

# Dundee City Council

2016/17 Annual Audit Report



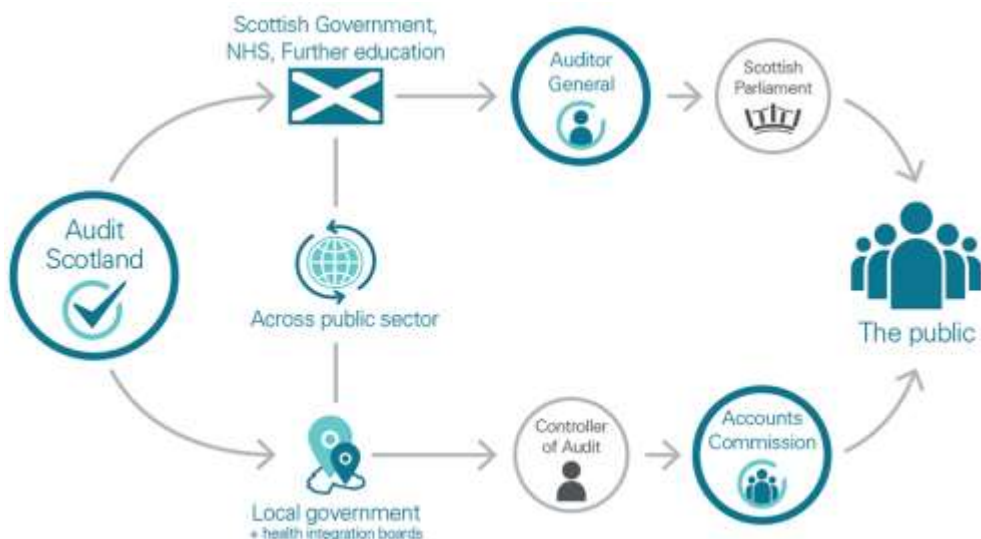
To Members of Dundee City Council and the Controller of Audit

27 September 2017

## 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

Our vision is to be a world-class audit organisation that improves the use of public money.

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

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## Audit of the 2016/17 annual accounts

- 1 The 2016/17 financial statements of Dundee City Council give a true and fair view of the state of its affairs and of its net expenditure for the year.
- 2 Unqualified audit opinions on the Council's Annual Accounts.
- 3 We have issued an unqualified independent auditor's report on the Dundee City Council Charitable Trusts and Lord Provost Fund, which are administered by the Council.

## Financial management

- 4 Budgetary control processes allow members and officers to carry out scrutiny of the Council's finances. Improvements are being introduced to increase the frequency and format of reporting to members.
- 5 The Council used £5.983 million of general fund reserves to meet service overspends. The unplanned use of reserves is not sustainable in the long term.
- 6 Dundee City Council has appropriate internal controls in place within main financial systems and our testing confirmed that these were operating effectively. We did not identify any significant internal control weaknesses.
- 7 An ex-employee has been prosecuted and sentenced for a significant fraud perpetrated against the Council. The Controller of Audit plans to report on the fraud in a statutory report to the Accounts Commission, early in 2018.

## Financial sustainability

- 8 The Council's financial position is sustainable in the short term. However without any medium/long term financial scenario planning it is difficult to assess whether future 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.
- 9 The Council's level of reserves is in line with its approved strategy but is at the lowest level in Scotland. The Council should review its reserves to ensure they remain adequate.

## Governance and transparency

- 10 The Council has effective arrangements in place that support the stewardship of resources and scrutiny of decisions.
- 11 The Council is open and transparent in the way that it conducts its business, with the public able to attend meetings. Minutes of Council and committee meetings and agenda papers and other key documents are available on the Council's website for public inspection.

## Value for money

- 12** The Council's performance management framework is going through significant changes, including the development of service scorecards which are being designed to align service performance with key priorities and outcomes per the new Local Outcome Improvement Plan.
- 13** Comparison of performance against local government benchmark performance indicators for 2015/16 suggests that, broadly, the Council was performing better than their comparator 'family group'.
- 14** Performance information for the first six months in 2016/17 reflects improving performance compared to the same period in 2015/16.

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# Introduction

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1. This report is a summary of the findings arising from the 2016/17 audit of Dundee City Council.
2. The scope of the audit was set out in our Annual Audit Plan presented to the April 2017 meeting of the Scrutiny Committee. This report comprises:
  - an audit of the annual report and accounts
  - consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:
  - an interim audit of the Council's main financial systems and governance arrangements
  - an audit of the Council's 2016/17 Annual Accounts including the issue of an independent auditor's report setting out our opinions
  - audit work covering the Council's arrangements for securing Best Value relating to financial management, financial sustainability and financial planning.
4. Dundee City Council is responsible for preparing financial statements that show a true and fair view in accordance with the Local Authority Accounts (Scotland)

Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within the council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the council's best value arrangements. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** 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](http://www.audit-scotland.gov.uk).
- 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 2016/17 annual report and accounts



### Main judgements

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

**Unqualified audit opinions on the Council's Annual Accounts.**

**Unqualified audit opinions on the Annual Accounts of Dundee City Council Charitable Trusts and the Lord Provost of Dundee Fund which are administered by the Council.**

### Unqualified audit opinions

**13.** The Council's Annual Report and Accounts for the year ended 31 March 2017 were approved by the Scrutiny Committee on 27 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

**14.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

### Audit of charitable trusts administered by Dundee City Council

**15.** Members of the Council act as trustees for 27 trusts which are included in the Dundee City Council Charitable Trust under connected charities arrangements. In addition, Dundee City Council's Lord Provost and two senior officers act as trustees for the Lord Provost of Dundee Charity Fund.

**16.** As a consequence of the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of Dundee City Council are sole trustees, irrespective of the size of the charity.

**17.** Our duties as auditors of the Dundee City Council Charitable Trust administered by the Council are to:

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

The Council's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.



- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements and complies with the Charities SORP (FRS 102)
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator.

**18.** Our duties as auditors of the Lord Provost of Dundee Charity Fund are slightly different as, unlike the Dundee City Council Charitable Trust which are prepared on an accruals basis, these accounts are prepared on a cash basis. Our duties in respect of this Fund are to:

- express an opinion on whether the financial statements properly present the receipts and payments of the charity for the year and its statement of balances at the year end and have been 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 and complies with the Charities Accounts (Scotland) Regulations 2006
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator.

**19.** We have given an unqualified opinion on these matters with respect to the 2016/17 financial statements of the relevant charities administered by Dundee City Council.

**20.** The Council has considered options for reorganising the charities portfolio under the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Reorganisation (Scotland) Regulations 2007. During 2016/17 six trusts were transferred to a separate Scottish Charitable Incorporated Organisation, Leisure & Culture Dundee. The trustees anticipate further rationalisation of the existing trusts during 2017/18.

## Submission of the Council's annual report and accounts for audit

**21.** We received the unaudited annual report and accounts on 29 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. In 2016/17, for the first time, the Council's group accounts included the financial results of Dundee City Integration Joint Board within its area.

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

## Risk of material misstatement

**23.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and our conclusions.

## Materiality

**24.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. Specifically

with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

25. On receipt of the annual report and accounts we reviewed our materiality calculations. The materiality levels set for the Council are summarised in Exhibit 2.

## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use 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 2017.	£6.8 million
<b>Performance materiality</b> – 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 50% of overall materiality.	£3.4 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of overall materiality.	£0.1 million

Source: Audit Scotland

## How we evaluate misstatements

26. There was one material adjustment to the unaudited financial statements arising from our audit. The misstatement arose from the Council not accounting for income and expenditure relating to Dundee Integration Joint Board (IJB) which resulted in an understatement of £1.032 million in the deficit on the provision of services. Further details are included at exhibit 3. There were no unadjusted misstatements in the financial statements which exceeded our reporting threshold.

## Significant findings

27. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 3](#) (where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included).

## Exhibit 3

### Significant findings from the audit of Dundee City Council

Issue	Resolution
<p><b>1. Accounting for IJB transactions</b></p> <p>For the first time, the Council is required to include transactions with Dundee City Integration Joint Board (IJB). This required recognition of the Council's funding of the IJB (£84.067 million) and the income receivable from the IJB in relation to</p>	<p>The audited annual accounts have been amended.</p> <p>The effect is to increase gross expenditure and income by £84.067 million and £83.035 million respectively, resulting in an increase to the deficit on provision of service of £1.032 million.</p>

Issue	Resolution
<p>services commissioned (£83.035 million). This had not been done, resulting in an understatement of £1.032 million in the deficit on the provision of services. Creditors were consequently understated by £1.032 million.</p> <p>The Council correctly reflected the results of the IJB in the group accounts as a joint venture.</p>	<p>The impact on the balance sheet is to reduce the net assets and reserves by £1.032 million.</p>
<p><b>2. Housing Revenue Account income and expenditure overstated</b></p> <p>Schedule 15 to the Housing (Scotland) Act 1987 lists what should and should not be credited and debited to the Housing Revenue Account (HRA) and thus states how local authorities must legally account for HRA income and expenditure. Several areas of income and expenditure amounting to £0.906 million were outwith those outlined by Schedule 15, e.g. Supporting people and Anti Social Behaviour income and expenditure, but were included in the HRA. These should be met directly from the general fund and not processed through the HRA.</p>	<p>The audited annual accounts have been amended.</p>
<p><b>3. Comprehensive Income and Expenditure Statement prior year figures are not restated</b></p> <p>The Code of Practice on Local Authority Accounting in the UK (2016) introduced revised formats and reporting requirements for the Comprehensive Income and Expenditure Statement. This should now include a service analysis based on the organisational structure. For 2016/17 this requires the restatement of figures presented in the 2015/16 financial statements. The Council consider it impracticable to restate the 2015/16 comparative balances in the Comprehensive Income and Expenditure Statement due to the implementation of a revised service structure in 2016/17 and the realignment of reporting arrangements.</p>	<p>We have accepted this treatment as the 2016/17 figures comply with the Code. Noted for information – no action required.</p>
<p><b>4. International Accounting Standard (IAS19) pension liability increase</b></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. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure.</p> <p>There has been an increase in the 'net liability arising from defined benefit obligation' of £132.162 million to £381.859 million at 31 March 2017 (2015/16 £249.697 million). This is due mainly to a reduction in the net discount rate increasing the assessed value of liabilities, as a higher value is placed on benefits paid in the future. Although the</p>	<p>Noted for information only due to the size of the increase in the liability.</p> <p>The forthcoming triennial valuation of the pension fund (as at 31 March 2017), will consider the funding position and the impact on employers' pension contributions. This will provide assurance that the pension fund remains adequately funded in the future. The financial statements have been prepared on the basis of this assumption.</p>

Issue	Resolution
<p>liability will continue to vary, this information is necessary for the council to ensure the pension fund remains affordable and adequately funded.</p>	
<p><b>5. Management commentary and annual governance statement</b></p> <p>The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires councils to prepare and publish, along with their financial statements, an annual governance statement and management commentary that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.</p> <p>Our review identified a number of areas where these statements did not fully reflect extant regulations and guidance and/or best practice.</p> <p>The Management Commentary did not provide:</p> <ul style="list-style-type: none"> <li>• the council's plans for future developments in terms of the council's business, its strategy, progress with its objectives and significant new or changed risks</li> <li>• an overarching statement on the Council's performance for 2016/17</li> <li>• transparency in its review of the financial position (disclosures in line with best practice). This could be enhanced through a comparison for each service area of the actual spend against the budget.</li> </ul> <p>The Annual Governance Statement did not provide:</p> <ul style="list-style-type: none"> <li>• information on how issues raised in the previous year's statement had been resolved</li> <li>• an explicit disclosure in relation to the Internal Audit opinion on the adequacy and effectiveness of the system of internal control (in line with best practice).</li> </ul>	<p>Management has determined that no changes will be made in 2016/17 but have agreed to review the content of the Management Commentary and the Annual Governance Statements for 2017/18, in line with good practice.</p> <p><a href="#">Recommendation (appendix 1, point 1)</a></p>
<p><b>6. Transfer to Repairs and Renewal Fund</b></p> <p>A transfer of £2.750 million was made from the Renewal and Repair Fund to the General Fund in 2016/17. This included a £1.7 million appropriation which was unbudgeted. The appropriation was approved by the then Executive Director of Corporate Services through the terms of the Council's Reserves and Balances protocol. The scheme of delegation is not clear on delegated powers in these circumstances.</p>	<p>For information.</p> <p><a href="#">Recommendation (appendix 1, point 2)</a></p>

## Remuneration report

**28.** The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires councils to prepare and publish, along with their financial statements, a remuneration report that is consistent with the disclosures made in the financial statements. Based on our knowledge and work performed, we concluded that the remuneration report is consistent with the financial statements.

## Going concern

**29.** The financial statements of the Council, its group and the associated charitable trusts have been prepared on the going concern basis.

## Other findings

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

## Objections

**31.** 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. No objections were received in relation to the Council's accounts.

## Whole of Government Accounts

**32.** The Council submitted a consolidation pack for the whole of government accounts audit on 27 July 2017. We will audit the return and submit it by the due date of 28 September 2017.

# Part 2

## Financial management



### Main judgements

Budgetary control processes allow members and officers to carry out scrutiny of the Council's finances. Improvements are being introduced to increase the frequency and format of reporting to members.

The Council used £5.983 million of general fund reserves to meet service overspends. The unplanned use of reserves is not sustainable in the long term.

Dundee City Council has appropriate internal controls in place within main financial systems and our testing confirmed that these were operating effectively. We did not identify any significant internal control weaknesses.

### Financial performance in 2016/17

**33.** In February 2016 the Council approved a budget of £344.664 million for 2016/17. The Council proposed no general reserve contributions in 2016/17.

**34.** In 2016/17 the Council experienced significant cost pressures which resulted in an overspend of £7.038 million on its cost of services. The more significant over and underspends on the cost of services are summarised in exhibit 4 (service overspends and underspends in excess of £1million)

### Exhibit 4

Summary of significant over and under spends against budget

Area	Under/over spend	Reason(s) for variance
<b>Overspends</b>		
Children & Families: Residential placements and fostering & adoption	£5.402 million	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 and the implications of the Children and Young Persons Scotland Act 2014 which has led to increased demand for in house placements.

Area	Under/over spend	Reason(s) for variance
<b>Underspends</b>		
All services: Staff costs	£1.523 million	Net savings on staff costs across services mainly as a result of delays in filling vacant posts
Children & Families	£1.497 million	Additional school meals income due to increased uptake, additional support services recharges and additional recharges for Special Educational Needs services.

Source: Dundee City Council Annual Accounts 2016/17 and Revenue Monitoring Reports

**35.** As a result of the overspends, the Council used £5.983 million from its general fund in 2016/17. This compares unfavourably to the budget set in February 2016 in which it planned to use no reserves. This differs from 2015/16, when the Council had budgeted to use £3.1 million of reserves but subsequently increased its usable reserves by £2.8 million.

**36.** The use of reserves to meet service costs cannot be sustained in the longer term. This reinforces the need for the Council to prepare longer term financial plans which are discussed further in part 3 of this report.

### Housing Revenue Account

**37.** 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.

**38.** In February 2016 the Council approved a 1% increase in the average weekly rent levels for tenants for 2016/17. The rent level set reflected the income required to fund the revenue budget of £53.854 million.

**39.** The HRA achieved a surplus for the year of £0.608 million which was transferred to the Council's Renewal and Repair Fund.

### Borrowing in 2016/17

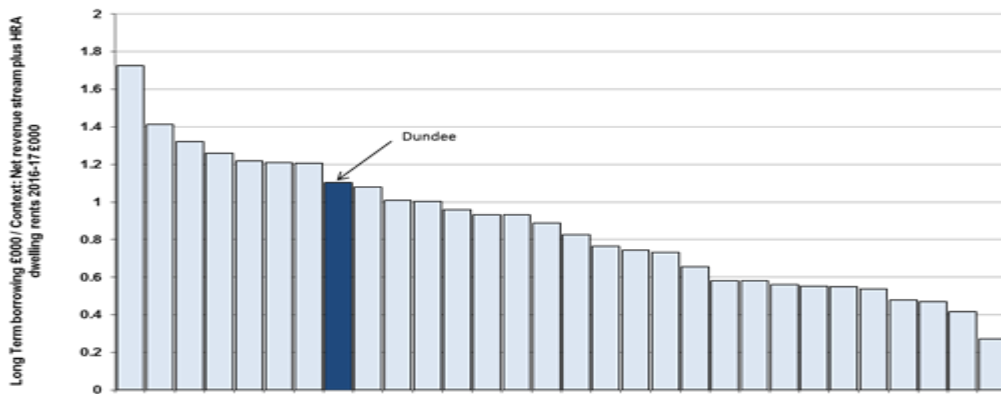
**40.** The Council's outstanding borrowings as at 31st March 2017 were £505.961 million. This is an increase of £35.874 million on the previous year and is at the higher end of the scale when compared with other Scottish local authorities as demonstrated in exhibit 5.

**41.** 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.

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

## Exhibit 5

### Long Term Borrowing



Source: Scottish councils' unaudited Annual Accounts 2016/17

## Capital programme

**42.** The Council's capital programme 2017-22 includes increased levels of capital investment with an ambitious programme of £378.142 million of expenditure planned over the period. The programme is front loaded with £159.819 million planned for 2017/18 alone, which is an increase of £37.980 million on the budgeted capital expenditure for 2016/17 of £121.839 million. Of the total 2017/18 capital programme £138.883 million related to general services and £20.936 million to the housing revenue account.

**43.** Total capital expenditure in 2016/17 was £100.068 million. Significant elements of the 2016/17 programme were:

- V&A Dundee (£27.916 million)
- Dundee railway station concourse (£9.908 million)
- Menzieshill nursery and primary facilities (£9.849 million)
- Housing – external insulation and cavity fill (£4.930 million).

**44.** The capital expenditure in 2016/17 represents an underspend of £22.076 million (18.1%) against the original budget of £121.839 million. Significant project slippages are noted below:

- Dundee railway station £7.5 million – the Council does not expect any change to the overall projected cost or completion date
- Coastal protection programme £4.7 million - the programme has been revised to allow the design, programming and costings to be developed with the contractor through the SCAPE Framework.

**45.** Slippage has been a feature in recent years and is planned for by the Council. The 2016/17 and 2017/18 capital plans allowed for slippage in the capital programme through over-programming expenditure of £10 million and £6.982 million respectively.



## Budgetary monitoring and control

**46.** The *Local Government in Scotland: Financial overview 2015/16* (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for Councils with decreasing (or low levels) of usable reserves to rely on.

**47.** The Council's budget is predominantly incremental although account is taken of cost pressures and savings identified through prior year monitoring and any known cost pressures identified for the current year. The Council's organisational structure was restructured in June 2016 to better reflect the Council's priorities and objectives, with budgets realigned to the new service structure. The Council acknowledges that, going forward, further improvement can be made to evidence a clearer link between the budgets set and the Council's strategic priorities.

**48.** Within the Council, the detailed scrutiny of financial performance is delegated to the Policy and Resources Committee, which receives bi-monthly revenue and capital monitoring reports (from September). From our review of these 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.

**49.** In 2016/17 a significant overspend of £4.950 million was incurred in Children and Families Services. The first revenue monitoring report for 2016/17 was presented to members in September 2016 and did not highlight any significant variance in Children and Families Services. The next monitoring report in January 2017 (position to November 2016) was the first to highlight a significant overspend at £2.550 million. A report on the overspend was presented to the Children and Families Committee in June 2017 and contained details of action identified to mitigate the overspend going forward, including an additional £1.5 million allocated to the children's care services budget to assist with these budget pressures.

**50.** The latest projected outturn position presented to members in September 2017 reflects a projected overspend of £4.182 million for all services in 2017/18, mainly due to a continued Children and Families overspend of £3.5 million. City Development also has a projected overspend of £1 million arising from overspending on non-domestic rates, repairs and maintenance and vacant commercial properties expenditure.

**51.** The Council has recognised that earlier and more regular reporting to members is appropriate. Revised reporting arrangements are to be introduced that will result in monitoring reports being presented to each Policy and Resources Committee during the year with enhanced budgetary information.

## Internal controls

**52.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that Dundee City Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**53.** Our 2016/17 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details, ledger feeder reconciliations and IT access controls. We also placed reliance on the work of internal audit on journals (reported to the Scrutiny Committee in September 2017) and reconciliations (reported to the Scrutiny Committee in September 2016) to supplement our review of controls.

**54.** From our review, we concluded that the controls put in place by management are generally sound and are operating effectively. No significant internal control weaknesses were identified during the audit which could affect Dundee City Council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

**55.** Some areas were identified where there is scope for improvement:

- Payroll – An employee verification exercise, which provides positive assurances over the existence and validity of employees on the payroll, is a key control that is expected to be in place within a payroll system. The Council did not have a comprehensive payroll validation process in place in 2016/17.
- Reconciliations – internal audit reported that “whilst reconciliations are being undertaken, in some cases insufficient evidence was available to demonstrate that they had been performed appropriately and that reconciling items had been considered, investigated and resolved”. An action plan was prepared to address the matters raised.
- Journals – our review highlighted the absence of authorisation by an independent officer for several types of journals. Internal audit also highlighted weaknesses in the system for processing journals including the absence of authorisation for ‘high risk’ journals and the absence of formally documented operating procedures. An action plan was prepared to address the matters raised. We also undertook data analytic work, which included a review of journals raised in the year. Details of this work are noted below.

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### Recommendation 3

**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.**

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### Data analytics

**56.** In 2016/17 we piloted the use of data analytics at the Council as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as “the science and art of discovering and analysing patterns, deviations and inconsistencies.... in the data underlying.... an audit ....for the purpose of planning and performing the audit”. Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.

**57.** We obtained and analysed every general ledger transaction processed by the Council in 2016/17: There were over 64,000 postings with an average value of £82,000, posted from 51 user accounts.

**58.** The focus of our data analytics audit work was on journal entries and feeder systems. The majority of these were from the purchase and sales ledgers, but there were nearly 13,000 manual journal entries. We identified the following patterns/ audit conclusions:

#### Fraud and management bias: Pattern of consistent activity

- The frequency of transactions for each system was consistent during the year, with the exception of journals posted in the month of June 2016. This was expected and was caused by cost centre re-organisation following the transfer of social work expenditure to the integrated joint board.

- The frequency of transactions by user account was also consistent during the year, except for senior accountants, who, as expected, posted an increasing proportion of the journals after the year end.
- Our detailed testing focussed on a higher risk group of journals based on value, timing, source and judgement. We found no issues with the nature and accuracy of these journal transactions.

#### **Cut-off: Assurances over processes**

- Feeder system close-down (including purchase and sales ledgers) was clear with the purchase and sales ledgers closed shortly after the year-end. Postings from the Dundee costing system continued for some weeks after the year end, as project job costing allocations were finalised. Our cut-off testing showed transactions were posted in the correct years.
- Manual journals continued as expected after the year end, with 68 posted in June and two in July. Our testing focussed on journals affecting the surplus and found no errors.
- 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. This did not impact on the financial statements but significant backdating during the year may make it more difficult for budget holders to track year-to-date and monthly figures in the management accounts.

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#### **Recommendation 4**

#### **Management should review the level of backdating of journals.**

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#### **Prevention and detection of fraud**

**59.** The Council's arrangements in relation to the prevention and detection of fraud and irregularities were reviewed and found to be satisfactory. Nevertheless, these arrangements did not prevent a significant fraud to be perpetrated against the Council.

**60.** The fraud was complex and resulted in a long term employee embezzling £1.065 million from the Council between August 2009 and May 2016. On discovering the fraud, the Council immediately carried out an investigation. It also appointed Pricewaterhouse Cooper (PwC) to carry out a further review of the circumstances of the fraud and to make recommendations for improvements to the Council's control arrangements.

**61.** The Scrutiny Committee has been kept up to date on this issue and a further briefing is planned for December 2017.

**62.** The Controller of Audit is aware of the fraud and plans to issue a report on the fraud to the Accounts Commission under Section 102(1) of the Local Government (Scotland) Act 1973. The report is planned for early 2018.

#### **National Fraud Initiative**

**63.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

64. The latest position on NFI investigations by the Council is summarised in [Exhibit 6](#).

## Exhibit 6

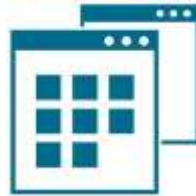
### National Fraud Initiative

Total number of matches



18,797

Number recommended for investigation



1,500

Completed/closed investigations



7,266

Source: NFI website

65. Training is provided to staff involved in the NFI process and the council have 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 46 errors with savings of £0.031 million identified.

66. NFI activity is reported annually to the Scrutiny Committee as part of the Corporate Fraud Team's activity and performance report. In September 2016 the Scrutiny Committee considered the national report [The National Fraud Initiative in Scotland](#) (June 2016). The self appraisal checklist contained in the national report was considered in December 2016 which highlighted compliance with good practice with action agreed to raise awareness of corporate fraud and how to prevent and detect it. The Council has also arranged for the flexible matching service of pensions to deceased records to commence in December 2017.

67. We have concluded that the Council's is pro-active in investigating matches and reporting the outcomes of NFI activity.

# Part 3

## Financial sustainability



### Main judgements

**The Council's financial position is sustainable in the short term. However without any medium/long term financial scenario planning it is difficult to assess whether future 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.**

**The Council's level of reserves is in line with its approved strategy but is at the lowest level in Scotland. The Council should review its reserves to ensure they remain adequate.**

### Setting strategic priorities

**68.** Following the local government elections, the new administration is currently working with officers towards agreeing a new Council Plan to replace the Council Plan 2012-17, which will reflect the strategic priorities for the next five years. The revised strategic priorities and how effectively these are reflected in the Council's plans and performance monitoring will be reviewed as part of our ongoing audit work.

### Financial planning

**69.** 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.

**70.** There is no long term financial planning information presented to members. A medium term financial outlook and strategy was approved by the Policy and Resources Committee in February 2017. The medium term financial outlook and strategy set out some of the context for 2016/17 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 Council should present a three year budget to members.

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

**71.** Management agreed to continue to develop its budget projections and medium term financial strategy, however a three year budget has not yet been presented to members. The Council has recognised the need to develop medium term financial forecasting, as evidenced in its Local Code of Corporate Governance Improvement Agenda (see page 25).

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## Recommendation 5

**Management should present a three year budget to members, consisting of scenario planning for different levels of assumed funding over the three year period.**

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### Funding position

**72.** 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.

**73.** Dundee City Council set its 2017/18 revenue budget in February 2017, based on the Scottish Government one-year financial settlement of £289.164 million. The Council's net expenditure to be funded from local taxation and central revenue support funding was £343.037 million. The 2017/18 budget included savings of some £2.786 million.

**74.** The Council did not anticipate the use of reserves to fund revenue expenditure in 2017/18 but as noted at paragraph 50, the latest projected outturn position presented to members in September 2017 reflects a projected overspend of £4.182 million for 2017/18.

### Savings plans

**75.** Efficiency savings of £11.838 million were achieved by the Council in 2016/17. Significant elements of the efficiency savings included a strategic commissioning approach to adult care services (£1.089 million) and redesign of ground maintenance, street cleansing, street scene and open spaces (£1.295 million).

**76.** The Council has estimated that it must make savings of £2.786 million for 2017/18 as part of its plans to maintain financial balance.

### Reserves

**77.** As shown in Exhibit 1, the overall level of usable reserves held by the Council decreased by £8.420 million to £19.791 million, mainly attributable to the decrease in the general fund reserve balance of £5.983 million and the usage of £2.750 million from the Renewal and Repair Fund in 2016/17, [exhibit 7](#).

**78.** £9.841 million 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 7

### Usable reserves

Reserve	31 March 2016 £' million	31 March 2017 £' million	Change £' million
General fund	£15.824	£9.841	£(5.983)
Repair and renewal fund	£9.482	£6.732	£(2.750)
Capital fund	£2.008	£2.100	£0.221
Insurance fund	£0.897	£1.118	£0.092
<b>Total usable reserves</b>	<b>£28.211</b>	<b>£19.791</b>	<b>£(8.420)</b>

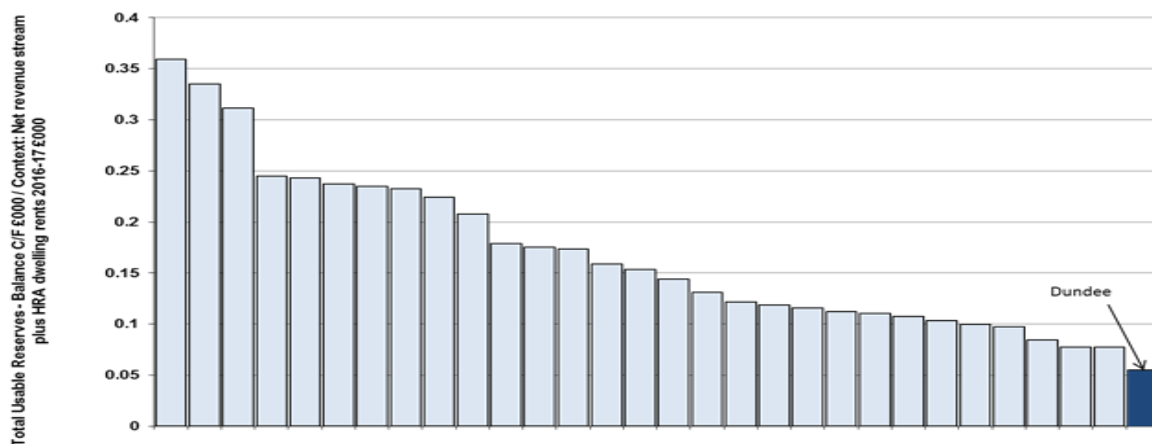
Source: Dundee City Council 2016/17 Annual Accounts

79. . 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 an uncommitted general fund balance at a minimum level of the lower of £5 million or 1.5% of budgeted revenue expenditure. The Council’s general fund balance as at 31 March 2017 meets the minimum requirements.

80. [Exhibit 8](#) provides a comparison of usable reserves across Scottish councils. Dundee City Council has the lowest level of usable reserves (expressed as a percentage of net revenue expenditure) across Scottish local authorities.

## Exhibit 8

### Scottish councils’ usable reserves at 31 March 2017



Source: Scottish councils’ unaudited Annual Accounts 2016/17

**81.** Overall we conclude that there remains significant financial challenges ahead which could further diminish the Council's balances going forward. The level of usable reserves held by the Council will need to be closely monitored.

## **Business transformation**

**82.** Audit Scotland's *An overview of local government in Scotland 2016* (March 2016) highlighted that local authorities have not made enough progress in developing alternative forms of service delivery to meet the challenges of tightened budgets and to transform public services in Scotland.

**83.** The Council's strategy in addressing the financial challenges includes the development of a new transformation change programme. The programme, 'Change for the Future' (phase 4), is supported by an Organisational Change Fund to provide funds for transformation on a 'spend to save' basis.

**84.** The latest overview of progress against Changing for the Future (Phase 4) was considered by members in December 2016. The report highlighted the position of each project and the savings achieved against projections for 2016/17 (£24.5 million) and 2017/18 (£26.7 million). Reports in relation to individual projects continue to be submitted to the appropriate committee as decisions are required.

**85.** We will monitor progress with the transformation over the course of our audit.



# Part 4

## Governance and transparency



### Main Judgements

**The Council has appropriate arrangements in place that support scrutiny of decisions.**

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

### Governance arrangements

**86.** 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.

**87.** 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.

**88.** The local code of corporate governance was reviewed in 2016/17 and the findings from the review reported to the Policy and Resources Committee in June 2017. The review identified a number of improvements to the local code and these were included in an Improvement Agenda for 2017/18 with responsible officers and completion dates identified for each improvement area. The improvement agenda was approved by the Policy and Resources Committee on 26 June 2017.

**89.** Improvements identified include:

- |   |                |
|---|----------------|
| • Develop medium-term financial forecasting         | March 2018     |
| • Launch of communication strategy                  | December 2017  |
| • Align quarterly performance reports with services | December 2017  |
| • Develop risk management framework                 | September 2017 |
| • Provide performance training for members          | March 2018     |

**90.** Work on the risk management framework is ongoing. A risk management workshop was delivered to the Council Management Team and other key members of staff in May 2017. There is also a commitment to re-position the function within the Council and create a specific post, responsible for co-ordinating risk management.

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.

**91.** We note however, that the Council has not updated its risk register since June 2014. This was identified as a key risk in our Annual Audit Plan and is long overdue.

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## Recommendation 6

**The risk register should be updated as soon as possible.**

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**92.** We will monitor the implementation of the governance improvement agenda during our 2017/18 audit.

## Internal audit

**93.** Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes. It also provides a deterrent against potential fraud.

**94.** 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. We carried out a review of the adequacy of the internal audit function and concluded that it generally operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**95.** To avoid duplication, we place reliance on internal audit work where possible. In 2016/17 we placed formal reliance on internal audit's work as part of our wider dimension work.

## Transparency

**96.** Transparency means that the public has 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.

**97.** The Council demonstrates a commitment to transparency with meetings of the Council and its standing committees open to members of the public, agendas and minutes of those meetings available on the website and key documents including the annual accounts and performance information (Dundee Performs) also being available on the website (although, see comments at page 32 on currency of performance information).

**98.** Overall, we concluded that the Council conducts its business in an open and transparent manner.

## Lender Option Borrower Option

**99.** During the year we received correspondence on a number of councils using Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan. The Council has six LOBOs within its debt portfolio with a carrying value as at 31 March 2017 of £41.958.million.

**100.** In following up this correspondence we have held discussions with senior council officers and reviewed supporting papers including an analysis of the LOBOs held by the Council and comparable PWLB rates of interest and the council's treasury management policies and controls.

**101.** Based on our work we can conclude that:

- the use of LOBOs has been undertaken in line with the Council's treasury management policy, which has been reviewed and approved annually by councillors
- the interest rates on the standard LOBOs were lower than the comparable PWLB rates available at the time, and the Council's interest costs to date on these loans have been less than the PWLB equivalent
- the option to propose or impose a new fixed interest rate has never been exercised by the lenders
- the potential for debt restructuring is kept under regular review by the Council as part of its treasury management arrangements.

**102.** There are no further issues for us to report on the Council's use of LOBOs.

### Integration of health and social care

**103.** The Dundee City Integration Joint Board (IJB) was formally established in October 2015. The IJB developed and articulated its vision for the integration of health and social care services through its Health and Social Care Strategic and Commissioning Plan 2016 - 2021. The IJB became fully operational on 1 April 2016 when it formally became responsible for the operational management and oversight of delegated health and social care functions for the residents of Dundee City.

**104.** The integration scheme between NHS Tayside and Dundee City Council sets out the budget contribution in respect of all of the functions delegated to the IJB. Underspends may be returned to the relevant partner in year through a contribution adjustment, or retained by the Joint Board in general reserves. Where there is a forecast overspend, the Joint Board must agree a recovery plan to balance the overspending budget.

**105.** The Joint Board set a breakeven budget for 2016/17. This was based on expenditure of £248.864 million, with £79.377 million contributed by Dundee City Council and £169.487 million by NHS Tayside. The £169.487 million included £10.107 million of integration funding which was provided by the Scottish Government for onward transmission to Dundee City IJB.

**106.** The IJB budget was subsequently increased by £14.920 million during the year to £263.784 million. The increase was due to additional funding of £4.690 million from Dundee City Council for additional central support costs and £10.230 million from NHS Tayside (including £4.979 million for transfer of the hosted services budgets for Angus and Perth & Kinross and £3.462 million for overspends on prescribing and hosted services).

**107.** The IJB reported an underspend of £4.963 million for 2016/17. £1.032 million related to social care services provided through Dundee City Council and £3.931 million related to an underspend on the 'ring fenced' integration funding. The IJB agreed to earmark the £3.931 million for ring-fenced integration projects and £0.400 million for transformation projects. The remaining £0.632 million will be carried forward as a general contingency to cushion the impact of unexpected events or emergencies.

**108.** The IJB is subject to a separate audit (also by Audit Scotland) and an annual audit report has been produced setting out the auditors conclusions. The financial transactions of the IJB have been consolidated into the Council's group accounts.

**109.** Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. The anticipated

publication date is spring 2018. We may be in a better position to assess progress once the work on this report has been completed. We are seeing a number of programmes and initiatives moving towards shifting the balance of care. Inevitably it will take some years before projects and programmes have become sufficiently established to be able to conclude on the effectiveness of the IJB.

## Local scrutiny plan

**110.** The Local Scrutiny Plan (LSP) sets out the planned scrutiny activity at the Council during 2017/18. The plan is based on a shared risk assessment undertaken by a Local Area Network (LAN), comprising representatives of all of the scrutiny bodies who engage with the Council. The shared risk assessment process draws on a range of evidence with the aim of determining the scrutiny activity required and focusing this in the most proportionate way.

**111.** The plan covers only those risk areas that the LAN has identified as requiring scrutiny, or where scrutiny is planned as part of a national programme. Planned scrutiny activity across all councils in Scotland informs the National Scrutiny Plan for 2017/18, which is available on the Audit Scotland website.

**112.** The 2017/18 LSP for the Council was submitted to the Scrutiny Committee in June 2017. No scrutiny risks requiring additional scrutiny or audit work in 2017/18 were identified from the shared risk assessment.

## Equalities

**113.** The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality. The broad purpose of the equality duty is to integrate consideration of equality and good relations into the day-to-day business of public authorities. The Act specifies that public bodies must publish a biennial report on the progress made in achieving equality outcomes.

**114.** The most recent equalities report was submitted to the Council's Policy and Resources Committee in April 2017 in accordance with the statutory requirement. We reviewed the report and concluded that the Council has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the Council
- report on progress made towards achieving equality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

**115.** On the basis of evidence reviewed, we concluded that the Council is proactive in ensuring that equality is mainstreamed.

## Equal pay

**116.** In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government. The audit found that councils underestimated the challenges involved in implementing the Single Status Agreement (SSA) and some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory.

**117.** The Council implemented single status in April 2008 and reports that between 2004/05 and 2015/16 it has spent £3.812 million compensating workers who had been unfairly paid and settling equal pay claims.

**118.** Almost 27,000 equal pay claims across Scotland remain live and the Council has 129 live claims. Workers could potentially still make new claims against councils. This means that councils need to be confident that they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty.

# Part 5

## Value for money



### Main judgements

The Council's performance management framework is going through significant changes, including the development of service scorecards which are being designed to align service performance with key priorities and outcomes per the new Local Outcome Improvement Plan.

Comparison of performance against local government benchmark performance indicators for 2015/16 suggests that, broadly, Council was performing better than their comparator 'family group'.

Performance information for the first six months in 2016/17 reflects improving performance compared to the same period in 2015/16.

### Best Value

**119.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition 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.

**120.** The Best Value audit work carried out this year focussed on the Council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The findings of this work are reported above. The effectiveness of the Council's Best Value arrangements in other areas will be assessed and reported throughout our audit appointment.

Value for money is concerned with using resources effectively and continually improving services.

### Following the public pound

**121.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on Funding External Bodies and Following the Public Pound. In August 2015 the Accounts Commission reaffirmed that the principles of the Following the Public Pound Code 'remain entirely valid'. These principles are that councils:

- have a clear purpose in funding an external body
- set out a suitable financial regime
- make clear their arrangements for monitoring the external body's financial and service performance, and for stipulating any required access to documentation

- consider very carefully the question of representation on the board of an external body
- establish limits to involvement in the external body.

**122.** The Council's financial regulations require all applications for grants or subscriptions to charitable societies, associations or institutions must comply with the Accounts Commission/COSLA Code of Guidance on Following the Public Pound. These emphasise that services must adhere to the Council's guidance for allocating funds to external organisations. The guidance applies where funding is provided, or transferred, to arms-length bodies such as companies, trusts and voluntary organisations.

**123.** Council guidance gives clear instructions on the consideration and the reporting requirements for new funding and the requirement for a report on financial and performance information relating to bodies which are being substantially funded by the Council in an annual report. The last annual report to be considered by members was in April 2015.

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## Recommendation 7

### An annual report on following the public pound should be presented to members in line with the Council's guidance.

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**124.** In September 2017 the Policy & Resources Committee agreed to introduce six monthly briefing sessions in relation to Leisure & Culture Dundee to which all members would be invited and where issues relating to services provided would be discussed.

**125.** To demonstrate that the Council complies with the Code of Guidance on Following the Public Pound, improvement is required in its arrangements for reporting to members on this area.

## Performance management

**126.** The Council's visions and values were set out in the Council Plan 2012-2017 and detailed the council's priority outcomes supported by key measures and targets. The annual review of the Council Plan 2015/16 was reported to members in October 2016. This annual review whilst covering some of the key performance indicators outlined in the plan did not cover all areas. The 2016/17 update has yet to be prepared and will be considered by the Policy & Resources Committee in October 2017.

**127.** The Scrutiny Committee receives quarterly corporate performance self assessment reports, although the last quarterly report we could find was one reported to the Scrutiny Committee in December 2016 and related to the six months to September 2016. The quarterly reports monitor progress against the Council's key performance indicators, although the alignment to the key priorities in the Council Plan could be improved.

**128.** The Council's performance management framework is going through significant changes including the development of service scorecards from October 2017 and the use across the Council of the Covalent performance management system. Service scorecards are being designed to align service performance reporting with the Council's key priorities and outcomes through its Council Plan and Local Outcome Improvement Plan. Training on the new processes has been developed and is to be provided for all staff to be involved in performance information collation.

**129.** The Council's website has a site 'Dundee Performs' which contains performance information including Council Plan update reports, Annual



Performance Indicators, Quarterly Performance Indicators, Summary Financial Information and Annual Accounts and Audited Financial Statements. Much of the information on this site is outdated, however e.g. the quarterly performance information relates to the three months to June 2015, the summary financial information is for 2013/14.

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## Recommendation 8

**The Dundee Performs' section of the website should be updated to reflect more up to date performance information.**

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### Overview of performance targets

**130.** The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims 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.

**131.** The most recent [National Benchmarking Overview Report 2015/16](#) by the Improvement Service was published in February 2017 and covered the 2015/16 reporting period. This report was submitted to the Scrutiny Committee in April 2017.

**132.** The report to the committee highlighted comparative performance against other 'family group' councils and showed that overall the Council performed better than its family group comparators.

**133.** Performance information for 2016/17 has only been presented to the Scrutiny Committee for the six months to September 2016. The report sets out progress with key performance indicators grouped into themes to mirror the Council's organisational structure. The report shows indicators that have improved by over 5%, deteriorated by 5% and others (performance maintained).

**134.** The report highlights that 83% of the Council's performance indicators either showed performance being maintained or improved compared to the same period in 2015/16:

- Corporate Services            16 indicators    94% maintained or improved
- City Development            7 indicators    86% maintained or improved
- Children and Families       4 indicators    75% maintained or improved
- Community Safety and Protecting People    5 indicators    60% maintained or improved
- Neighbourhood Services    17 indicators    65% maintained or improved
- Leisure Services            10 indicators    100% maintained or improved
- Health and Social Care    Not reported (IJB performance framework)

**135.** The areas where performance is deteriorating are known to the Council and improvement actions have been considered.

### Statutory performance indicators (SPIs)

**136.** 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.



**137.** For 2016/17 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.

**138.** Overall we concluded that the Council's arrangements for publication are satisfactory.

## Shared services

**139.** The Accounts Commission and Auditor General have highlighted the benefits to the people who use council services, communities and public sector organisations of working well together. Our recent report, *Local government in Scotland: Performances and Challenges 2017*, however, identified limited evidence of councils collaborating or sharing services.

**140.** Dundee City Council has a number of examples of working in partnership with others including the City Plan, the developing Tay Cities Deal and the V&A Museum.

**141.** A significant example of collaboration with other public sector organisations in the delivery of its Education and Children's Services. In December 2016 the council agreed collaborative working with Angus and Perth & Kinross Councils with the aim of creating a unified Education and Children's Services Strategy and Delivery Plan for the three council areas. This would involve working in close partnership with NHS Tayside and other key stakeholders.

**142.** The implementation of a phased action plan over 2-3 years aims to provide the opportunity over a period of time for the Councils and NHS Tayside to transform the delivery of education and children's services by:

- reshaping services
- aligning or adapting current management systems
- streamlining operational structures to deliver better results and improved outcomes.

**143.** The *Tayside Plan for Children, Young People and Families 2017-2020* was considered by members in June 2017. This plan set out the key priorities and related actions and highlighted a range of transformation projects over the next three years (including a shared commissioning strategy, to promote a consistent area-wide approach towards priorities and make best use of available resources; the development of more shared services, to develop greater flexibility and resilience and reduce costs; joint work on self-evaluation, to promote knowledge exchange and continuous improvement; and a shared approach towards communities, to build local engagement).

**144.** Locally, the plan will be implemented by a new Children and Families Executive Board, chaired jointly by the Executive Director of the Children and Families Service and the Chief Operating Officer for NHS Tayside. Further to this as part of the Local Outcome Improvement Plan, cross-cutting priorities with other local boards are being proposed.

**145.** This ambitious planned shared service activity is in its infancy and the impact on services and outcomes has yet to be established. We shall monitor progress with this development over the course of our audit appointment.

## Procurement

**146.** Following the Procurement Reform (Scotland) Act and the Public Contracts (Scotland) Regulations 2015 a new assessment regime was introduced as part of the new *Procurement and Commercial Improvement Programme* (PCIP). It came into effect on 18 April 2016 and includes sections on fraud awareness and prevention and commercial acumen.

**147.** The Council's assessment under this new regime took place on August 2016 with feedback received from Scotland Excel on good practice and improvement areas, however an overall score has yet to be published. The PCIP identified a number of areas where the council is performing strongly including: procurement representation in organisation; sustainability; and receipt of goods/services and payment targets. The areas identified where there is room for improvement included:

- Contracts and supplier management
- Development of specifications
- ICT strategy and processes.

**148.** Procurement represents an area where the council has been working in collaboration with the other Tayside councils over a number of years.

**149.** Tayside Procurement Consortium (TPC), introduced in 2008, represents collaborative working between the three Tayside councils with the aim to achieve efficiencies in their procurement activity. The Council currently uses the TPC procurement strategy, however the Council is in the process of developing its own strategy, which will be considered by members in the near future.

**150.** In addition, Tayside Contracts Joint Committee is a commercial trading organisation of Angus, Dundee City and Perth and Kinross Councils, being constituted under a Minute of Agreement entered into by the three constituent Councils in 1996.

**151.** An internal audit report considered by the Scrutiny Committee in September 2016 highlighted areas for improvement to assist with the mitigation of fraud risk in the procurement process, with associated action agreed to address the areas highlighted. A further internal audit report considered by the Scrutiny Committee in June 2017 highlighted significant weaknesses in the procurement processes for sub-contractors with actions agreed by management.

**152.** We concluded that the Council has satisfactory procurement practices in place which continue to evolve with ongoing improvements being implemented. The significant weaknesses identified in the procurement processes for sub-contractors is subject to an action plan which will be monitored by Internal Audit.

## National performance audit reports

**153.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 3](#).

**154.** The Council has considered the national reports on; National Fraud Initiative in September 2016 (Scrutiny Committee); and Local Government in Scotland: Performance and challenges 2017 in August 2017 (Policy & Resources Committee). Improvement actions arising from these reports were agreed by members.

**155.** Other national reports may be of interest to members. Although we have been advised that national reports are submitted to the Council Management Team and referred to the Scrutiny Committee where appropriate, there is no formal mechanism to ensure that members have the opportunity to consider other relevant national reports. The Council accepts this and plans to formalise its consideration of national reports.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
12	<p><b>1. Management Commentary and Annual Governance Statement</b></p> <p>A number of disclosures required by extant guidance and Regulations had not been presented appropriately in the annual accounts.</p> <p><b>Risk:</b></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>This will be taken forward for 2017/18 by the Final Accounts Working Group.</p> <p>Responsible officer: Accounting Strategy Manager.</p> <p>Agreed date: 30 June 2018.</p>
12	<p><b>2. Transfer to Repairs and Renewal Fund</b></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 Reserves and Balances protocol. The scheme of delegation is not clear on delegated powers in these circumstances.</p> <p><b>Risk:</b></p> <p>Reserve transfers may not have the appropriate authority.</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>The position regarding delegated powers in this area will be reviewed and clarified in the next update of Standing Orders and Schemes of Administration. Also, the Council's agreed protocol around the operation of reserves will be reviewed and updated as necessary.</p> <p>Responsible officer: Executive Director Corporate Services</p> <p>Agreed dates: 31 December 2017 (Standing Orders and Schemes of Administration) and 28 February 2018 (Reserves Protocol).</p>
18	<p><b>3. Internal Controls – Payroll validation</b></p> <p>The Council does not have a comprehensive employee validation process in place to provide evidence that payroll</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</p>	<p>This validation report was previously run for all services and is still run for Children and Families (and the IJB). Once the data in ResourceLink reflects the new structure, the intention is</p>



Page no.	Issue/risk	Recommendation	Agreed management action/timing
	<p>employees exist.</p> <p><b>Risk:</b></p> <p>Erroneous payments could be made without detection.</p>	<p>should require responses from all services to evidence that they confirm the validity of their employees..</p>	<p>to roll this out as before to the rest of the Council.</p> <p>Responsible officer: Payroll Manager.</p> <p>Agreed date: 31 October 2017.</p>
19	<p><b>4. Journals</b></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><b>Risk:</b></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>The required actions will be taken forward in conjunction with the recommendations arising out of the Internal Audit report on Journal Entries.</p> <p>Responsible officer: Head of Corporate Finance</p> <p>Agreed date: 31 January 2018.</p>
22	<p><b>5. Financial planning</b></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 Council should present a three year budget to members.</p> <p><b>Risk:</b></p> <p>The Council may fail to achieve its objectives due to lack of resources.</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>A three-year revenue budget (2018-2021) will be presented to the Policy &amp; Resources Committee in February 2018.</p> <p>Responsible officer: Executive Director of Corporate Services.</p> <p>Agreed date: 28 February 2018.</p>
26	<p><b>6. Governance arrangements - Risk Management</b></p> <p>The local code of governance improvement agenda includes the development of the Council's risk management framework</p>	<p>The risk register should be updated as soon as possible.</p>	<p>The risk register will be updated as required.</p> <p>Responsible officer: Head of Corporate Finance</p> <p>Agreed date: 31 December 2017</p>



**Page  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

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.

**Risk:**

Exposure to risks may not be highlighted and mitigated through management controls.

**31**

**7. Following the Public Pound**

Council guidance requires an annual report on financial and performance information relating to bodies which are being substantially funded by the Council (Arms Length External Organisations – ALEOs). The last report considered by members was in April 2015.

**Risk:**

Members are unable to scrutinise performance of ALEOs to ensure these services represent value for money.

A report on following the public pound should be presented annually to members in line with the Council's guidance.

The required report will be submitted to the Policy & Resources Committee in December 2017.

Responsible officer:  
Executive Director of Corporate Services / Head of Chief Executive's Services

Agreed date: 31 December 2017.

**32**

**8. Performance management**

Much of the performance information on the Council's website is outdated.

**Risk:**

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

The 'Dundee Performs' section of the Council's website should be updated to reflect more up to date performance information.

The council's website will be updated as required.

Responsible officer: Principal Performance & Improvement Officer.

Agreed date: 31 December 2017.

# 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 opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>Management has the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</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><b>Conclusion:</b> There is no evidence of management override of controls.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>ISA 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> include 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. 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>Additionally, the Code of Audit Practice requires consideration</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</p> <p>Review the council's involvement in the National Fraud Initiative</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 reporting the outcomes from National Fraud Initiative activity.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>of the risk of fraud over expenditure. Dundee City Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants</p>		<p><b>Conclusion:</b> The council has effective arrangements in place to minimise the risk of fraud over income/expenditure.</p>
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas such as 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 asset, pension 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><b>Conclusion:</b> estimations and judgements included in the accounts are supported by appropriate audit evidence.</p>
<p><b>4 Group entities consolidation</b></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:</p> <ul style="list-style-type: none"> <li>• Design Dundee Limited (DDL), which was excluded from the 2015/16 financial statements as it was not considered material'</li> <li>• Dundee Energy Recycling Ltd (DERL), which may be impacted on by ongoing competitive tendering for the long term recycling contract.</li> </ul>	<p>Review of 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 were 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><b>Conclusion:</b> The council is accounting appropriately for its group entities.</p>
<p><b>5 Group entities consolidation: Dundee City Integration Joint Board (IJB)</b></p> <p>The Dundee City IJB should be considered for consolidation into the accounts in 2016/17.</p>	<p>Review the council's approach to consolidation</p> <p>Agreement that consolidation adjustments are accurate and correctly disclosed and focussed testing of group</p>	<p>We reviewed the council's approach to consolidation for the IJB as a joint venture, ensuring the treatment is appropriate and confirmed the balances between partner bodies.</p>



Audit risk	Assurance procedure	Results and conclusions
<p>Officers have yet to conclude on whether the IJB will be consolidated. As this may be the first year of consolidation, there is an increased risk of errors in accuracy and/or disclosure.</p>	<p>disclosures</p> <p>Confirm balances have been agreed by the partner bodies</p>	<p>We reviewed the accounting treatment of the IJB transactions and highlighted an amendment to the unaudited accounts to recognise the council's funding of the IJB (£84.1 million) and the income receivable from the IJB in relation to services commissioned (£83 million).</p> <p><b>Conclusion:</b> Following the above amendment we concluded that the accounting treatment of the IJB within the council's accounts was appropriate.</p>
<p><b>6 Revisions to the presentation of the financial statements</b></p> <p>The 2016/17 Code of Practice on Local Authority Accounting makes a number of changes in the presentation of the financial statements, including:</p> <ul style="list-style-type: none"> <li>• changes to the structure of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, with associated restatement of prior year figures</li> <li>• a new expenditure and funding analysis</li> <li>• changes to the requirements of the annual governance statement to provide additional disclosures.</li> </ul> <p>These changes present a risk of material misstatement in the financial statements if they are not properly actioned.</p>	<p>Focussed testing on the financial statements to ensure that the changes have been properly actioned.</p>	<p>We reviewed the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement agreeing the changes made were in line with requirements including the restatement of prior year figures.</p> <p>The council consider it impracticable to restate the 2015/16 comparative balances in the Comprehensive Income and Expenditure Statement in line with the Code requirements. This is due to the revised service structure being implemented in 2016/17 and the reporting arrangements being realigned. We have considered the council's assessment in this area.</p> <p>We reviewed the annual governance statement disclosures to ensure these were in line with requirements.</p> <p><b>Conclusion:</b> The council's approach and the changes in the financial statements are appropriate</p>
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		
<p><b>7 Financial sustainability</b></p> <p>Along with all other public bodies in Scotland, the council is facing the prospect of having to make significant budget savings. At the same time as the council aims to support the local economy and maintain service provision, it is likely to face a reduction in resources. The council also has a relatively low level of usable</p>	<p>Undertake specific work on financial planning and governance. This will include assessing the council's arrangements for medium to long term financial planning</p> <p>Review the council's process for monitoring the transformation programme progress</p> <p>Review financial monitoring reports and the financial</p>	<p>We monitored the financial sustainability of the Council based on information gathered over the course of the audit:</p> <p><b>Conclusion:</b> Following review of the areas detailed, we concluded that 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</p>

Audit risk	Assurance procedure	Results and conclusions
<p>reserves in comparison with other authorities. There is a risk that the council is unable to secure the efficiencies required without impacting on services.</p>	<p>position.</p>	<p>strain on the Council's capacity to deliver services at the current levels.</p> <p>We highlighted the significant overspend in Children and Families Services which has continued in 2017/18 and recommended that this be monitored and recovery action approved by members.</p>
<p><b>8 Capital expenditure</b></p> <p>The capital plan 2017-22 includes record levels of capital investment with £378 million of expenditure planned over the period. Against this backdrop of an increased capital investment programme, there have been consistent significant underspends over a number of years. In 2016/17 gross capital expenditure is projected to be underspent against the original budget of £121 million by £26.8 million (22% underspend).</p> <p>There is a risk that the council is unable to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area due to delays in investment or improvements to the asset base.</p>	<p>On-going monitoring of capital budget, plans and monitoring reports and inclusion in annual audit report as appropriate.</p>	<p>Undertook on-going monitoring of the capital programme.</p> <p><b>Conclusion:</b> Significant slippage in the capital programme is reported at page 16 of this report</p>
<p><b>9 Risk management</b></p> <p>The corporate risk register has not been considered by members since June 2014. There is a risk that the council is not mitigating risks to an acceptable level.</p>	<p>Monitor the progress on updating the corporate risk register and review the content of the Annual Governance Statement in regard to risk management.</p>	<p>Monitored progress with risk management.</p> <p><b>Conclusion:</b> Risk management arrangements are currently being developed by the Council and is reported at page 25 of this report</p>
<p><b>10 Members' training</b></p> <p>The 2017 local government elections will result in changes in the elected members. There is a risk that there is a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required. Audit Scotland's</p>	<p>Review of the council's induction and training arrangements for councillors following the elections</p> <p>Assess the effectiveness of decision making and scrutiny arrangements as part of ongoing BV audit work</p> <p>Collate information for a national study in relation to the role of boards.</p>	<p>An induction briefing was provided for members in May 2017 and regular briefings and seminars on topics of interest. The induction training covered a number of areas including; legal framework; ethical standards; scrutiny and the role of members; and financial matters. The Council's review of the local code of corporate governance was considered in June 2017 and highlighted performance training</p>





















Audit risk	Assurance procedure	Results and conclusions
<a href="#">How Councils Work</a> publication on the role of councillors provides guidance in this area.		for members as an area for action by March 2018. <b>Conclusion:</b> The council's approach to members training post election is appropriate.

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# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

### Local government relevant reports

[South Ayrshire Council: Best Value audit report](#) – June 2016

[The National Fraud Initiative in Scotland](#) – June 2016

[Maintaining Scotland's roads: a follow-up report](#) – August 2016

[Social work in Scotland](#) – September 2016

[Angus Council: Best Value audit report](#) – October 2016

[How councils work – Roles and working relationships in councils](#) – November 2016

[Local government in Scotland: Financial overview 2015/16](#) – November 2016

[Falkirk Council: Best Value audit report](#) – December 2016

[East Dunbartonshire Council: Best Value audit report](#) – December 2016

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