

Dundee City Council

2017/18 Annual Audit Report

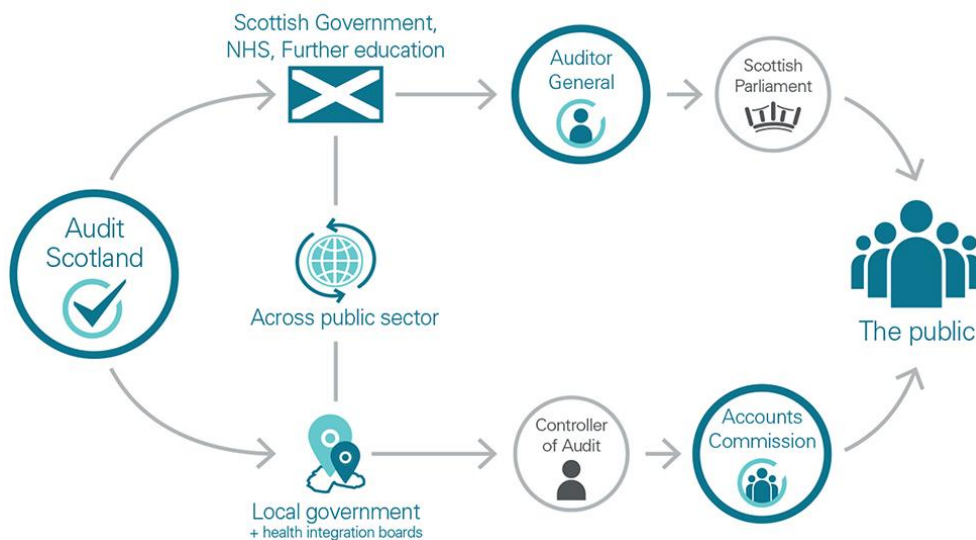


Prepared for the Members of Dundee City Council and the Controller of Audit
26 September 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2017/18 annual accounts

- 1 The financial statements of Dundee City Council and its group are unqualified. The statements give a true and fair view of the state of its affairs and of its net expenditure for the year.
- 2 The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.
- 3 Unqualified audit opinions were issued on the three charities administered by the Council.

Financial management

- 4 Financial management is broadly effective. The budgets are aligned to the Council's strategic service structure which reflects the Council's objectives.
- 5 The Council reported an underspend of £5.648 million against budget, with £4.005 million being added to the general fund reserve.
- 6 A service overspend of £9.075 million was offset by £13.777 million received from the sale of Dundee Energy Recycling Ltd (DERL).
- 7 Without the sale of DERL, the Council would have incurred an overspend. The current projected outturn for 2018/19 is break even.
- 8 The Council's internal controls within its main financial systems operated effectively. We did not identify any significant internal control weaknesses.

Financial sustainability

- 9 The Council's usable reserves are in line with its reserves policy. However, the Council's reserves are the lowest in Scotland, as a proportion of revenue expenditure, and the Council should continue to keep the level under review.
- 10 The financial position of the Council and its group is sustainable in the foreseeable future but rising demand, increasing costs and reductions to central funding will make delivery of services more challenging.
- 11 The Changing for the Future Programme includes plans for how the Council will transform its services for the future.
- 12 There is scope to further improve financial planning by developing long-term financial plans, aligned to the Council's priorities, to demonstrate how it will address future budget challenges.

Governance and transparency

- 13** Effective governance arrangements are in place that support the scrutiny of decisions made by the Council.
- 14** The Council is open and transparent in the way that it conducts its business, with the public able to attend meetings and key documents are available on the Council's website.

Best Value

- 15** A revised performance management framework was approved in August 2018. It includes the introduction of service scorecards which align service performance with key priorities and outcomes.
- 16** It is too early to assess the impact of the new framework on the outcome for customers and citizens.
- 17** Performance information shows maintained or improving performance in 2017/18 in 83% of the LGBF indicators. However, 47% of the Council's performance indicators are in the top half in its family group comparisons, which is below its 55% target.
- 18** The Council is continuing to improve its public performance reporting.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Dundee City Council (the Council) and its group.

2. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance, and International Standards on Auditing in the UK.

3. The scope of the audit was set out in our Annual Audit Plan presented to the April 2018 meeting of the Scrutiny Committee. This report sets out our findings from:

- the audit of the annual accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

4. The main elements of our audit work in 2017/18 were:

- an audit of the Council and its group's 2017/18 annual accounts and the statement of accounts of the 3 section 106 charities administered by the Council, including the issue of independent auditor's reports setting out our opinions

- a review of the Council's main financial systems and governance arrangements
- audit work covering the Council's arrangements for securing Best Value relating to performance, outcomes and improvement
- consideration of the four audit dimensions and the Council's best value arrangements.

5. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

6. The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

Adding value through the audit

8. Our aim is to add value to Dundee City Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

9. This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk. It raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes actions from last year and progress against these.

11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2017/18 audit fee of £342,570 for the Council and £4,600 for the registered charities, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

The financial statements of Dundee City Council and its group are unqualified. The statements give a true and fair view of the state of its affairs and of its net expenditure for the year..

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

Unqualified audit opinions were issued on the three charities administered by the Council.

Audit opinions on the annual accounts

13. The Annual Accounts of the Council and its group for the year ended 31 March 2018 were approved by the Scrutiny Committee on 26 September 2018.

14. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

15. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

Submission of the Council and its group's annual accounts for audit

16. We received the unaudited annual accounts on 22 June 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan. The unaudited Annual Accounts were of a good standard.

17. The working papers provided with the unaudited accounts were of a high standard and finance staff provided good support during the audit. This helped ensure that the final accounts audit ran smoothly and enabled us to complete the audit in accordance with the agreed timetable.

The Council's Annual Accounts are the principal means of accounting for the stewardship of resources and performance in the use of those resources.

Risk of material misstatement

18. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and potential impact on the financial statements. These risks informed the audit strategy, resources and activity.

19. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix 2](#) sets out the significant audit risks identified and how we addressed each risk in arriving at our opinion on the financial statements.

Materiality

20. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law).

21. Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively, in forming our opinions on the financial statements.

22. On receipt of the annual report and accounts we reviewed our materiality calculations. Our final materiality levels are summarised at [exhibit 2](#).

Exhibit 2

Materiality levels

| Materiality level | Amount |
|--|--------------|
| Overall materiality – This is the calculated figure used in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2018. | £7 million |
| Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of overall materiality. | £4.1 million |
| Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. We consider that an appropriate figure of interest to members would be £100,000. | £100,000 |

Source: Audit Scotland

How we evaluate misstatements

23. There were two material adjustments to the unaudited financial statements arising from our audit. Further details are included at exhibit 5 (items 1 and 2). There were no unadjusted misstatements in the financial statements which exceeded our reporting threshold.

Significant findings

24. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [exhibit 5](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan at [appendix 1](#) has been included.

25. In arriving at our findings we considered significant qualitative aspects of the Council's accounting practices including:

| | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual accounts | • Disagreement over any accounting treatment or financial statements disclosure |

Exhibit 5

Significant findings from the audit of the financial statements

| Finding | Resolution |
|--|---|
| <p>1. International Accounting Standard (IAS19) pension scheme valuation error</p> <p>The pension liability represents the difference between the expected future payments to be made to former employees of the Council and their spouse in the form of pension payments and the underlying value of pension fund assets to meet this cost. During 2017/18 the actuary carried out a scheduled full valuation of the pension fund. This included a review of the underlying assumptions used in the calculation of the funds obligation. This resulted in reductions in the assumptions used for mortality and longevity (based on average life expectancy). Thus, the expectation of lower future pension payments has reduced the overall liability in the Council's accounts from £381.859 million in March 2017 to £138.547 million at 31 March 2018</p> <p>The Council accounts for its share of Tayside Pension Fund in accordance with International Accounting Standard 19 - Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the scheme's actuary, Barnett Waddingham.</p> <p>During our audit we became aware of a national issue which resulted in a pension valuation error across all Local Government Pension Schemes.</p> | <p>The audited accounts have been amended. The error had no impact on the general fund balance.</p> |

| Finding | Resolution |
|---|---|
| <p>The actuary produced an IAS 19 report using estimated data for the final part of the year, however due to asset return volatility towards the end of the financial year, actual returns were significantly lower than had been estimated by the actuary. This resulted in pension fund assets being overstated. The overall impact on the net pension liabilities (pension liabilities less pension assets) reported in the balance sheet was an understatement of £13.845 million and this has been adjusted in the audited accounts, following receipt of a revised actuarial report.</p> <p>The same issue also affects the group, with the Council's share of net pension liabilities of Tayside Contracts and Tayside Valuation Joint Board increasing by £0.6 million and £0.1 million respectively. These amounts were also adjusted for in the audited accounts.</p> | |
| <p>2. Premiums on debt rescheduling</p> <p>Premiums of £8.876 million on debt rescheduling were incurred during 2017/18. This balance was incorrectly disclosed as a short-term debtor in the Council's financial statements.</p> <p>The Code requires these costs to be included in the Comprehensive Income and Expenditure Statement under certain circumstances. The Code also allows authorities to spread the impact of premiums and discounts on council tax over future financial years using a Financial Instruments Adjustment Account.</p> <p>The impact of the error is the:</p> <ul style="list-style-type: none"> • recognition of a further £8.876 million expenditure in the Comprehensive Income and Expenditure Statement • inclusion in the Movement in Reserves Statement of the £8.876m to the Financial Instruments Adjustment Account • a reduction in Net Assets and Total Reserves of £8.876 million in the Balance Sheet as at 31 March 2018 • adjustments to the cash flow statement reflecting the above changes • the same changes to the group accounts. <p>These amounts and respective notes were adjusted for in the audited accounts.</p> | <p>The audited accounts have been amended. The error had no impact on the general fund balance.</p> |
| <p>3. Dundee Energy Recycling Limited (DERL)</p> <p>A significant transaction during 2017/18 was the sale of DERL and the new contract for the disposal of residual waste. The financial statements provide detailed information in relation to the sale and new contract through disclosure in the management commentary and the notes to the core financial statements.</p> | <p>Noted for information only due to the unusual nature of the transaction.</p> |

| Finding | Resolution |
|--|------------|
| <p>The Council sold its shareholding in DERL to MVV Environmental Limited on 28 November 2017 for £17.096 million, following completion of the contract. Under the terms of an inter authority agreement, Angus Council were entitled to £2.766 million from the sale proceeds.</p> <p>Following the write off of DERL debts (£3.851 million) and the derecognition of assets (£2.469 million) the net impact of this sale on the Comprehensive Income and Expenditure Statement reduced the deficit on the provision of services by £8.01 million. Following statutory adjustments required by the Code of Practice on Local Authority Accounting in the UK, the net impact on the general fund was to increase the balance by £7.661 million. The transactions have been properly accounted for in the financial statements.</p> <p>Note 32 in the financial statements provides an analysis of the Council's share of the liability payable over the next 28 years based on PwC's model of the payments to be made under the contract. The Council's share of the asset/liability on completion of the new plant is estimated at £70.211 million.</p> | |

Source: Audit Scotland

Follow up of prior year recommendations

26. We have followed up actions previously reported and assessed progress with implementation. Where further action is required to address the reported issue, we have detailed this in [appendix 1](#).

27. In total, 8 agreed actions were raised in 2016/17. Of these:

- 7 have been fully implemented
- 1 has only partly been actioned..

28. For the action not yet implemented, a revised response and timescale has been agreed with management.

Going concern

29. The financial statements of the Council, its group and the associated charities have been prepared on a going concern basis. We are unaware of any material uncertainties which would cast doubt on the ability of the Council, its group and the associated charities to continue in operation for at least the next 12 months.

Other findings

30. Our audit identified some presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Whole of Government Accounts

31. The Council submitted a consolidation pack for the whole of government accounts audit on 23 July 2018. We will audit the return and submit it by the due date of 28 September 2018.

Objections

32. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations. There were no objections to the accounts.

Audit of charities administered by Dundee City Council

33. Members of the Council act as trustees for the Dundee City Council Charitable Trust. For 2017/18, this consisted of 21 trusts which were included under connected charities arrangements.

34. A reorganisation of the Dundee City Council Charitable Trust in 2017/18 has resulted in an additional trust with charitable status being created, the Dundee Trust. Funds from 13 trusts were transferred from the Dundee City Council Charitable Trust during 2017/18.

35. In addition, Dundee City Council's Lord Provost and two senior officers act as trustees for the Lord Provost of Dundee Charity Fund.

36. A full and separate audit and independent auditor's report is required for each registered charity. Our duties as auditors of the charities administered by Dundee City Council are to:

- express an opinion on whether the financial statements give a true and fair view of the charity's state of affairs and use of resources and are properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and charities legislation

or, for accounts prepared on a receipts and payments basis:

- express an opinion on whether the financial statements properly present the charity's receipts and payments and its statement of balances and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

37. We set separate materiality levels for the three section 106 trusts. Our final materiality levels for the trusts are summarised at [exhibits 3 and 4](#).

Exhibit 3

Trust materiality levels

| Trust | Planning materiality | Performance materiality * | Lower performance materiality ** | Reporting threshold |
|---------------------------------------|----------------------|---------------------------|----------------------------------|---------------------|
| Dundee City Council Charitable Trusts | £57,963 | £52,166 | £438 | £2,898 |
| Lord Provost Charity Fund | £1,046 | £914 | £178 | £52 |

Source: Audit Scotland

* higher performance materiality based on the net asset value

** lower performance materiality based on the gross revenue expenditure.

Exhibit 4

Trust materiality levels (new trust)

| Trust | Planning materiality | Performance materiality * | Reporting threshold |
|------------------|----------------------|---------------------------|---------------------|
| The Dundee Trust | £702 | £632 | £35 |

Source: Audit Scotland

* performance materiality based on gross expenditure

38. We have given an unqualified opinion on the matters referred to in paragraph 36, with respect to the 2017/18 financial statements of the relevant charities administered by Dundee City Council. Both the Dundee Trust and the Lord Provost of Dundee Charity Fund are prepared on a receipts and payment basis.

Part 2

Financial management



Main judgements

Financial management is broadly effective. The budgets are aligned to the Council's strategic service structure which reflects the Council's objectives.

The Council reported an underspend of £5.648 million against budget, with £4.005 million being added to the general fund reserve.

A service overspend of £9.075 million was offset by £13.777 million received from the sale of DERL.

Without the sale of DERL, the Council would have incurred an overspend. The current projected outturn for 2018/19 is break even.

The Council's internal controls within its main financial systems operated effectively. We did not identify any significant internal control weaknesses.

Financial performance in 2017/18

39. In February 2017, the Council approved a revenue budget of £342.509 million for 2017/18 which was a reduction of £2.155 million on the final revenue budget for 2016/17. A package of savings, totalling £11.461 million, was incorporated into the budget.

40. During 2017/18, the Council made in-year budget revisions. The latest revenue budget monitoring report as at the end of February 2018 identified budget revisions which had a net impact of increasing the overall budget by £2.405 million to £344.914 million.

41. In 2017/18 the Council experienced significant cost pressures which resulted in an overspend of £9.075 million (2.3%) on its cost of services. The more significant over and underspends on the cost of services are summarised in [exhibit 6](#).

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Exhibit 6

Summary of significant Service over and under spends against budget

| Area | Under/over spend | Reason(s) for variance |
|--|------------------|--|
| Overspends | | |
| Children & Families: Residential placements and fostering & adoption | £2.781 million | <p>Overspend in relation to residential schools and secure care, fostering and adoption and special transport provision. The increased costs in residential schools and secure care, fostering and adoption are associated with ongoing pressures from previous years, national requirements for parity of payments to kinship carers and foster carers and the implications of the Children and Young Persons Scotland Act 2014 which has led to increased demand for in house placements.</p> <p>The overspend has fallen from that reported in 2016/17 of £5.402 million and in 2018/19 is currently projected to break even.</p> |
| Housing Revenue Account: housing repairs and maintenance | £2.218 million | Overspend due to increased expenditure on housing repairs, maintenance and relets due to increased demand, together with non-recurring expenditure on fire safety measures within multi-storey buildings. |
| Corporate: write off of debt and loans fund advances | £4.540 million | Write off of service debt of £2.719 million following the sale of DERL and the £1.821 million relating to the write off of loans fund advances relating to DERL plant, partly offset by reductions in loan repayments due to capital programme slippage. |
| Neighbourhood Services: waste disposal | £1.737 million | Overspend on consultancy fees and increased cost of residual waste disposal following finalisation and implementation of new contract. |
| City Development: property costs | £1.353 million | Overspend in relation to non-domestic rates on vacant properties, unplanned repairs and maintenance of buildings, health and safety contracts and property security. |
| Underspends | | |
| All services: Staff costs | £3.582 million | Net savings on staff costs across services mainly as a result of not filling vacant posts. The underspend has increased from that reported in 2016/17 of £1.523 million. This was a managed variance to help manage the overspends in Services. There is no significant variance in the overall 2018/19 staff costs reported to date. |

42. The Service overspend was offset by a significant underspend in financing and investment income of £14.671 million, which included £13.777 million from the sale of Dundee Energy Recycling Limited (DERL). Without the sale of DERL, the Council would have incurred an overspend in 2017/18.

43. Overall, the Council increased its general fund reserve by £4.005 million in 2017/18. This compares favourably to the budget set in February 2017 in which it planned to use £1.463 million of its reserves.

Housing revenue account (HRA)

44. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year.

45. In February 2017, the Council approved a 1.25% increase in the average weekly rent levels for tenants for 2017/18. The rent level set reflected the income required to fund the revenue budget of £53.883 million.

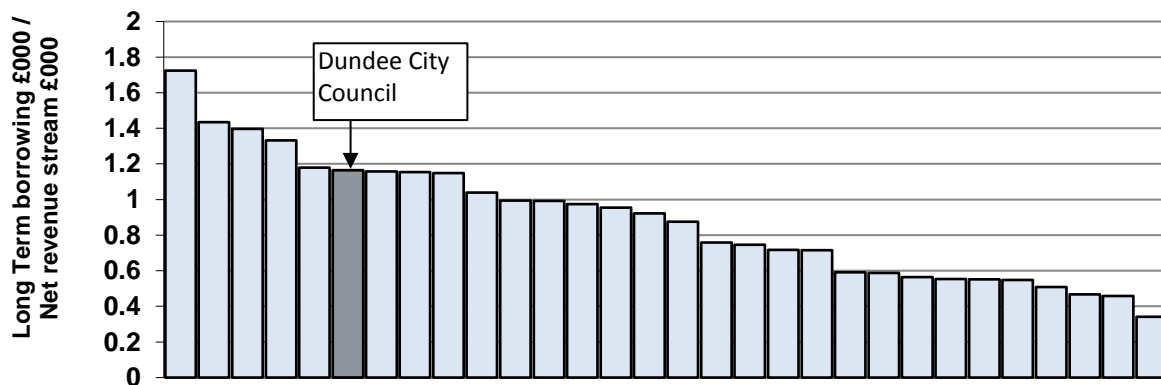
46. The deficit in the net cost of HRA services for 2017/18 was £20.574 million. The net cost of services is rising with the 2016/17 net cost of services reported as £15.009 million and 2015/16 as £12.024 million. After statutory adjustments, the HRA incurred a deficit for 2017/18 of £0.824 million. This was met by a transfer from the Council's Renewal and Repair Fund.

Borrowing in 2017/18

47. The Council's outstanding borrowings as at 31st March 2018 were £545.570 million. This is an increase of £39.609 million on the previous year and is at the higher end of the scale when compared with other Scottish local authorities as demonstrated in [exhibit 7](#).

48. This position reflects the borrowing required to fund the Council's current capital programme, and other ongoing commitments, and is in line with the approved treasury management strategy. Given the current low level of interest rates we do not believe the level of borrowing presents any risk to the financial sustainability of the Council in the short-term.

Exhibit 7 Scottish council long term borrowing



Capital programme

49. How well the Council delivers capital projects has a direct impact on the lives of its citizens and plays a significant role in the economic wellbeing of the area and the achievement of the City Plan objectives.

50. The Council's capital programme 2018-23 was approved in October 2017 and includes a programme of £346.281 million of expenditure planned over the period and has been summarised into the new strategic themes that reflect the Council's vision and aims, as published in the City Plan for Dundee 2017-2026. The programme is front loaded with £128.375 million planned for 2018/19 alone and £217.906 million for the remaining 4 years.

51. A 10-year Capital Investment Strategy 2018-28 was agreed by the Council in December 2017. The Council has moved to 5-year Capital Plan and the Strategy provides a mechanism to capture wider aspirations and in particular align with the longer-term time horizon of the City Plan for Dundee 2017-26.

52. Total capital expenditure in 2017/18 was £127.423 million. Significant elements of the 2017/18 programme were:

- V&A Dundee (£21.749 million)
- Dundee railway station concourse (£14.202 million)
- North Eastern school campus (£12.201 million)
- Housing – external insulation and cavity fill (£11.167 million)
- Coldside - new primary and community facilities (£9.476 million).

53. The capital expenditure in 2017/18 represents an underspend of £32.396 million (20.3%) against the original budget of £159.819 million. Significant project slippages are noted below:

| Project | Slippage (£'million) | Reason for slippage |
|---|----------------------|--|
| Regional Performance Centre | 16.7 | The initial capital plan included a Football Academy in the original scheme design and timescales. As the project scope changed there was a redesign of the project and a further tender process resulting in a significant change in the spend profile for the project. |
| V&A Dundee | 6.0 | The building was handed to the Council in January 2018 to allow the museum to get operational ready for the opening of the building on 15th September 2018. The budget was reprofiled to take account of the current programme of works underway to fit out the building in anticipation of the opening. |
| Coldside new primary and community facilities | 3.4 | Progress of works was affected by adverse weather conditions with the projected spend increased for 2018/19. The project completion date of 2018 was unaffected with the facilities open in August 2018. |

| | | |
|--------------------|-----|---|
| Coastal Protection | 3.4 | Relates to a Flood Protection Scheme which was programmed to start in 2017/18 but was delayed due to ongoing design development through statutory and community consultation and consenting requirements. |
|--------------------|-----|---|

54. Slippage has been a feature in recent years and is planned for by the Council. The 2017/18 and 2018/19 capital plans allowed for slippage in the capital programme through over programming expenditure of £6.982 million and £9.5 million respectively. The slippage in the programme is attributable mainly to changes in the profile of expenditure in relation to major projects being undertaken by the Council. The Council regularly report through its capital monitoring arrangements the expected completion date against timescales planned with no major slippage in delivery of major projects anticipated.

Budgetary control and monitoring

55. Detailed scrutiny of financial performance is delegated to the Policy and Resources Committee. From our review of revenue and capital monitoring reports we concluded that they provided an overall picture of the budget position at Service level. Also, the reports forecast out-turn position for the year and include narrative explanations for significant variances against budget. They allow members and officers to carry out scrutiny of the Council's finances.

56. The Council's revenue budget continues to be predominantly incremental although account is taken of cost pressures and savings identified through prior year monitoring and any cost pressures identified for the current year.

57. We reported in our 2016/17 that revised reporting arrangements were to be introduced which involved monitoring reports being presented more regularly Policy and Resources Committee with enhanced budgetary information.

58. The Policy and Resources Committee now receives revenue and capital monitoring reports at each meeting (from August). Enhancements have been made to the capital monitoring reports to include monitoring of the capital programme across the lifetime of the capital projects rather than only in-year projections as well as monitoring of projects against the planned completion dates.

59. The budgets are aligned to the Council's strategic service structure which reflects the Council's objectives. The links from the budget to the more detailed service plans will be reviewed as part of our future Best Value work.

Part 3

Financial sustainability



Main judgements

The Council's usable reserves are in line with its reserves policy. However, the Council's reserves are the lowest in Scotland, as a proportion of revenue expenditure, and the Council should continue to keep the level under review.

The financial position of the Council and its group is sustainable in the foreseeable future but rising demand, increasing costs and reductions to central funding will make delivery of services more challenging.

The Changing for the Future Programme includes plans for how the Council will transform its services for the future.

There is scope to further improve financial planning by developing long-term financial plans, aligned to the Council's priorities, to demonstrate how it will address future budget challenges.

Financial planning

60. The Accounts Commission's March 2017 [Local government in Scotland: Performance and challenges](#) report highlighted the importance of medium to long term financial planning given the continuing pressures that councils face into the future. While it is acknowledged that the Council faces considerable difficulties in predicting future financial settlements, the Accounts Commission recommend that when future Scottish Government funding is not known, councils should plan for a range of possible scenarios so they are prepared for different levels of funding.

61. In our 2016/17 Annual Audit Report we recommended that the Council present a three year budget to members, consisting of scenario planning for different levels of assumed funding over a three year period.

62. In December 2017, the Executive Director of Corporate Services submitted a report to members advising of the financial outlook for the period 2018-21 setting out the provisional budget requirements and the projected grant allocations based on three scenarios of 3%, 4% and 5% grant allocation reductions. The funding gaps for the period 2018/19 to 2020/21 under each of the three scenarios range from £54.1 million to £69.6 million. These have since been revised as a result of the final 2018/19 settlement and a revision to the grant allocation scenarios (now set at 1%, 2% and 3%) to £36.4 million - £47.6 million. A further 'flat cash settlement' scenario has been reported at £30.7 million.

63. The new arrangements are a positive step towards longer term financial planning.

Financial sustainability looks forward to the medium and long term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

64. To achieve long term financial planning a long term financial strategy would be required which would identify budget pressures, and future risks and uncertainties and budget gaps for a longer period (typically ten years). The strategy would evolve over time to include a range of options to mitigate the longer-term funding gaps and support the delivery of the Council's strategic priorities. We have already acknowledged that financial settlements are only made annually it is difficult for the Council to plan with absolute certainty. To address this, the strategy would include scenario planning and a risk assessment of the likely impact of any changes in assumptions. Accordingly, we recommended that medium to longer term financial planning be further developed incorporating these processes.



[Recommendation 1 \(refer appendix 1, action plan\)](#)

Funding position 2018/19

65. In common with other public sector bodies, the Council faces complex challenges in maintaining a sustainable financial position into the future. Pressures arise from increasing costs, changing demographics and increased demands by the public and legislature.

66. The Council approved its 2018/19 revenue budget in February 2018, based on the Scottish Government one-year financial settlement of £286.851 million. The Council's net expenditure to be funded from local taxation and central revenue support funding was £351.085 million. The 2018/19 budget was based on a 3% increase in council tax.

67. The Council did not anticipate the use of reserves to fund revenue expenditure in 2018/19. The latest projected outturn position presented to members in August 2018 reflects a breakeven position for 2018/19.

Savings plans

68. The Council has estimated that it must make savings of £14.465 million for 2018/19 as part of its plans to maintain financial balance.

69. £14.171 million of savings are on a recurring basis (98%), with a small proportion on a non-recurring basis (2%). Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years. The emphasis on recurring savings puts the Council in a good position to make ongoing savings to meet future funding gaps.

70. The Council achieved efficiency savings of £6.683 million which exceeded its contribution to the national 3% of government revenue funding target. Significant elements of the efficiency savings included structure reviews across services (£1.171 million), review of back office and support functions (£1.028 million), reductions in energy consumption (£0.398 million) and rationalisation of the school estate (£0.478 million).

Reserves

71. As shown in [exhibit 8](#), the overall level of usable reserves held by the Council increased by £6.971 million to £26.762 million, mainly attributable to the increase in the general fund reserve balance of £4.005 million and new capital grants unapplied of £3.393 million in 2017/18.

72. £13.846 million of the usable reserves is within the general fund reserve which has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.

Exhibit 8

Usable reserves

| Reserve | 31 March 2017 £' million | 31 March 2018 £' million | Change £' million |
|----------------------------------|-----------------------------|-----------------------------|----------------------|
| General fund | £9.841 | £13.846 | £4.005 |
| Repair and renewal fund | £6.732 | £5.850 | £(882) |
| Capital fund | £2.100 | £2.110 | £0.010 |
| Insurance fund | £1.118 | £1.563 | £0.445 |
| Capital grants unapplied account | £0 | £3.393 | £3.393 |
| Total usable reserves | £19.791 | £26.762 | £6.971 |

Source: Dundee City Council 2017/18 Annual Accounts

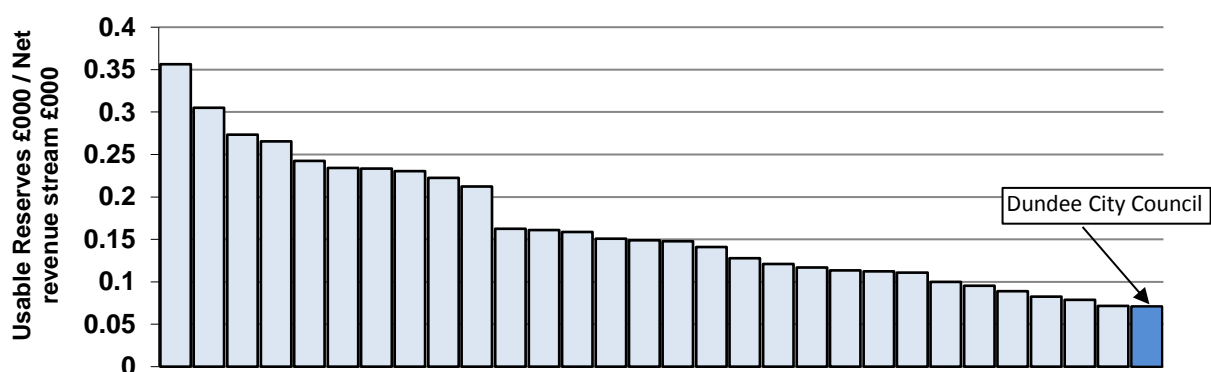
73. Of the £13.846 million general fund balance, £7.009 million is uncommitted with £6.837 million committed for specific use, such as transformation initiatives under the Organisational Change Fund (£1.682 million), funding of underspends carried forward from prior years (2.536 million) and Funding for future liabilities arising from the sale of DERL (warranties) (£1.75 million)

74. The CIPFA Local Authority Accounting Panel (LAAP) bulletin 99 provides guidance to “chief finance officers” on the establishment and maintenance of reserves. It does not prescribe a maximum or minimum level of reserves but places the responsibility on the chief finance officer to advise the authority on the levels of reserves and the processes necessary for their creation and use. The Council’s approved reserve policy is “to maintain a general fund balance at a minimum level of the lower of £5 million or 1.5% of budgeted revenue expenditure, but ideally a higher level will be held for operational purposes”. The Council’s general fund balance as at 31 March 2018 exceeds the minimum requirements.

75. [Exhibit 9](#) provides a comparison of usable reserves across Scottish councils.

Exhibit 9

Scottish councils’ usable reserves at 31 March 2018



Source: Scottish councils’ unaudited Annual Accounts 2017/18

76. Overall, we conclude that the financial position is sustainable, currently and in the foreseeable future. However, rising demand, increasing costs and reduced central funding will continue to place a strain on the Council's capacity to deliver services at the current levels.

77. Although the Council has significantly increased its usable reserves in 2017/18, Dundee City Council still has the lowest level of usable reserves (expressed as a percentage of net revenue expenditure) across Scottish local authorities, therefore flexibility to respond to unforeseen events is limited. The Council will need to continue to monitor the level of usable reserves held.

Business Transformation

78. Audit Scotland's [*Local government in Scotland – challenges and performance 2018*](#) (April 2018) highlighted that councils have done much to reduce spend and at the same time continue to deliver services for their local communities. Transformational change is increasingly important to councils as they seek to improve local outcomes with less money. Implementing successful transformation is not easy and audit work shows progress across the 32 councils is mixed.

79. The Council has a transformation change programme, 'Changing for the Future' which is supported by an Organisational Change Fund to provide funds for transformation on a 'spend to save' basis. Phase 4 of the programme concluded in March 2018 and was replaced by 'Changing for the Future programme – C2022'. This phase of the programme will run from 2018-2022.

80. The programme aims to transform the delivery of services while contributing to the achievement of short to medium term savings to address the financial challenges and support the delivery of the Dundee Partnership's City Plan and Council Plan objectives.

81. Governance arrangements are being revised to take forward the transformation programme. The Corporate Improvement Team which has been responsible for the transformation programme will be re-designed to operate as a Programme Management Office (PMO). The Council Management Team are the Programme Board and support the Chief Executive and the Corporate Improvement Team in the delivery of the C2022 programme.

82. In a report to the Policy and Resources Committee in June 2018, the Chief Executive noted that implementing successful transformation is not easy and the scale of the challenge means the pace of change needs to increase.

83. We will monitor progress with the transformation programme over the course of our audit.

European Union withdrawal

84. There remains significant uncertainty around the implications of EU withdrawal. Audit Scotland's view is that public sector bodies should be working to understand assess and prepare for the impact of Brexit on their business, in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas, overseen at an EU level, are likely to affect the activities of the organisation.

85. In February 2018 a paper titled 'BREXIT - Update and Implications' was submitted to the Policy and Resources Committee. Members were provided updates on negotiations between the UK Government and the EU, Brexit bills in the UK Parliament and the impact of Brexit in general, the impact on the local government in general and on the Council specifically.

86. The paper also recommended the setting up of a Brexit Advisory Team of officers to advise on a strategy to mitigate the impact of Brexit on the city and take advantage of any opportunities which may arise. In addition, members agreed that this team should suggest lobbying strategies to best protect Dundee, which would be taken forward by a Political Cross-Party Working Group involving MPs, MSPs, Councillors and representatives of the universities.

87. The Political Cross-Party Working Group met for the first time on 29 June 2018 and further regular meetings have been arranged. Much of the group's discussion at its first meeting focused on the funding which Dundee receives from the EU for work such as employability programmes, business gateway, financial inclusion, research and international exchanges. The Brexit Advisory Team first met in April 2018 and continues to meet regularly in parallel with the Political Cross-Party Working Group meetings.

88. As we move closer to the "exit day" on 29 March 2019 there is likely to be more information available on the likely settlement conditions. The Council should ensure it closely monitors developments and have plans in place to mitigate any emerging operational risks.

Tay Cities Deal

89. The Tay Cities Deal aims to transform the prosperity of the people, businesses and economies of Dundee, Angus, Perth and Kinross and North East Fife through a ten year programme to grow businesses, attract inward investment and contribute to regional, Scottish and UK growth. The Tay Cities Deal aims to generate an additional £900 million per annum for the Scottish economy and create up to 15,000 jobs over the ten year life of the programme.

90. The total cost of the investment within the deal proposal is £1.83 billion, of which £763 million (42%) over 10 years, is sought from the Scottish and UK governments and their agencies and the balance of being inward investment from the four local authorities, the private sector, universities, colleges, other public sector partners and the voluntary sector.

91. All four Councils have been collaborating with officials and Ministers on the Tay Cities Deal and the Council is awaiting feedback.

V&A Museum

92. The V&A sits at the heart of Dundee's wider £1 billion Waterfront regeneration project, where an estimated 4,800 FTE jobs will be created as a result of the development of the Central Waterfront area. Work began on the museum in 2015 and September 2018 sees the opening of the museum to the public.

93. Dundee City Council is a board member of Dundee Design Limited (DDL), the charitable body that is preparing to run the museum once it opens. Other members are Scottish Enterprise, Dundee and Abertay Universities and the V&A itself. DDL is included in the Council's group accounts and we are content with the accounting treatment in the financial statements.

94. The latest capital monitoring report as at 30 June 2018 projected a capital cost of £80.11 million for the museum, of which £57 million has been sourced from external funding. The V&A building is included in the Council's non-current assets, therefore the Council, in partnership with DDL, will be required to maintain the building on an ongoing basis.

95. In addition, the Council has other ongoing revenue commitments to DDL of up to £0.6 million per annum comprising a revenue grant of £0.35 million, in-kind support of £0.215 million and, if required, a further revenue grant of £0.035 million.

Part 4

Governance and transparency



Main Judgements

Effective governance arrangements are in place that support the scrutiny of decisions made by the Council.

The Council is open and transparent in the way that it conducts its business, with the public able to attend meetings and key documents are available on the Council's website.

Governance arrangements

96. Since May 2017, the SNP has formed a minority administration, with the current political make up consisting of:

- Scottish National Party 14
- Labour 9
- Conservatives 3
- Liberal Democrats 2
- Independent 1

97. The decision-making structure of the Council was approved at the first meeting of the new Council in May 2017. The decision-making structure approved was largely unchanged. The Council has six standing committees which comprise all 29 elected members as well as a number of other committees, sub-committees and boards, including the Scrutiny Committee which provides scrutiny of governance and performance.

98. The decision-making structure is a matter for members, and all councils should keep their structure under review to ensure that it serves the needs of both members and citizens. The Council can demonstrate this review process through the establishment of a Recess Sub-Committee which was approved in June 2018.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Good Practice

At its June 2018 meeting the Council approved the establishment of a Recess Sub-Committee to deal with matters of an urgent nature which could not wait for the next ordinary meeting of the Committee concerned during the recess period.

99. A local code of corporate governance has been adopted by the Council, based on the Code of Corporate Governance developed by CIPFA/SOLACE in 2008. The local code of corporate governance was reviewed in June 2018 and contains details of the corporate governance improvement agenda which is reported in the Annual Governance Statement within the Council's annual accounts. The corporate governance improvement agenda is also informed by the Executive Directors' self-assessment checklists.

100. We reported last year on the Council's corporate governance improvement agenda. Progress on the actions included in our report is noted in [exhibit 10](#).

Exhibit 10

Progress on corporate governance improvement agenda

| Improvement | Progress |
|---|---|
| Develop medium term financial planning | A three year budget for 2018-21 was approved in February 2018. |
| Launch of communication strategy | Carried forward to 2018/19. A Corporate Communication Strategy 2018-21 was approved in April 2018. An action plan has been created to support the strategy. |
| Align quarterly performance reports with services | Carried forward to 2018/19. New data and systems being developed around the new City Plan and Council Plan. A range of performance reports is to be staggered throughout the year rather than quarterly after the summer 2018 recess. |
| Develop risk management framework | Carried forward to 2018/19. See below. |
| Provide performance training for members | Carried forward to 2018/19. Training for members on performance management was approved by the Policy and Resources Committee in August 2018. |

Source: Dundee City Council 2017/18 Annual Accounts/ Audit Scotland

101. Work on risk management has been progressed since we reported last year with the approval of a revised corporate risk register in April 2018 and the appointment of a Corporate Risk Management Co-ordinator in July 2018. A risk management strategy has been drafted and will be considered by the Council Management Team in September before being presented to members for approval.

102. Work on the risk management framework is ongoing and development of the risk management framework continues to feature in the 2018/19 corporate governance improvement agenda. Specific improvements identified include ensuring staff are aware of their risk management responsibilities and the development of service level risk registers. Implementation of these improvements will assist the embedding of risk management across the Council.

103. We have concluded that the Council has adequate governance arrangements in place but that improvements have already been identified by the Council which are incorporated in their corporate governance improvement agenda. We will continue to monitor the implementation of the corporate governance improvement agenda during our 2018/19 audit.

Internal audit

104. The internal audit service, in any organisation, is an important element of internal control providing members and management with independent assurance on risk management, internal control and corporate governance processes as well as providing a deterrent effect to potential fraud.

105. Audit Scotland's Code of Audit Practice (the Code) requires external auditors to carry out an annual assessment of the adequacy of the internal audit function.

106. To avoid duplication of effort we place reliance on the work of internal audit wherever possible after carrying out an assessment of the internal audit function. A peer review of internal audit was carried out by East Lothian Council's Internal Audit Manager and concluded that the Council's Internal Audit Service fully conforms with 11 of the 13 standards set out in the Public Sector Internal Audit Standards (PSIAS) and generally conforms with the remaining 2. The findings of the peer review were reported to the Scrutiny Committee in June 2018. We have also concluded that internal audit generally operates in accordance with the PSIAS and has sound documentation standards and reporting procedures in place.

107. In 2017/18 we planned to place formal reliance on the internal audit reviews of the BACS system and IT user access to support our opinion on the financial statements. We did not place reliance on internal audit work on the BACS system due to the timing of that work but did place reliance on the work on IT user access.

108. Internal audit reported their findings on IT user access in June 2018 and concluded that "*there are weaknesses in the system which should be addressed.*" The report contained an action plan which recommended areas for improvement to be taken forward in 2018/19. The report also highlighted some areas of good practice.

109. PSIAS require the provision of an annual internal audit opinion, to inform the Council's annual governance statement. In her Annual Assurance Report issued in June 2018, the Senior Manager - Internal Audit concluded that "reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31 March 2018".

110. The Senior Manager - Internal Audit reported that some of the planned 2017/18 internal audit work had to be rescheduled to 2018/19 due to a number of factors including staff availability and increased requests for advice and guidance. The outstanding work has been assessed and concluded that it has no impact on the Senior Manager - Internal Audit's assurance opinion on the Council's overall control environment.

Systems of internal control

111. As part of our interim audit work we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the Council's financial statements. Our findings, which were reported to management in August 2018, included recommendations to enhance the existing control system.

112. As a consequence of the control weaknesses reported, we carried out additional audit work in some areas to allow us to obtain the necessary assurances for the audit of the 2017/18 financial statements. Specifically, we extended our substantive testing of journals and verified a sample of employee data. This testing did not identify any errors or other issues that would impact on the reliability of the information within the financial statements.

Transparency

113. Transparency means that the public have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.

114. The Council demonstrates a commitment to transparency. Meetings of the Council and its standing committees are open to members of the public and the Council also holds public consultations (both web based and face-to-face) on a wide range of issues.

115. A comprehensive range of information on how the Council operates is available on its website. Information available includes: agendas and minutes of Council and Committee meetings, annual accounts, performance information (Dundee Performs), how to make complaints and access to benefits. The Council also has a Facebook page to provide news and information to local residents.

National Fraud Initiative in Scotland

116. The National Fraud Initiative (NFI) in Scotland brings together data from local government, health boards and other public sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud.

117. The 2016 National Fraud Initiative (NFI) exercise commenced in October 2016 and a summary of the NFI matches and investigations undertaken by the Council is summarised at [exhibit 11](#).

Exhibit 11

National Fraud Initiative

Total number of matches



18,124

Number selected for investigation



1,515

Completed/closed investigations



8,679

Source: NFI website

118. The Council has processes in place to ensure cases are reviewed timeously. Good progress has been made with all reports including recommended matches having been investigated. The NFI review has highlighted 80 errors with savings of £0.132 million identified.

119. NFI activity is reported annually to the Scrutiny Committee. An annual report on the NFI is scheduled to be presented to the Scrutiny Committee in September 2018, along with Council's Self Appraisal Checklist for the forthcoming 2018/19 National Exercise and the Audit Scotland NFI National Report.

120. Overall, we have concluded that the Council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Standards of conduct for prevention and detection of fraud and error

121. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current. We concluded that the Council has appropriate arrangements in place for the prevention and detection of bribery and corruption.

122. Despite the arrangements in place, a significant fraud was perpetrated against the Council, which was reported in our 2016/17 annual audit report. As a result of this, in March 2018 the Accounts Commission discussed a report from the Controller of Audit and published its findings on the [report](#). The report was considered by the Council in April 2018. and the full Council in April 2018.

Extract from the Auditor's opinion in the Report on a Significant Fraud (March 2018):

The fraud resulted from an employee having unrestricted access to several systems which allowed him to insert fake invoices into the system and alter the bank payment details of suppliers without detection.

The fraudulent payments totalled £1.065 million over several years and the impact on the financial statements from 2009/10 to 2015/16 did not represent a material misstatement in any given year. However, there were failures in fundamental controls within the council that allowed this fraud to continue over a prolonged period resulting in a loss to the council. In particular, the lack of segregation of duties allowed the perpetrator access to a number of systems, enabling them to carry out the fraud. Internal controls such as system reconciliations were not carried out or were ineffective and as a result the payments were not identified as anomalies for further investigation at an early stage.

On discovery of the erroneous payment the council acted promptly to deal with the individual and reporting the fraud to Police Scotland. Officers undertook appropriate investigations and effective recovery of the fraudulent payments. The investigations highlighted the control weaknesses and officers have acted to address the issues and strengthen the control environment.

Extract from the Accounts Commission's findings

We note the conclusion of the Controller that failures in fundamental controls within the council allowed this fraud to continue over a prolonged period. We also note the conclusion that appropriate action was taken by management on discovering the fraud and that it continues to try and enhance public confidence by improving its resilience to fraud and corruption

123. Appropriate action has been taken by the Council following the fraud with an action plan developed to address the weaknesses identified. Internal Audit has also carried out reviews of BACS and user access levels which were identified as areas of key weaknesses that enabled the fraud to be perpetrated. Internal audit has also included a review of the action plan as part of their 2018/19 programme of work.

124. The Council has worked with Police Scotland Safer Communities DETER who have a nation remit for Prevention under Scotland's Serious Organised Crime Strategy. Police Scotland have worked jointly with the Council to deliver awareness raising sessions with public sector organisations. Briefing sessions on the fraud have also been given to the Local Government Directors of Finance (Scotland) Group and the Scottish Local Authorities Chief Internal Auditors Group.

Correspondence referred to the auditor

125. During the year we received five pieces of correspondence covering issues related to Dundee City Council. We considered the issues raised and the evidence provided and concluded that there were no implications for our Independent Auditor's Report.

Public Services Network

126. The Public Services Network (PSN) is the UK government's high-performance network. To provide the performance, resilience, and security required by the public sector, the PSN is unified by an agreed set of standards with which all users, suppliers and customers must comply. These standards, the PSN Codes and Conditions, are administered by the Cabinet Office's Digital Service.

127. Public bodies wishing to connect are required to submit a detailed application together with an independent ICT health check. If the submission meets the assessors' standard, then compliance is granted either unconditionally or conditionally with an action plan if the current level is close to meeting the standard.

128. In August 2018, the Council submitted their annual application for PSN connection. The Council is working on the remedial actions identified in the consideration of the submission and plans to submit a further application for PSN connection before the end of September 2018. Council officers are working closely with the Cabinet Office on this matter.

Cyber security

129. Like all organisations, the Council faces the risk of cyber attacks targeting ICT systems, networks and infrastructure. The threat to public sector organisations is very real as evidenced by the "WannaCry" ransomware attack on the NHS in 2017/18. In mid-April US and UK intelligence agencies issued a joint technical alert describing a global assault on routers, switches, firewalls, and network intrusion detection hardware by Russian state-sponsored cyber hackers. The persistent risk from new threats and vulnerabilities could result in unauthorised access and subsequent damage or interruption to IT services.

130. As part of its [Public Sector Action Plan on Cyber Resilience](#) the Scottish Government actively encouraged all public sector bodies to seek independent assurance of critical technical controls, which in their view was possible by obtaining Cyber Essentials or Cyber Essentials Plus accreditation. The Council obtained its Cyber Essentials accreditation in June 2018 and has yet to decide if it is applying for the Cyber Essentials Plus accreditation

131. The work carried out by the Council to enable it to apply for PSN accreditation is significant and comprehensive in terms of facilitating secure working conditions and operational practices. In essence, in achieving PSN accreditation the Council should be able to achieve Cyber Essentials Plus accreditation.

General Data Protection Regulation

132. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. Superseding the Data Protection Act 1998, the regulation introduced new and significantly changed data protection concepts pertaining to the processing of personally identifiable information.

133. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the Council incurring significant fines.

134. The Council has made a number of changes to their data protection processes as a result of GDPR, including:

- appointing a Data Protection Officer who also supports the Council's partners - Leisure and Culture Dundee and the Dundee City Integration Joint Board
- holding briefings for members. Data protection training has been made mandatory for officers (of the 8816 Officers, 5474 (62%) have already completed the online training and a paper-based version of the training is being rolled out for those officers who do not routinely have access to IT systems)
- setting up a GDPR Strategy Group, which draws representatives from officers in all of the Council's Services, Leisure and Culture Dundee and the Dundee City Integration Joint Board. The Group is responsible for the Council's strategic response to GDPR and DPA 2018. In addition, each Service has set up a GDPR Group which is responsible for the implementation of GDPR and DPA 2018 at a Service level
- the Council Management Team, Leisure and Culture Dundee and the Dundee City Integration Joint Board receive regular updates on progress under GDPR and DPA 2018 and also receive information about action taken in response to all Data Breaches and Near Misses to ensure that learning is shared throughout the organisations.

Health and Social Care Integration

135. The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

136. The Dundee City Integrated Joint Board (IJB) is provided in partnership with NHS Tayside and became fully operational on 1 April 2016.

137. The IJB set a breakeven budget for 2017/18. This was based on expenditure of £249.446 million, with £74.694 million contributed by Dundee City Council and £174.752 million by NHS Tayside. The IJB budget was subsequently increased by £12.306 million during the year to £261.752 million. The increase was due to funding of £10.187 million from Dundee City Council for central support costs. Adjustments to pension costs etc., and £2.119 million from NHS Tayside for transfer of the hosted services budgets for Angus and Perth & Kinross budget overspends.

138. The IJB reported an overspend of £0.403 million at 31 March 2018 which reduced its general reserve from £4.963 million to £4.560 million. Of this balance only £0.230 million is uncommitted (0.09% of its net revenue expenditure) which is very low in comparison to the IJB's approved reserve policy of up to 2% of net expenditure.

139. The IJB is subject to a separate audit (also by Audit Scotland) and an Annual Audit Report, which will be published in due course, has been produced setting out the auditor's conclusions. The financial transactions of the IJB have been consolidated into the Council's group accounts.

Health and Social Care Integration performance audit

140. Audit Scotland, as part of a series of reports, has undertaken a national study to examine the impact of the integration of health and social care services. Dundee City IJB was visited as part of the fieldwork for the study. The report is due to be published in November 2018.

Local scrutiny plan

141. The Local Scrutiny Plan (LSP) sets out the planned scrutiny activity at the Council during 2018/19. The plan is based on a shared risk assessment undertaken by a Local Area Network (LAN), comprising representatives of all the scrutiny bodies who engage with the Council. The 2018/19 LSP for the Council was presented to the April 2018 meeting of the Scrutiny Committee. No scrutiny risks requiring additional scrutiny or audit work in 2018/19 were identified from the shared risk assessment.

Part 5

Best Value



Main judgements

A revised performance management framework was approved in August 2018. It includes the introduction of service scorecards which align service performance with key priorities and outcomes.

It is too early to assess the impact of the new framework on the outcome for customers and citizens.

Performance information shows maintained or improving performance in 2017/18 in 83% of the LGBF indicators. However, 47% of the Council's performance indicators are in the top half in its family group comparisons, which is below its 55% target.

The Council is continuing to improve its public performance reporting.

Best value

142. To review how effectively the Council demonstrates Best Value in its delivery of services we consider our audit findings across the audit dimensions referred to in paragraph 4. This section includes audit findings relating to the audit dimension of Value for Money which contribute to a council's delivery of Best Value.

143. Best value is assessed over the five-year audit appointment as part of our annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Dundee City Council is planned for later in the five year programme.

144. Following our 2016/17 review of the Council's arrangements for financial and service planning, financial governance and resource management, in 2017/18 our Best Value audit work focussed on the Council's arrangements for demonstrating Best Value in Performance, Improvement and Outcomes. The findings from this work allowed us to gather intelligence in advance of our full Best Value review and also provided an update on the Council's Performance Management Framework which we report on below.

145. The effectiveness of the Council's Best Value arrangements in other areas will continue to be assessed and reported throughout our audit appointment.

Performance Management Framework

146. The City Plan 2017-2026 is Dundee's Local Outcome Improvement Plan and sets out the Dundee Partnership's shared vision for the city. The City Plan sets out one, three and ten year targets on a range of outcome measures across the partnership's priority themes.

Best Value is about using resources effectively and continuous improvement in the delivery of services to citizens.

147. The Council Plan 2017-22 sets out the part the Council will play in achieving the city's vision as well as the Council's own priorities. The Council Plan 2017-22 details the Council's priority outcomes supported by key measures and targets.

148. In August 2018, the Policy and Resources Committee approved a new Performance Management Framework 2018-2022. It also approved a training session for members on performance management core skills.

149. A comprehensive Performance Management Framework document was presented to the Committee which provides a description of performance management, what effective performance management looks like and the importance of embedding performance management throughout the organisation. It also contains sections on performance reporting (through public performance reporting (PPR), benchmarking and best value), self-assessment and evaluation, customer feedback and citizen's engagement, external assessment and recognition and external audits and inspection. The document also contained a reporting timetable setting out the range of reports to be submitted to members with delivery dates.

150. A key element of the performance management framework is the introduction of Service scorecards which align service performance reporting with key priorities and outcomes. The Council uses the Pentana performance management system to record performance management data and this forms the basis of reporting to management and to the Policy & Resources Committee to monitor progress on the targets and actions.

151. Progress reports on the Council Plan are submitted to the Policy and Resources Committee and the Scrutiny Committee annually. The first progress report on the Council Plan 2017-22 was presented to the Policy and Resources Committee in August 2018 and is scheduled to be presented to the Scrutiny Committee in September 2018. This is in line with the reporting timetable.

152. The Council Plan includes a target of 75%-80% of its key performance indicators (KPIs) being maintained or improved. It also includes a target of 55%-75% of Local Government Benchmarking Framework (LGBF) indicators where Dundee City Council is in the top half of its family group. The LGBF results are also reported to the Policy and Resources and Scrutiny Committees.

153. The LGBF results act as a catalyst for discussion on performance areas. The Council are planning to provide thematic reports to members more timeously when information becomes available.

154. The [Local Government Benchmarking Framework](#) has been developed by the Improvement Service to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

155. The new framework aims to improve the performance of the Council but it is too early to assess its impact on the outcome for customers and citizens.

Public Performance Reporting including Statutory Performance indicators (SPIs)

156. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

157. For 2017/18 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

158. The paragraphs which follow set out our observations and conclusions on the Council's compliance with the Accounts Commission direction.

159. The Council's website has a site 'Dundee Performs' which contains performance information including the results of the LGBF review, Annual Performance Indicators, the Council Plan 2017-22 and the latest Progress Report on the Plan, The City Plan 2017-26 and the Annual Citizen Survey.

160. The Annual Performance Indicators page provides a detailed overview of performance across all Council services.

161. Internal Audit has carried out a review of the arrangements for public performance reporting during 2017/18 and highlighted areas for improvement. The findings from the review will be reported to the Scrutiny Committee in due course.

162. We have identified some improvement in the timeliness of performance reporting, e.g. the Council Plan progress report included on the site was approved by the Policy and Resources Committee in August 2018, however further improvement is required.

163. Internal Audit has also reviewed the effectiveness of the utilisation of the Pentana performance management system and identified some areas for improvement. The findings from the review will also be reported to the Scrutiny Committee in due course.

164. We will monitor progress with performance reporting and the use of the Pentana system as part of our 2018/19 audit.

Overview of Performance Targets – LGBF

165. In early 2018, the Improvement Service's published its most recent [National Benchmarking Overview Report 2016/17](#) covering the performance data for all 32 local authorities in Scotland for the 2016/17 reporting period (the latest available data). A report on the Council's participation in the LGBF performance indicators was submitted to the Policy and Resources Committee in April 2018 and to the Scrutiny Committee in June 2018. The [National Benchmarking Overview Report 2016/17](#) was also published on the Council's website.

166. The report to the Committees highlighted comparative performance against other 'family group' councils. As noted above, the Council Plan 2017 – 2022 includes a target of finishing in the top half of performances in its family group for 55% of the LGBF indicators. In 2016/2017, the Council obtained an overall performance rate of 47%, which is comparable with previous performances. The report also notes that over the last 5 years the Council's performance has been maintained or significantly improved for 83% of the LGBF indicators. [Exhibit 12](#) provides a breakdown by Service.

Exhibit 12

LGBF comparative performance indicators

| Service | Total Measures | Top Half | % | Improved Measures | % |
|-----------------------|----------------|-----------|-----------|-------------------|-----------|
| Children and Families | 27 | 5 | 18 | 20 | 74 |
| Social Care | 6 | 4 | 67 | 5 | 83 |
| Housing | 5 | 1 | 20 | 4 | 80 |
| Environment | 9 | 6 | 67 | 7 | 78 |
| City Development | 12 | 11 | 92 | 12 | 100 |
| Cultural and Leisure | 8 | 5 | 62 | 7 | 88 |
| Corporate Services | 8 | 3 | 37 | 7 | 88 |
| Total | 75 | 35 | 47 | 62 | 83 |

Source: National Benchmarking Overview Report 2016/17

167. The Council also compares its performance in relation to the other main cities of Aberdeen, Edinburgh and Glasgow as regards top performance finishes and has performed well in comparison. The Council lies second out of the four cities for indicators where they are the top ranked out of the four cities. The Council has finished top in 28% of the 75 indicators (other cities' performance is 40%, 17% and 15%).

Overview of Performance Targets – Council Plan 2017-2022 Performance Indicators

168. The first Council Plan 2017-2022 progress report sets out the Council's performance information in the form of Service scorecards. A traffic light grading system is applied by the Council as defined in [exhibit 13](#).

Exhibit 13

Traffic light grading system

| Status | Definition |
|--------|-------------------------------------|
| Green | Performance on target |
| Amber | Performance within target threshold |
| Red | Performance behind target |
| Blue | Data not yet available |

Source: Council Plan 2017-22 Progress Report 2017/18 year end

169. The progress report identified that 68 (76%) of the 75 measures had been graded as green/amber as shown at [exhibit 14](#).

Exhibit 14

Performance reported in Council Plan 2017-2022 Progress Report (August 2018)

| Services | Green | Amber | Red | Blue | Total | Improved or maintained indicators | % |
|------------------------------------|-----------|-----------|-----------|----------|-----------|-----------------------------------|-----------|
| All Services | 54 | 14 | 20 | 2 | 90 | 58 | 64 |
| Children and Families | 15 | 2 | 2 | 0 | 19 | 11 | 73 |
| City Development | 11 | 1 | 2 | 0 | 14 | 12 | 86 |
| Health and Social Care Partnership | 8 | 2 | 2 | 2 | 14 | 6 | 43 |
| Neighbourhood Services | 8 | 5 | 8 | 0 | 21 | 15 | 71 |
| Leisure and Culture | 2 | 2 | 0 | 0 | 4 | 2 | 50 |
| Corporate Services | 7 | 1 | 4 | 0 | 12 | 9 | 75 |
| Chief Executive's Department | 3 | 1 | 2 | 0 | 6 | 3 | 50 |

Source: Council Plan 2017-22 Progress Report 2017/18 year end

170. Going forward, as the Performance Management Framework beds in, we plan to review the accuracy of performance reporting and the processes that the Council has put in place for reviewing its targets to ensure they remain stretching to demonstrate continuous improvement.

171. The progress report highlighted the most improved and most deteriorating indicators. [Exhibit 15](#) shows examples of the indicators included within these categories.

Exhibit 15

Most improved and most deteriorating performance

| Most improved indicators | Most deteriorating indicators |
|---|---|
| Bed days lost after being registered as fit for discharge. | % Looked After School Leavers Achieving Literacy and Numeracy at SCQF Level 5. |
| Average Length of Hours taken to Complete Emergency Repairs. | % of Looked After School Leavers Achieving Literacy and Numeracy at SCQF Level 4. |
| Percentage of Residential and Foster Care Placements which are Rated as Good or Better. | Percentage of Looked After Children Maintained in Dundee. |
| Unemployment Rate. | Sickness Absence. |

Source: Council Plan 2017-22 Progress Report 2017/18 year end

172. As part of our evolving Best Value work we plan to consider the Council's results from any staff surveys.

Annual satisfaction surveys

173. An Annual Citizen's Survey sets out the findings of the latest survey (2017) which aims to track over time (ten years) a core set of questions relating to customer satisfaction and the public's overall perception of the Council as an organisation. In addition, the survey asks about community safety; satisfaction with information provided by the Council, including on its website; and satisfaction with local facilities, aspects of the local environment and how good neighbourhoods are as places to live.

174. The latest results were presented to the Policy and Resources Committee in February 2018 and show that for most of the corporate performance areas e.g. telephone enquiries, office visits, provision of information and website use, there is a significant improvement over the last 10 years, although performance in 2017 has dipped slightly or is beginning to flatten out. Satisfaction with local services and quality of life indicators have also improved since 2015.

175. A summary of the key results for each of the Council's wards is sent to the Chair and Communities Officer for each Local Community Planning Partnership so that any local issues can be discussed and feedback on any actions identified. The survey results are also made available to Community Regeneration Forums to inform decisions on funding priorities.

176. An entirely separate survey is commissioned by the Scottish Government on a bi-annual basis, and none of the questions used are directly comparable to the Council's own survey. However, there are a number of questions which cover broadly similar areas to those covered in the Council's own survey.

177. The results of the 2017 survey are also included in the report to the Policy and Resources Committee in February 2018 and these show improvement since 2015 and most results better than the Scottish average.

National performance audit reports

178. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, a number of reports were issued which are of direct interest to the Council, [Appendix 3](#).

179. National reports examine issues of public interest across the public sector. They are intended to make a positive difference to the use of public money and the way public services are delivered, by making recommendations and highlighting good practice. Reports frequently include self-assessment checklists and guidance for members on where attention should be focused.

180. Currently the national reports are reviewed by officers and taken for members consideration where appropriate. However, there is no formal mechanism to demonstrate that all relevant reports are considered.

Council's use of Arm's Length External Organisations (ALEOs)

181. Arm's-length external organisations (ALEOs) are separate organisations used by councils to deliver services. They can bring both financial and operational benefits

182. The Accounts Commission's national report on ALEOs was published in May 2018. Dundee was one of the councils involved in the study through Leisure and Culture Dundee and Dundee Energy Recycling Ltd.

183. The report sets out recommendations in deciding whether an ALEO is the best way to provide services over the longer term, while providing value for money and continuing to apply the Following the Public Pound principles. Recommendations include demonstrating how ALEOs help the Council meet its objectives and improve outcomes for their communities; setting clear criteria for reviewing an ALEO, considering risks, performance and how it fits with Council priorities; overseeing the performance, financial position, and associated risks of ALEOs.

184. The report includes references to the Council's involvement in ALEOs, noting:

- Financial benefits: Leisure and Culture Dundee has made a cumulative saving of £15 million (2011 to 2017) allowing it to remove a £3.5 million funding gap and invest £1.2 million. Income generated by the ALEO now exceeds the funding paid by the Council.
- Meeting wider social or community benefit aims: Leisure and Culture Dundee secured private sector sponsorship for their Park Lives outdoor activities initiative.
- Achieving shared benefits between councils: Dundee Energy Recycling Limited provides service on behalf of both Dundee and Angus Councils.

185. In our 2016/17 Annual Audit Report we reported that an annual report on financial and performance information relating to ALEOs had not been recently considered in line with Council guidance. Since then a report on the performance of cultural sector ALEOs has been presented to the Policy and Resources Committee in February 2018.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|--|--|--|
| 1 | <p>Long-term financial strategy</p> <p>It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. The strategy would evolve over time to include a range of options to mitigate the longer-term funding gaps and support the delivery of the Council's strategic priorities</p> <p>Risk: Without a longer term strategy future funding gaps may not be addressed timeously and the Council's objectives may not be achieved.</p> | <p>Medium to longer term financial planning should be further developed, incorporating scenario planning and risk assessment of the likely impact of any changes in assumptions.</p> <p>Paragraph 64</p> | <p>The Council will continue to develop its medium / longer term financial planning, building on the 3 year Revenue Budget now in place.</p> <p>Responsible officer: Executive Director of Corporate Services.</p> <p>Agreed date: 28 February 2019.</p> |

Follow up of prior year recommendations

| | | | |
|------|---|--|--|
| PY 1 | <p>Management Commentary and Annual Governance Statement</p> <p>A number of disclosures required by extant guidance and Regulations had not been presented appropriately in the annual accounts.</p> <p>Risk:</p> <p>The accounts may not comply with current guidance and Regulations.</p> | <p>The Council should ensure that there is a process in place to ensure that the requirements of existing guidance and Regulations are met.</p> | <p>Action complete - we have reviewed the disclosures in the Management Commentary and the Annual Governance Statement and considered them to comply with existing guidance and Regulations.</p> |
| PY2 | <p>Transfer to Repairs and Renewal Fund</p> <p>We have been advised that a £1.7 million appropriation from the Repairs and Renewal Fund was approved by the Executive Director of Corporate Services through the terms of the Council's</p> | <p>There should be a formal approval process for all reserve transfers outwith the budget. If approval is by delegated powers the approval should be evidenced and formally presented to the Policy and Resources Committee.</p> | <p>Action complete: Standing orders were updated. Process for 2017/18 follows the revised standing orders.</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|------------|---|---|--|
| | <p>reserves and balances protocol. The scheme of delegation is not clear on delegated powers in these circumstances.</p> <p>Risk:</p> <p>Reserve transfers may not have the appropriate authority.</p> | | |
| PY3 | <p>Internal Controls – Payroll validation</p> <p>The Council does not have a comprehensive employee validation process in place to provide evidence that payroll employees exist.</p> <p>Risk:</p> <p>Erroneous payments could be made without detection.</p> | <p>An employee verification exercise to provide assurances over the existence and validity of employees on the payroll should be introduced across all services. The exercise should require responses from all services to evidence that they confirm the validity of their employees.</p> | <p>Action complete – a payroll verification exercise was carried out in 2017/18.</p> |
| PY4 | <p>Journals</p> <p>There was a considerable level of back-dating of transactions throughout the year. Each month over three hundred journals were posted to periods two or more months in the past.</p> <p>Risk:</p> <p>Significant backdating of journals during the year may make it more difficult for budget holders to track year to-date and monthly expenditure.</p> | <p>Management should review the level of backdating of journals.</p> | <p>Action ongoing: Our review in 2017/18 indicates continuing high levels of back-dated journals.</p> <p>Revised action: 2017/2018 data will be reviewed to highlight the areas which are causing the level of backdating. These areas will be addressed and action will also be taken to reduce the period where backdating is permitted.</p> <p>Responsible officer: Accounting Manager - Systems</p> <p>Revised date: 31 December 2018.</p> |
| PY5 | <p>Financial planning</p> <p>The medium term financial outlook and strategy set out some of the context for 2017/18 financing including the continued uncertainty of the local government settlements but is not a detailed financial plan for the medium term. The 2015/16 Annual Audit Report contained a recommendation that the</p> | <p>Management should present a three year budget to members, consisting of scenario planning for different levels of assumed funding over the three year period.</p> | <p>Action complete – the revenue budget approved by the Policy and Resources Committee in February 2018 contained a three year budget.</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|------------|---|---|---|
| | <p>Council should present a three-year budget to members.</p> <p>Risk:</p> <p>The Council may fail to achieve its objectives due to lack of resources.</p> | | |
| PY6 | <p>Governance arrangements – Risk Management</p> <p>The local code of governance improvement agenda includes the development of the Council's risk management framework by September 2017. In our Annual Audit Plan we highlighted a key risk that the risk register had not been updated since June 2014. Updating is required as a matter of urgency.</p> <p>Risk:</p> <p>Exposure to risks may not be highlighted and mitigated through management controls.</p> | <p>The risk register should be updated as soon as possible.</p> | <p>Action complete – the corporate risk register was approved by the Policy and Resources Committee in April 2018.</p> |
| PY7 | <p>Following the Public Pound</p> <p>Council guidance requires an annual report on financial and performance information relating to bodies which are being substantially funded by the Council (Arm's Length External Organisations – ALEOs). The last report considered by members was in April 2015.</p> <p>Risk:</p> <p>Members are unable to scrutinise performance of ALEOs to ensure these services represent value for money.</p> | <p>A report on following the public pound should be presented annually to members in line with the Council's guidance.</p> | <p>Action complete – a report on the performance of cultural sector arm's length bodies was presented to the Policy and Resources Committee in February 2018.</p> |
| PY8 | <p>Performance Management</p> <p>Much of the performance information on the Council's website is outdated.</p> <p>Risk:</p> | <p>The 'Dundee Performs' section of the Council's website should be updated to reflect more up to date performance information.</p> | <p>Action complete – the 'Dundee Performs' site has been updated and includes details on the Council Plan 2018-2022 Progress update with the most recent performance indicators, which was approved by the Policy and</p> |



No.

Issue/risk

Recommendation

Agreed management
action/timing

Members of the public are unable to obtain up to date information on the Council's performance.

Resources Committee in April 2018.

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|---|
| Risks of material misstatement in the financial statements | | |
| <p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls.</p> | <p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> | <p>We used data analytics to analyse feeder and journal transactions to review for patterns of inconsistent activity.</p> <p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not show any instance of bias.</p> <p>Focussed testing of regularity and cut-off assertions did not reveal any lapses in controls.</p> <p>No significant transactions outside the normal course of council business were identified.</p> <p>Conclusion: There is no evidence of management override of controls.</p> |
| <p>2 Risk of fraud over income and expenditure</p> <p>ISA 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> includes certain requirements relating to the auditor's consideration of fraud.</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant.</p> <p>The council receives a significant amount of funding from the Scottish Government, however income is received from other sources, including council tax, housing rents etc.</p> | <p>Analytical procedures on income/expenditure.</p> <p>Testing of key internal financial controls.</p> <p>Detailed testing of transactions focusing on the areas of greatest risk.</p> <p>Review the council's actions to mitigate the risk of fraud. This will include review of the progress of the Corporate Integrity Group in strengthening controls following the significant fraud reported in 2016/17.</p> | <p>Sample testing of income and expenditure transactions to confirm that these were in the normal course of business.</p> <p>We obtained satisfactory explanations for any significant increases or decreases in income/expenditure.</p> <p>Our sample cut-off testing confirmed that transactions were processed in the correct accounting year.</p> <p>The council has adequate counter-fraud arrangements.</p> <p>The council is pro-active in investigating matches and</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|---|
| <p>Additionally, the Code of Audit Practice requires consideration of the risk of fraud over expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p> | <p>Review the council's involvement in the National Fraud Initiative.</p> <p>The Controller of Audit is to report on the fraud to the Accounts Commission under section 102(1) of the Local Government (Scotland) Act 1973 in March 2018.</p> | <p>reporting the outcomes from National Fraud Initiative activity.</p> <p>Conclusion: The council has effective arrangements in place to minimise the risk of fraud over income/expenditure.</p> |
| <p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements</p> | <p>Review of the work of an expert in accordance with ISA 620. This will apply to the work of the actuary and the property valuer.</p> <p>Focused testing of non-current assets, pensions and provisions.</p> | <p>We considered the Council's accounting policies and whether these were appropriate.</p> <p>A number of estimations and judgements in the accounts were based on the opinion of experts. We assessed the reliability of these experts and reviewed their work.</p> <p>We tested non-current asset, pension and provisions disclosures and confirmed them to appropriate evidence.</p> <p>Conclusion: estimations and judgements included in the accounts are supported by appropriate audit evidence</p> |
| <p>4 Group entities consolidation</p> <p>The council's group accounts bring together the council's interests in entities which would be regarded as subsidiaries, associates and joint ventures. The council's relationships with organisations need to be reviewed annually to identify the group boundary for the accounts. These include the subsidiary Dundee Energy Recycling Ltd (DERL) which was sold in November 2017.</p> | <p>Review of the council's consideration of related parties to ensure all group entities are appropriately recognised</p> <p>Review of component auditors and of findings in relation to group entities</p> <p>Review of accounting basis for preparation of the group accounts.</p> | <p>We reviewed the consolidation of group entities into the council's group accounts ensuring entities treated in line with the Code.</p> <p>We reviewed the component auditor's findings for the group entities.</p> <p>We reviewed the accounting basis for the preparation of the group accounts was in line with requirements.</p> <p>Conclusion: The council is accounting appropriately for its group entities.</p> |
| <p>5 Management Commentary and Annual Governance Statement</p> <p>A number of disclosures required by extant guidance and Regulations had not been presented appropriately in the 2016/17 annual accounts. There is a risk that the accounts may not comply with current guidance and Regulations.</p> | <p>Review of Management Commentary and Annual Governance Statement to ensure statements comply with regulations and guidance.</p> | <p>We reviewed the disclosure in the Management Commentary and Annual Governance Statement to ensure the statements comply with regulations and guidance and that the disclosures were consistent with the financial statements.</p> <p>Conclusion: The Management Commentary and Annual Governance Statement comply with regulations and guidance</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|--|--|--|
| | | and disclosures were consistent with the financial statements. |
| <p>6 Related parties</p> <p>The council maintain a register of interest for members. However, there is no process in place to ensure that these registers are reviewed to ensure all related party disclosures are identified and disclosed in the financial statements. There is a risk that the related parties disclosures are incomplete.</p> | <p>Review of related party disclosure to ensure all appropriate areas are considered and reported where necessary.</p> | <p>We reviewed the related parties disclosures and confirmed that an exercise was undertaken to ensure all appropriate areas are considered and reported, including the consideration of the register of interests.</p> <p>Conclusion: The council is accounting appropriately for its related party disclosures.</p> |
| <p>7 Service concession assets</p> <p>A service concession arrangement is an arrangement whereby the council contracts with a private operator to develop, operate and maintain an asset. A significant service concession arrangement in relation to Baldragon Academy will require a service concession asset to be recognised in the financial statements in 2017/18. There is a risk that this arrangement is not appropriately recognised in the financial statements.</p> | <p>Review of service concession model and disclosures in the accounts including asset valuation and liability.</p> | <p>We reviewed and agreed the council's accounting treatment for Baldragon Academy and related liability as part of the service concession asset arrangements.</p> <p>Conclusion: The council is accounting appropriately for service concession assets.</p> |
| <p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p> | | |
| <p>8 Financial sustainability</p> <p>The council is facing the prospect of having to make significant budget savings. The council has a relatively low level of usable reserves in comparison with other authorities and continues to face increasing demands (e.g. residential placements and foster care). There is a risk that the council is unable to deliver the efficiencies required to balance its budget whilst meeting its strategic priorities.</p> | <p>Review the council's process for monitoring the transformation programme progress.</p> <p>Review financial monitoring reports and the financial position.</p> | <p>We monitored the financial sustainability of the Council based on information gathered over the course of the audit:</p> <p>Conclusion: The Council's financial position is sustainable in the foreseeable future although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at the current levels</p> |
| <p>9 Performance management</p> <p>The council's performance management framework is going through significant changes. The latest in year performance monitoring report</p> | <p>Undertake specific work on performance, outcomes and improvement. This will include assessing the council's performance management arrangements.</p> | <p>We carried out a review of performance, outcomes and improvements in preparation for the best value work to be undertaken later in the audit appointment. We found that the Performance Management</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|--|--|--|
| <p>considered by members was in December 2016.</p> <p>Our 2016/17 Annual Audit Report highlighted that much of the performance information on the council website was outdated.</p> <p>With a lack of up to date performance information, there is a risk that the members cannot effectively scrutinise and take informed decisions on the allocation of resources and the prioritisation of improvement actions in services.</p> | <p>Review of the work of internal audit on public performance reporting, covalent and data integrity.</p> | <p>Framework was approved by the Policy and Resources Committee in August 2018. We also note that internal audit has identified that improvements are required to the performance management arrangements and the findings from their review will be reported to the Scrutiny Committee in due course.</p> <p>Conclusion: The performance Management Framework has only recently been formally approved. It is too early to assess the impact this will have on outcomes for the Council's customers and citizens. We shall monitor progress in this area over the course of our audit appointment.</p> |
| <p>10 Risk management</p> <p>The corporate risk register has not been considered by members since June 2014. An internal audit report on <i>Risk Management</i> was considered by the Scrutiny Committee in February 2018 highlighting several areas where improvements are required in the risk management processes. There is a risk that the council is not mitigating risks to an acceptable level.</p> | <p>Monitor the progress in updating the corporate risk register and implementing the improvements to the risk management arrangements as recommended by internal audit.</p> <p>Review the content of the Annual Governance Statement in regard to risk management.</p> | <p>Monitored progress with risk management.</p> <p>Conclusion: The Corporate Risk Register was approved in April 2018. Work on risk management is ongoing following the appointment of a Corporate Risk Management Co-ordinator in July 2018, including the development of a Risk Management Strategy and embedding of risk management across Services.</p> |
| <p>11 Internal audit</p> <p>Progress against the 2017/18 internal audit plan is not regularly reported to the Scrutiny Committee. Several reports in relation to previous year's audits are still to be reported. This presents a risk to obtaining the necessary assurances management and members require for the Annual Governance Statement.</p> | <p>Review of internal audit's external quality assessment and review of progress against plans to ensure this is appropriately reflected in the assurances provided in the Annual Governance Statement.</p> | <p>We reviewed the report produced by the external quality assessors which found that in the main the Internal Audit Service complied with PSIAS. We also assessed progress with the Internal Audit Annual Plan</p> <p>Conclusion: Positive report by peer reviewer. Delays in 2017/18 Annual Internal Audit Programme is not considered to impact on the Senior Manager – Internal Audit's opinion on the Council's control environment.</p> |

Appendix 3

Summary of national performance reports 2017/18



| | | Apr | | |
|--|--|-------------|--|--------------------------|
| | | May | | |
| Common Agricultural Policy Futures programme: further update | | Jun | | Scotland's colleges 2017 |
| | | Jul | | NHS workforce planning |
| Self-directed support: 2017 progress report | | Aug | | |
| Equal pay in Scottish councils | | Sept | | |
| Transport Scotland's ferry services | | Oct | | NHS in Scotland 2017 |
| Local government in Scotland: Financial overview 2016/17 | | Nov | | |
| | | Dec | | |
| | | Jan | | |
| Early learning and childcare | | Feb | | |
| Managing the implementation of the Scotland Acts | | Mar | | |

Local government relevant reports

[*Principles for a digital future*](#) – May 2017

[*Self-directed support: 2017 progress report*](#) – August 2017

[*Equal pay in Scottish councils*](#) – September 2017

[*Local government in Scotland: Financial overview 2016/17*](#) – November 2017

Dundee City Council

2017/18 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk