S REPORT TO MEMBERS ON THE  
AUDIT OF DUNDEE CITY COUNCIL FOR THE YEAR TO 31 MARCH 2002**

**REPORT BY: DIRECTOR OF FINANCE**

**REPORT NO: 838-2002**

## **1 PURPOSE OF REPORT**

This report is a response to the report prepared by the Council's External Auditor on the audit of Dundee City Council for the year to 31 March 2002. A copy of the External Auditor's report and the Audited Statement of Accounts for the City Council (and its DLO and DSOs) are included on the Finance Committee agenda as separate items.

## **2 RECOMMENDATIONS**

It is recommended that the Committee:

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

## **3 FINANCIAL IMPLICATIONS**

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

## **4 LOCAL AGENDA 21 IMPLICATIONS**

There are no direct Local Agenda 21 implications.

## **5 EQUAL OPPORTUNITIES IMPLICATIONS**

There are no direct equal opportunities implications.

## **6 BACKGROUND**

The external audit of Dundee City Council for the financial year 2001/02 was carried out by Mr Peter Tait CPFA, Chief Auditor (East Region), Audit Scotland. Local authority external auditors are appointed for a five year period and the financial year 2001/02 marked the first year of Mr Tait's appointment at the City Council. As would be expected, a proportion of the 2001/02 audit programme related to the follow-up of reports and action plans issued by the Council's previous External Auditor (Henderson Loggie).

## 7 **EXTERNAL AUDITOR'S REPORT**

- 7.1 The External Auditor's report outlines his main responsibilities as auditor and describes the scope of audit work undertaken during 2001/02 and the issues arising from that work. The report is divided into three key areas of the Council's activities:

Financial Accounts and Related Matters (Section 2)  
Corporate Governance (Section 3)  
Performance Management (Section 4)

- 7.2 As part of the 2001/02 external audit, seventeen detailed reports have already been issued to management on matters related to the key areas outlined above. (A further five reports are currently in draft form). All of the reports issued have included an agreed action plan to address the key issues arising from the auditor's findings. Where appropriate, summarised versions of the reports have been submitted to the Audit & Risk Management Sub-Committee.
- 7.3 Given the extent of the External Auditor's responsibilities and scope of work, his Report to Members is, by necessity, both fulsome and extensive. It is not, however, the intention to provide a detailed response or commentary on all of the External Auditor's findings as in most cases these have already been the subject of scrutiny by the Audit and Risk Management Sub-committee and an appropriate action plan agreed with External Auditor. Rather, this response will focus on the main issues arising within each of the three key areas outlined above.

## 8 **FINANCIAL ACCOUNTS AND RELATED MATTER**

- 8.1 The External Auditor's overall conclusion is that the financial stewardship of the Council during 2001/02 was of a satisfactory standard.
- 8.2 The Council's draft 2001/02 Accounts were presented to the Finance Committee on 24 June 2002 and thereafter submitted for audit, prior to the statutory deadline of 30 June 2002. The audit itself was formally concluded by the target date of 30 September 2002, with the issuing of the Auditor's Report on the Statement of Accounts. It is encouraging to note that the External Auditor has commented favourably on the efforts of, and co-operation between, the staff of the Council and Audit Scotland. Such effort and co-operation are vital in ensuring that the tight deadlines are achieved.
- 8.3 There are no qualifications to the auditors report on the 2001/2002 Statement of Accounts and he has concluded that the accounts "present fairly" the Council's financial position. This effectively means that the Council's accounts have again been given a "clean bill of health".
- 8.4 The External Auditor has reported that the DLO and DSO's operated by the Council during 2001/02 had again successfully achieved the financial objectives set by Scottish Ministers.
- 8.5 The net outturn on the Consolidated Revenue Account for 2001/02 showed a surplus of income over expenditure of £0.843m. This was generated mainly by an underspend of £0.687m against budget within the various Council services. It can therefore be concluded that the established systems for monitoring and controlling revenue expenditure were operating successfully during 2001/02.

- 8.6 In paragraph 2.14 of the External Auditor's report, reference is made to the new guidance regarding the accounting treatment of retirement benefits which came into effect during 2001/02. The new arrangements are being phased-in over three years and the External Auditor has noted that the Council has complied with the transitional requirements in 2001/02. The notes to the accounts show that the Council had an estimated net pension liability of £12.204m, as at 31 March 2002. It must be stressed, however, that this is a "snap-shot" figure on a single day and the calculation is particularly sensitive to the vagaries of the stock market. Once the new guidance is fully implemented, the net liability will require to be charged to the Council's revenue account. This charge, however, is only notional and does not impact on the Council's General Fund balance or on the Council's budgetary requirements. Through the normal course of events, any projected net liability on the Superannuation Fund is recouped by increased employers' contribution in the future.
- 8.7 The External Auditor has highlighted in paragraphs 2.17 to 2.19 of his report, the recent fall in the value of the investments held by Tayside Superannuation Funds. This fall is due to the recent general downturn in share prices, although it should be pointed out that the market has picked up again to some extent over the last two months. As outlined in paragraph 8.6 above, any projected net liability on the Superannuation Funds has implications for the employers' contribution rates. In this connection, the Fund's Actuary is in the process of concluding his triennial revaluation and any budgetary implications will be fed into the Council's 2003/04 Revenue Budget process.
- 8.8 The External Auditor has outlined in paragraphs 2.20 to 2.29 of his report, the background to the Council's investment in Dundee Energy Recycling Limited (DERL) and the technical problems that have been encountered since the waste-to-energy plant became operational. These issues have, of course, been the subject of regular reports to the Council's Waste to Energy Working Group. It is encouraging to note that the Company now considers that it will reach a satisfactory resolution to the technical difficulties and thereafter the lenders will agree revised funding arrangements with the Company.
- 8.9 The External Auditor has various and wide ranging responsibilities with regard to examining the legality of the Council's transactions and activities. It is therefore pleasing to note that the External Auditor has no matters to report in this area arising for his audit work in 2001/02.

## 9 CORPORATE GOVERNANCE

- 9.1 The External Auditor conducted an overview of the Council's corporate governance arrangements as part of his 2001/02 audit. He has concluded that the Council has many aspects of a sound corporate governance framework in place.
- 9.2 The Council adopted a Local Code of Corporate Governance during the financial year. Integral to this code is an annual review which identified a number of issues to be addressed including operational aspects of risk management which are being progressed.
- 9.3 Based on the code, five checklists have been prepared covering the dimensions of the Council's business to facilitate the annual review. These are:
- Community Focus;
  - Service Delivery Arrangements;
  - Structures and Processes;
  - Risk Management and Internal Control;
  - Standards of Conduct.

- 9.4 As part of the annual review, the Council will comply with the requirement to include in its financial statements for 2002/2003, the following documents:
- Statement on the system of Internal Financial Controls;
  - Statement of assurance on compliance with the Local Code.
- 9.5 In preparing the above statements, the Council will ensure that each Director of the Council provides formal assurance on the adequacy, operation and effectiveness of the system of internal controls in their area.
- 9.6 The External Auditor was also able to conclude that the Council has a satisfactory series of guidelines aimed at the prevention and detection of fraud and corruption.
- 9.7 As part of the 2001/02 audit, the External Auditor conducted a general overview of the Internal Audit service. This overview highlighted variances between planned and actual audit work undertaken due to significantly increased levels of staff sickness, unplanned activity and the appointment of new staff. This resulted in the External Auditor being unable to place the expected level of reliance on the work of Internal Audit.
- 9.8 The External Auditor noted that the Accounts Commission national report on Internal Audit services "A Job Worth Doing" rated Dundee City Council in Band 2, achieving up to 81% compliance with the CIPFA Code of Practice for Local Government.
- 9.9 Members will be pleased to note that progress on audit activity within the 2002/03 Internal Audit Plan is on target and that the Director of Finance will continue to review the resources deployed to ensure that the current year's Internal Audit Plan is achieved.
- 9.10 During the course of his audit, the External Auditor reviewed a number of the Council's major internal control systems. These reviews concluded that satisfactory controls were in place, and all recommended improvement actions have been agreed with officers. The Management letters covering these reviews will be reported to the Audit and Risk Management Sub Committee in due course.
- 9.11 The External Auditor highlighted the importance of the use of Information, Communications and Technology (ICT) to the efficient and effective operation and management of Dundee City Council. The 2001/02 audit reviewed the following key areas of the provision of ICT services:-
- Strategy
  - Structure
  - Installation Management
  - Service Delivery
  - Security of ICT Assets
  - Contingency Planning and Business Continuity
  - Network
- 9.12 The review identified several areas of good practice and established that the overall arrangements for the provision of ICT within the Council are geared to customer service and are addressing the e-government agenda. The findings of this review, along with the improvement action plan, were documented in a Management letter which was submitted to the Audit and Risk Management Sub-Committee on 10 June 2002.
- 9.13 The main areas highlighted by the External Auditor are risk analysis, security and testing of contingency plans. He also highlights the new Community Plan as presenting an opportunity to develop an ICT strategy involving shared services and information. The Chief Executive is of the opinion that these comments are premature at this stage in the development of the Community Plan arrangements.

## 10 PERFORMANCE MANAGEMENT

- 10.1 During 2001/02, the External Auditor reviewed three main elements of the Council's Performance and Management Planning arrangements. These were:-
- progress on implementing corporate level improvement actions agreed as part of 2000/01 audit;
  - audit of the Finance and Environmental & Consumer Protection PMP reviews carried out during 2001/02;
  - progress on implementing PMP service improvement actions covered as part of 1999/2000 and 2000/01 audits
- 10.2 The Auditor's review identified a number of achievements including the development of the Community Plan, the publication of the Dundee City Council Performance Report 2002, and the reduction of the Council Tax level by £10 in 2001/02. The review also identified areas for improvement, including the formal adoption of a new Best Value Plan.
- 10.1 The Council has changed the emphasis on Best Value reviews from being departmentally focused to being corporate in nature, i.e. considering improvement which cut across departments.
- 10.2 This strategy fits in well with the information being produced from Audit Scotland in which reference is made to the implementation of Best Value Audits from 2003/04, which will take as their starting point an overview of the operations of the Council prior to considering specific areas of audit.
- 10.3 The Council intends reviewing its approach to some aspects of Best Value during the current financial year to facilitate compliance with the requirements of Best Value audits.
- 10.4 In 2001/2002 the Council produced its first Performance Report which was based on best practice. At present, the content and style of performance reports is at the discretion of the individual Council. Dundee City Council has already identified areas for improving next year's report and it is intended that the report will be reviewed on an annual basis taking into account similar developments in the public and private sectors.

## 11 ACTION PLAN

- 11.1 The key issues arising from the audit, which require action at a corporate level, are set out in the form of an Action Plan which is appended to the External Auditor's report. There are seven Action Plan points covering the following matters:
- 1 DERL (Risk Analysis)
  - 2 Corporate Governance Overview (Statement of Assurance/Statement of Internal Financial Control)
  - 3 Corporate Governance Overview (Risk Management Strategy)
  - 4 Internal Audit (Monitor the Implementation of Agreed Action Plan)
  - 5 Systems of Internal Control (Implementation of Agreed Action Plan)
  - 6 Information, Communication & Technology (Strategy, Security Policy and Contingency Arrangements)
  - 7 Performance Management & Planning (Strategy and Implementation of Outstanding Improvement Actions)

- 11.2 The External Auditor's recommendations in the Action Plan have been reviewed in detail and are generally considered to be both reasonable and relevant. Accordingly, the Director of Finance will now arrange for the completion of the "Management Response" section of the Action Plan.
- 11.3 The Implementation of the completed Action Plan will be monitored by the External Auditor as part of his 2002/03 audit programme. Progress reports will also be submitted to the Audit & Risk Management Sub-Committee.

## 12 **CONCLUSIONS**

During 2001/02, the External Auditor has examined a number of areas covering a wide range of the City Council's activities. Whilst some areas for improvement have been identified, it is encouraging to note that the auditor's overall findings and conclusions have been satisfactory. The process has culminated in the issuing of an unqualified (or "clean") audit certificate.

**DAVID K DORWARD**  
**DIRECTOR OF FINANCE**

**19 DECEMBER 2002**

## **BACKGROUND PAPERS**

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