

REPORT TO: SCRUTINY COMMITTEE – 25 OCTOBER 2023

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 2023

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 312-2023

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 2023. A copy of the following draft reports is also included on the agenda as separate items:

- External Auditor's report (Report No 313-2023),
- Audited Annual Accounts for the City Council 2022/23 (Report No 314-2023)
- Audited Dundee City Council Charitable Trusts Annual Accounts 2022/23 (Report No 315-2023)
- Audited Lord Provost of Dundee Charity Fund Annual Accounts 2022/23 (Report No 316-2023)
- Audited Dundee Trust Annual Accounts 2022/23 (Report No 317-2023) 2022/23
- Audited Fleming Trust Annual Accounts 2022/23 (Report No 318-2023)

2 RECOMMENDATIONS

It is recommended that the Committee:

- i notes the information in this report and the contents of the draft external auditor's report including the completed action plan at Appendix 1, and in particular that Audit Scotland have indicated they will issue an unqualified audit opinion on each of the 2022/23 Annual Accounts noted above;
- ii endorses this report as the Council's formal response to the external auditor's report;
- iii authorises the Executive Director of Corporate Services to arrange for each of the Audited Annual Accounts noted above to be signed and then returned to the external auditor;
- iv requires the Executive Director of Corporate Services thereafter to arrange for the above Annual Accounts, including copies of all audit certificates and accounts of the Council's subsidiary bodies to be published on the Council's website; and
- v notes that the external auditor's report will also be considered by the City Governance Committee in due course, together with each of the Audited Annual Accounts noted above.

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications arising from this report. A summary of the key figures reported in the accounts are noted in paragraph 4.7 of this report.

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 2022/23 was carried out by Mr Brian Howarth, Director (Audit Services), Audit Scotland. Local authority external auditors are appointed for a five-year period and financial year 2022/23 marked the first year of Audit Scotland's current appointment.

4.2 The 2022/23 unaudited Annual Accounts were submitted to Scrutiny Committee earlier this year, (Article VII of the Minute of the Meeting of the Scrutiny Committee 28 June 2023, Report No: 190-2023 refers). The accounts were submitted to Audit Scotland on 29 June 2023. 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 2023. The attached report describes the scope of audit work undertaken during 2022/23 and the issues arising from that work are divided into four key areas looking at:

- audit of 2022/23 annual accounts;
- financial management;
- financial sustainability; and
- other wider scope audit work.

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, four technical adjustments to the figures in the Council's financial statements were identified. Further details are provided in Exhibit 3 on page 11 (items 1 to 4). The main adjustments related to property revaluations in light of high inflation levels, and changes to the IAS19 pension position as at 31 March 2023 in light of differing interpretations of IFRIC14 (*IAS19- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*).

It should be noted that none of these adjustments had any impact on the General Fund balance or usable reserves more generally.

4.7 Summary of key figures

The Council's draft 2022/23 Audited Annual Accounts show that there was an overspend of £3.832m. The main components of the overspend are shown on page 3 of the accounts, with a more detailed analysis of the main areas of budget variance shown on page 4. The table on

page 6 of the accounts shows that cash-backed reserves decreased by £5.176m over the year, with a closing balance of £76.115m. Within this total, General Fund balances decreased by £4.666m to £56.647m at 31 March 2023. The various ear-marked components of the General Fund balance, totalling £47.721m, are shown on page 5 and in note 10 on page 75 of the accounts. The uncommitted element of the closing General Fund balance is estimated at £9.226m. This equates to 2.2% of annual budgeted net expenditure.

Capital expenditure in 2022/2023 totalled £53.318m. The key projects in the capital programme are shown in the table on pages 7 and 8 of the accounts. The Balance Sheet on page 54 of the accounts shows that the Council's overall net assets have increased by £231.379m, to £1,058.479m at 31 March 2023.

The Council's pensions liability, as measured under International Accounting Standard 19 (Employee Benefits) decreased by £35.712m, to £31.203m at 31 March 2023.

4.8 Action Plan

The external auditor has made four recommendations arising from the 2022/23 Council audit and three recommendations arising from the Best Value Thematic Review 2022/23 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 and completion dates, is included at Appendix 1 to the external auditor's report. The progress on implementing these agreed action points will be monitored by the Council's Risk and Assurance Board through the Council's established procedures for dealing with external audit reports and reviewing previously agreed action plans.

4.9 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 two unadjusted misstatements that exceeded the reporting threshold, as disclosed in Appendix 2 to the external auditor's report. In addition to the audit of the accounts, the external auditor examined a number of areas covering a wide range of activities during 2022/23, including a Best Value Thematic Review.

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 key findings:

- the Council has completed all the recommendations from its September 2020 Best Value Report and Best Value is being delivered;
- appropriate and effective governance arrangements are in place;
- the Council is open and transparent;
- key financial controls generally operate effectively; and
- the accounts were submitted in line with the audit timetable and an unqualified audit opinion will be issued.

4.10 Next steps

Following the approval of the accounts for signature, the relevant statements of the Annual Accounts will be signed and dated by the appropriate officers and then returned to the external auditor. In line with statutory requirements, copies of the Annual Accounts together with the audit certificate and accounts of the Council's subsidiary bodies will then be published on the Council's website. A copy of the final external audit report together with the Audited Annual Accounts will be also be submitted to the City Governance Committee in due course.

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6 CONSULTATIONS

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

7 BACKGROUND PAPERS

None.

**ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

19 OCTOBER 2023