

**REPORT TO: POLICY AND RESOURCES COMMITTEE - 11 JANUARY 2021**

**REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S ANNUAL AUDIT REPORT TO MEMBERS OF DUNDEE CITY COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR TO 31 MARCH 2020**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 9-2021**

## **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 2020. A copy of the external auditor's report (Report No 8-2021), the 2019/2020 Audited Annual Accounts for the City Council (Report No 4-2021), the 2019/2020 Audited Dundee City Council Charitable Trusts Annual Accounts (Report No 5-2021), the 2019/2020 Audited Lord Provost of Dundee Charity Fund Annual Accounts (Report No 6-2021) and the 2019/2020 Audited Dundee Trust Annual Accounts (Report No 7-2021) are also included on the agenda as separate items. The aforementioned reports were submitted to the Scrutiny Committee on 18 November 2020, along with this report.

## **2 RECOMMENDATIONS**

It is recommended that the Committee:

- i notes the contents of the external auditor's report including the completed action plan at Appendix 1, and in particular that Audit Scotland have issued an unqualified audit opinion on each of the 2019/2020 Annual Accounts noted above.
- ii notes this report as the Council's formal response to the external auditor's report

## **3 FINANCIAL IMPLICATIONS**

- 3.1 The Council's 2019/2020 Audited Annual Accounts show that there was a net underspend on services of £3.048m and an overall net underspend of £4.753m. The main components of the net underspend are shown on page 5 of the accounts, with a more detailed analysis of the main areas of budget variance shown on page 6. The table on page 8 of the accounts shows that cash-backed reserves increased by £6.080m over the year, with a closing balance of £29.765m. Within this total, General Fund balances increased by £2.655m to £16.520m at 31 March 2020. The various ear-marked components of the General Fund balance are shown in note 10 on page 87 of the accounts. The uncommitted element of the closing General Fund balance is estimated at £8.012m. This equates to 2.2% of annual budgeted net expenditure. These figures are unchanged from the position reported in the 2019/2020 Unaudited Annual Accounts, as submitted to Scrutiny Committee on 24 June 2020.
- 3.2 In addition to the closing cash-backed reserves referred to in paragraph 3.1 above, £2.892m of capital receipts have been set aside to fund costs associated with future transformation projects.
- 3.3 Capital expenditure in 2019/2020 totalled £73.738m. The key projects in the capital programme are shown in the table on page 10 of the accounts. The Balance Sheet on page 65 of the accounts shows that the Council's overall net assets have decreased by £26.434m, to £745.279m at 31 March 2020.
- 3.4 The Council's pensions liability, as measured under International Accounting Standard 19 (Employee Benefits) increased by £5.209m, to £168.602m at 31 March 2020.

## 4 MAIN TEXT

### 4.1 Introduction

External audit is one of the key methods by which the activities and performance of local government are independently scrutinised and reported upon. The external audit of Dundee City Council for the financial year 2019/2020 was carried out by Mrs Fiona Mitchell-Knight, Assistant Director (Audit Services), Audit Scotland. Local authority external auditors are normally appointed for a five-year period and the financial year 2019/2020 marked the fourth year of Audit Scotland's current appointment. In October 2020 the Accounts Commission approved the extension of current audit appointments for a year, to include the 2021/22 financial year. This extension reflects the need for stability and continuity given the longer-term impact of Covid-19 on audited bodies and the difficulty of running the necessary audit procurement exercise during the pandemic.

4.2 The 2019/2020 unaudited Annual Accounts were submitted to Scrutiny Committee earlier this year, (Article VII of the Minute of the Meeting of the Scrutiny Committee 24 June 2020, Report No: 163-2020 refers). The accounts were submitted to Audit Scotland on 25 June 2020. The accounts have since been subject to a three-week statutory public inspection period and no objections were received.

### 4.3 External Auditor's Report

Audit Scotland have now completed their audit work and, in accordance with auditing standards (ISA 260: Communication with those charged with governance), are required to report the outcome of their work in relation to their review of the financial statements, prior to formally issuing their audit opinions. This requirement has been addressed in the External Auditor's report.

4.4 The report summarises the findings in relation to the overall audit of the Council for the year ended 31 March 2020. The attached report describes the scope of audit work undertaken during 2019/2020 and the issues arising from that work are divided into five key areas looking at:

- audit of 2019/20 annual report and accounts
- financial management
- financial sustainability
- governance and transparency
- best value (including reference to the recent Best Value Assurance Report (BVAR))

4.5 In addition to the elected members of Dundee City Council, the external auditor's report is also addressed to the Controller of Audit at the Accounts Commission for Scotland. Given this wider audience, and the extent of the external auditor's responsibilities and scope of work, the report is by necessity both fulsome and extensive. It contains much information that has already been reported to the relevant committees of Dundee City Council. Further to this, external audit reports issued previously already include agreed management action plans that are the subject of separate consideration by the Scrutiny Committee. Accordingly, it is not the intention in this report to provide a detailed response or commentary on all of the external auditor's findings.

### 4.6 Audit Adjustments

Through the audit process, two technical presentational adjustments to the figures in the financial statements were identified. Further details are provided in Exhibit 3 on page 11 of the external auditor's report. It is emphasised that neither of the technical presentational adjustments impacted on the Council's General Fund balance or on the Council's usable reserves generally.

#### 4.7 Action Plan

The external auditor has made two recommendations arising from the 2019/2020 audit that require further action by the Council. These recommendations have been considered carefully by the Chief Executive and Executive Director of Corporate Services and the completed action plan, incorporating the "agreed management action / timing", is included at Appendix 1 to the external auditor's report. The progress on implementing these agreed action points will be monitored through the Council's established procedures for dealing with external audit reports and reviewing previously agreed action plans.

#### 4.8 Conclusions

The external auditor has undertaken a thorough and wide-ranging review of the financial statements and the processes and procedures around their preparation. The report identified no unadjusted misstatements that exceeded the reporting threshold. In addition to the audit of the accounts, the external auditor examined a number of areas covering a wide range of activities during 2019/2020 and has also reflected on the outcome of the recent Best Value Assurance Report (BVAR).

Whilst a small number of adjustments were required to the unaudited accounts and some areas for improvement have been identified, it is pleasing to note that the overall findings and conclusions are satisfactory. In particular, the Council can take encouragement from the following findings:

- the BVAR concludes that the Council has demonstrated a steady pace of improvement since the last Best Value Audit in 2010
- the Council demonstrates improving services, effective leadership, an ambitious vision and a clear focus on continuous improvement
- financial management is effective with a budget process focussed on the Council's priorities
- overall, the Council delivered services within its annual budget
- systems of internal control operated effectively in 2019/20
- the Council has made good progress in financial planning with the approval of a long-term financial strategy in 2019
- the Council had appropriate and effective governance arrangements in place during the year
- the Council conducts its business in an open and transparent manner
- the accounts were submitted in line with the original audit timetable and unqualified audit opinions were issued
- the working papers provided with the unaudited accounts were of a good standard

### 5 **POLICY IMPLICATIONS**

This report has been subject to an assessment of any impacts on Equality and Diversity, Fairness and Poverty, Environment and Corporate Risk. There are no major issues.

### 6 **CONSULTATIONS**

The Council Management Team were consulted in the preparation of this report.

### 7 **BACKGROUND PAPERS**

Audit Scotland: 2019/20 Annual Audit Report to Members of Dundee City Council and the Controller of Audit