Report 424-2013

KPMG

cutting through complexity

Dundee City Council

Annual audit report to the Members of Dundee City Council and the Controller of Audit

Audit: year ended 31 March 2013

27 September 2013

Contents

The contacts at KPMG in connection with this report are:

Stephen Reid
Director, KPMG LLP

Tel: 0131 527 6795
Fax: 0131 527 6666
stephen.reid@kpmg.co.uk

Keith Macpherson
Senior Manager, KPMG LLP

Tel: 0141 300 5806
Fax: 0141 204 1584
keith.macpherson@kpmg.co.uk

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of Dundee City Council ("the Council") and is made available to Audit Scotland and the Accounts Commission (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Headlines

This annual audit report summarises our findings in relation to the audit for the year ended 31 March 2013. Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code").

This report also sets out those matters specified by ISA (UK and Ireland) 260: *Communication with those charged with governance* in relation to the financial statements for the year ended 31 March 2013.

We wish to record our appreciation of the continued co-operation and assistance extended to us by Council staff during the course of our work.

Area	Summary observations	Analysis
Strategic overview and use of resources		
Key issues and challenges	Management undertake regular analysis of the key areas of public reform, which should support achievement of strategic priorities in a changing environment; there are a number of service challenges emerging, with demand and resource pressures growing against a backdrop of reform in public services.	Pages 6-8
Financial position	The Council recorded an accounting surplus of £16.7 million in the comprehensive income and expenditure account. While there was a £0.2 million increase in the general fund balance, the uncommitted element of the general fund reduced by £1 million. Audit Scotland's analysis of the 32 local authorities continues to show that the Council has the lowest level of uncommitted general reserves as a proportion of revenue spend of all Scottish local authorities, representing a continuing challenge for financial management during difficult economic conditions. Total capital expenditure in 2012-13 was £84.8 million, below the approved capital plan budget of £94.3 million. We have made recommendations to management to review the format and content of capital monitoring reports, which have been accepted.	Pages 9 – 12
Financial planning	The 2013-14 budget forecasts a breakeven position, with no utilisation of reserves. Total savings of £6.5 million were required to balance the budget. Additional resources have been allocated to the social work budget, based on previous experience and modelling of the demographic changes anticipated. Further savings of £8.3 million are anticipated in respect of 2014-15.	Pages 13-14
Financial statements and accounting		
Accounting policies	There have been no significant changes to accounting policies in 2012-13. The impact of adopted IAS 19 (revised), effective next year, has been disclosed in the financial statements at an estimated £11 million increase in finance costs compared to the current IAS 19. No other newly effective accounting standards are expected to have a material impact on next year's financial statements.	Page 16
Key judgement areas	Our audit approach reflected our assessment of financial statement level risks and consideration of key judgement areas, in particular in respect of: ■ valuation of property plant and equipment; ■ Dundee Energy Recycling Limited; ■ group financial statement requirements for Tayside Contracts Joint Committee; and ■ employee benefits.	Pages 19-22

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Headlines (continued)

Financial statements and accounting (continued)		
Audit conclusions	We have issued an unqualified audit opinion on the 2012-13 financial statements. There are no unadjusted audit differences and there were no adjusted audit differences. We have reported in our audit opinion that the Council's environment (construction) significant trading operation did not meet the statutory objective to break even over the three year period to 31 March 2013.	Page 17
Year end process	The unaudited financial statements, explanatory foreword, annual governance statement and remuneration report were received in advance of the statutory date, and were supported by good quality working papers. Management will need to take account of changes to the Local Authority Accounts (Scotland) Regulations, and the requirements in respect of financial reporting for charitable funds, in making early consideration of the preparation of the 2013-14 financial statements.	Page 18
Performance management arrangements		
Performance management	Our work has identified that the Council's Best Value and performance management arrangements are now well established. The Council's Changing for the Future programme continues to be the mechanism for identifying corporate improvement and achieving efficiencies to deliver balanced budgets. The arrangements for scrutiny of performance are considered to be maturing. We have made recommendations to enhance the arrangements to ensure the committee fully demonstrates its remit in the scrutiny of Council performance.	Pages 24-15
National reports	We have considered the Council's arrangements in responding to Audit Scotland and Accounts Commission national studies, preparing short returns to Audit Scotland as appropriate. In particular, we considered the Council's response to the Audit Scotland's report *Scotland's public finances: Addressing the challenges.* We noted that there is robust financial monitoring currently in place.	Page 26
Governance and narrative reporting		
Governance arrangements	Over-arching and supporting corporate governance arrangements provide a framework for organisational decision-making. An updated risk management strategic plan has been approved by the policy and resources committee. The annual governance statement identifies no major weaknesses in governance or internal control arrangements. A number of areas for continuous improvement are disclosed.	Pages 28-31
Systems of internal control	Our reporting through the year identified improvements in the governance and controls framework from the prior year. Management has demonstrated a commitment to continuous improvement, however a number of areas continue to require attention, including in respect of reconciliations and journal authorisation processes.	Page 30

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Scope and responsibilities

Purpose of this report

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit of the Council's financial statements for 2012-13. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the scrutiny committee at the outset of our audit.

Responsibilities

It is the responsibility of the Council and the director of corporate services to prepare the financial statements in accordance with the proper practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 ("the Code of Practice"). An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This annual audit report to members and our presentation to the scrutiny committee, together with previous reports to the scrutiny committee throughout the year, discharges the requirements of ISA 260

Context of the audit

The Scottish Government's response to the Crerar report in 2007 was to simplify the approach to delivering local government scrutiny. As a result, scrutiny bodies that engage with local government established a shared assessment of the risks in each Council and developed a range of proportionate approaches in response to the risk assessment. A local area network ("LAN") of local audit and inspection representatives undertake a shared risk assessment for each local authority in Scotland, to identify targeted, risk-based scrutiny. This results in each council receiving an annual Assurance and Improvement Plan ("AIP"). During 2012-13, a refresh of the Council's AIP for the period 2013-16 was undertaken, which was subsequently published in April 2013.

The Council's AIP reported that the Council had sustained and / or improved its service performance overall. Inspection and audit work during 2012-13, including a joint inspection of services to protect children and young people in the Dundee area, resulted in broadly positive reports. In addition following work by the Scottish Housing Regulator the risk assessment changed in respect of aspects of housing services. No further scrutiny is required in 2013-14 in relation to the Scottish Housing Quality Standard.

In respect of outcomes, targeted audit work was undertaken in 2012-13 over `work and enterprise', as this had been an area of uncertainty. As a result of this, no further scrutiny is required in 2013-14.

The risk assessment of the Council's corporate arrangements indicated progress in a number of areas. Two areas were noted as being areas of uncertainty, risk management and governance and accountability. The AIP recognised that these areas would be picked up as part of the external audit process.

The context of our audit was therefore one of an overall reduced level of risk, based on the shared risk assessment of the Council's arrangements.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Strategic overview and use of resources

Our perspective on the Council's approach to key issues affecting the local government sector, and its use of resources

Key issues

There are a number of service challenges emerging, with demand and resource pressures continuing to build, against a backdrop of reform in public services.

Management undertake regular analysis of the key areas of public reform, which should support achievement of strategic priorities in a changing environment.

Sector overview

Audit Scotland's report *Responding to challenges and change: An overview of local government in Scotland 2013* highlighted service challenges, with demand and resource pressures building against a backdrop of public service reform.

The report highlights a large number of issues which councils face and the majority of these are applicable to the Council. The large number of issues highlighted emphasises the level of the challenge facing the Council in operating in the current environment, especially considering funding reductions and increasing expenditure pressures. Based on benchmarking conducted by Audit Scotland on the 2012-13 unaudited financial statements, the Council continues to have the lowest level of useable revenue reserves as a proportion of its net revenue spend. Strong financial management continues to be essential.

Welfare reform

As a result of the Welfare Reform Act 2012, there are a number of significant changes in how councils deliver benefit services. The most significant change is the introduction of 'universal credits', which is an integrated working age benefit which will replace existing benefits, including housing benefit. Universal credits will be administered by the Department of Work and Pensions ("DWP").

The Council Plan for 2012-17 anticipates that welfare reform will have a significant impact on the city's population, as 22.3% are in receipt of benefits. While the full financial impact for the City has not yet been quantified, members have been provided with the Scottish Government's report on 11 April 2013 which estimated that the impact on Dundee's economy would be an annual loss of £58 million.

.

In response, a corporate welfare reform group has been formed, which is chaired by the director of corporate services. Regular updates from management on the impact of welfare reform have been provided to members for consideration

The welfare reform group has six distinct project responses, covering Universal Credit, Council Tax Reduction Scheme, Scottish Welfare Fund, housing services, supporting initiatives and employability and learning. A number of funding applications have been successful to provide funding for pilot projects to enable the Council to work in close partnership with partner agencies and local organisations in providing a holistic response to the impact of the changes. Information for the public is available from the Council's dedicated website page, and through posters and information leaflets provided in all Council offices.

Management therefore consider that they are well prepared for the changes, however, they acknowledge that there remain significant uncertainties and challenges ahead.

Police and fire reform

The Police and Fire & Rescue Reform (Scotland) Act 2012 created a national police force and fire and rescue service from 1 April 2013. It replaced local authorities' role as police authorities and fire and rescue authorities through the creation of the Scottish Police Authority ("SPA") and the Scottish Fire & Rescue Service ("SFRS"). The Act includes a framework for the delivery of local scrutiny and engagement arrangements.

The Council's policy and resources committee (police, fire and community safety) has taken on the scrutiny function. Members receive reports covering performance reports, strategic plans as well as updates on operational issues facing local policing, fire and rescue services and community safety initiatives.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Key issues (continued)

Integrated health and social care bill

The Scottish Government has introduced draft legislation creating Health and Social Care Partnerships ("HSCPs"). The purpose of HSCPs is to bring together a range of existing NHS and local authority services within a formal partnership to focus their combined resources on supporting more people to be supported in their own homes and communities than is currently the case, thereby shifting the balance of care and improving service outcomes.

Executive and officer groups, which are joint health and local authority groups, have been established and have been working on a number of workstreams to progress arrangements. These workstreams have been assessed against the provisions of the draft legislation. The exact integration model that the Council will adopt has yet to be determined but management has stated that the current preference is for a body corporate model, although there is more uncertainty over exactly what form this model will take.

Members have approved the establishment of a shadow board from the existing executive group from October 2013. Joint arrangements for an interim chief officer are to be put in place by formalising responsibilities between the general manager of the community health partnership and the Council's social work department head of strategy, integration, performance and support services. A full-time jointly appointed chief officer will be appointed by April 2015.

There are still a number of matters to be resolved, one of which is the accounting and audit arrangements of the organisation. Current indications are that separate financial statements and an audit may be required.

Community planning

Community Planning Partnerships ("CPPs") offer part of the solution to the pressures on resources and will play a crucial role in public service reform. The Scottish Government expects CPPs to take the lead in improving outcomes with reduced budgets.

The Dundee Partnership has three formal bodies, the Forum, the Management Group and the Co-ordinating Group. There are also specific theme groups which are formed in alignment with the Partnership's strategic themes as well as other specific subject action groups. Underlying the Community Plan are eight local community plans which have been developed by the local community planning partnerships in each area. Performance against the partnership single outcome agreement is reported annually.

Joint arrangements / partnership working

Through Tayside Contracts Joint Committee, the Council has a long standing joint committee arrangement with Perth and Kinross Council and Angus Council. This arrangement covers catering, cleaning, roads maintenance, vehicle maintenance and winter maintenance throughout the Tayside area, employing 2,500 people across 300 locations.

Working across the three Tayside local authorities, management is currently in the initial stages of undertaking scoping exercises for potential shared service arrangements.

The Council demonstrates a commitment to local partnership working through, for example, the ongoing Lochee pathfinder project for integrated children's services using the `Getting it right for every child' approach.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Key issues (continued)

Workforce planning and equal pay

The Council has operated a voluntary early retirement / voluntary redundancy scheme for each of the last three financial years, and a further scheme for 2013-14 has recently been approved. The use of the voluntary early retirement / redundancy schemes has achieved ongoing expenditure savings of around £11.2 million. The previous schemes have been over-subscribed, with staff only allowed to leave following approval by the chief executive, director of corporate services, head of human resources and the relevant head of department. This was to ensure retention of a suitable number of employees with the necessary skill sets to maintain an effective level of service.

Management recognise there is a pressure on remaining staff within the Council. There is an increased focus on the number of employee performance development reviews undertaken annually, with the target being 100%. Additionally, the Council operates a leadership programme and a management training programme to help develop its existing staff. Further work is required to develop an overall skills mapping of staff within the Council. This has been undertaken as part of the centralisation of business support staff.

Several equal pay claims in the United Kingdom have concluded in court with rulings against councils requiring them to pay settlements. Management has assessed the low number of claims against the Council related to the equal pay claims and reflected this within the financial statements. As well as existing provision for anticipated settlements, the Council has disclosed a contingent liability in respect of certain aspects of equal pay and single status challenges, where management believe that the likelihood of a transfer of economic benefits is sufficiently remote. Through discussion with the head of human resources and the head of democratic and legal services, we are satisfied that the Council remains fully informed of the recent developments in this area.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Financial position

The Council recorded an accounting surplus of £16.7 million in the comprehensive income and expenditure account. While there was a £0.2 million increase in the general fund balance, the uncommitted element of the general fund reduced by £1 million.

Financial outturn

The Council's general services budget was approved by members in February 2012 at £357.9 million, to be financed by income from council services, revenue support grant including national non-domestic rate income, and council tax and transfer from general fund balances.

For the year ended 31 March 2013 the Council generated an accounting surplus of £16.7 million in the comprehensive income and expenditure account (*2011-12:* deficit of £128.8 million). After the required statutory adjustments relating to differences in the accounting and funding basis, the net movement on the useable funds balance was a decrease of £6.1 million (*2011-12*: increase of £15.7 million). This is summarised below.

Comprehensive income and expenditure statement	Useable reserves (£million)	Unusable reserves (£million)	Total (£million)
Deficit on the provision of services	59.8	-	59.8
Other comprehensive income and expenditure	-	(76.5)	(76.5)
Total comprehensive income and expenditure	**59.8**	**(76.5)**	**(16.7)**
Adjustment between accounting basis and funding basis	(53.7)	53.7	-
(Increase) / decrease for the year	**6.1**	**(22.8)**	**(16.7)**
Reserves brought forward	(31.6)	(453.0)	(484.6)
Reserves carried forward	**(25.5)**	**(475.8)**	**(501.3)**

Source: Audited financial statements 2012-13

Usable reserves

The movement in usable reserves can be broken down across the Council's cash backed reserves as follows:

	2012-13 (£million	2011-12 (£million)	Movement (£million)
General fund balance	9.7	9.5	0.2
Housing revenue account	-	-	-
Capital grants unapplied account	7.3	13.6	(6.3)
Capital fund	2.2	2.8	(0.6)
Repairs and renewals fund	5.8	5.0	0.8
Insurance fund	0.5	0.7	(0.2)
Total	**25.5**	**31.6**	**(6.1)**

Source: Audited financial statements 2012-13

In setting the 2012-13 budget, the Council approved a recommendation from the director of corporate services that £5.5 million was the minimum level of uncommitted balances which should be retained for the year. Within the general fund balance of £9.7 million, the Council has uncommitted balances of £5 million, a reduction of £1 million since 2011-12. This represents a decrease in the uncommitted balance as a percentage of annual budgeted net expenditure from 1.61% in 2011-12 to 1.34% in 2012-13. The year-end uncommitted balance has therefore dropped below the initial target level.

In setting the 2013-14 revenue budget, and following the updated assessment of the Council's needs, a revised recommendation was approved setting a minimum uncommitted balances level at £4.75 million for the year. This took into account the identified financial risks facing the Council in the year.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Financial position (continued)

Audit Scotland's analysis of the 32 local authorities continues to show that the Council has the lowest level of uncommitted general reserves as a proportion of revenue spend of all Scottish local authorities, representing a continuing challenge for financial management during difficult economic conditions.

There is scope to prepare a medium term financial strategy to be approved by members.

In our 2011-12 annual audit report we had highlighted that the Council had the lowest level of uncommitted reserves as a percentage of net revenue spend of any local authority in Scotland. We also recommended that a review be undertaken of the protocol on reserves, as this had not been re-assessed since being agreed by the policy and resources committee in 2004. Management has undertaken this review and considers that the protocol, as agreed, remains relevant and fit for purpose. They note, however, that neither the protocol or other professional guidance makes reference to a specific target level of reserves, and that this remains to be determined locally on a periodic basis.

In our view there is scope for management to seek to develop a medium-term financial strategy for approval by members, which should include an identification of a target level of reserves to be held which is fixed in relation to the level of expenditure incurred by the Council annually on services. While we accept that there is uncertainty in future years' financial settlements, and that in the current economic environment, elements of the strategy may be aspirational, many other local authorities have now set five year financial strategies even with these uncertainties.

Recommendation one

Performance against budget

According to the service code of practice reporting within the comprehensive income and expenditure account ("CIES"), the Council has reported an overall underspend against budget of £0.8 million. In setting its budgets, we recognise that management identified and included provision for contingencies totalling £2.2 million, to be used for increasing energy costs, the new carbon reduction commitment tax and general contingency.

	Budget 2012-13 £million	Actual 2012-13 £million	Under / (over) £million
Education services	152.2	151.7	0.5
Social work	99.7	101.5	(1.8)
General fund housing	16.1	15.8	0.3
Housing revenue account	12.6	12.6	-
Cultural and related services	26.2	26.8	(0.6)
Environmental services	19.6	20.3	(0.7)
Roads and transport services	14.8	16.0	(1.2)
Planning and development services	15.8	16.6	(0.8)
Central services to the public	14.3	12.1	2.2
Police, fire and valuation services	29.4	25.9	3.5
Other	8.5	9.1	(0.6)
Total	**409.2**	**408.4**	**0.8**

Key budget pressures during the year in respect of departmental budgets included:

- adult and older people care placements (£2.4 million);
- family placements for children (£0.443 million);
- winter maintenance costs (£1.1 million);
- health and safety contracts (£1 million); and
- income shortfalls in design and print unit, and in car parking and building control services (total £1.1 million).

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Financial position (continued)

Financial management is considered to be strong, with a continual focus on the anticipated outturn forecast.

There is scope to enhance the risk analysis conducted when setting the budget through quantification of potential risks.

These overspends were offset by general savings in staff costs of £2.3 million, in refunds due on social work service provider contracts of £0.8 million and underspends on landfill and ash contracts of £0.7 million.

The budget pressures relating to social work have been a recurring challenge for the Council. Additional allocation had been included in the 2012-13 budget, however, this was still under pressure during the year.

The reduction in expenditure in relation to police, fire and valuation services was due to the redistribution of reserves from the Tayside Joint Police Board and the Tayside Fire and Rescue Joint Board, following their abolition. The effect of this redistribution is that the expenditure figures shown are reduced by £3.5 million from the amount requisitioned. Within this underspend, £1.7 million will be returned to the Scottish Government in 2013-14 as part of the wind-up arrangements. The amount of funding available from Scottish Government in 2013-14 will therefore be adjusted to reflect this redistribution and hence the funding available to the Council will be reduced.

Housing revenue account ("HRA")

The net costs of HRA services included in the CIES is £12.6 million. After the application of additional charges to the HRA income and expenditure account, and the adjustments between the accounting basis and funding basis under statute, the HRA reported a surplus of £983,000 before transfers to reserves.

The Council's policy is to transfer all surpluses to the renewal and repairs fund, hence the carry forward balance on the HRA is £nil.

Financial management

We considered the Council's response to the Audit Scotland's report *Scotland's public finances: Addressing the challenges* and presented our findings in our interim management report. We reported that management conduct robust financial monitoring, with a focus which is directed to the outturn position for the year. Members receive regular monitoring reports through the policy and resources committee papers, which enables scrutiny of financial performance.

The Council's strategic management team currently lead on service prioritisation and alignment. This will involve adapting the current year financial information for future budgets. Management recognise the challenges involved in this process and the increased attention required on it in the future. They expect to have substantially completed this by September 2013 so as to feed into the 2014-15 budget.

Due to the recurring pressures on the social work budget, this area has been a focus for longer term financial strategy based on demographic changes. As reported earlier, we belief this can be expanded further across all Council areas.

Reporting on efficiency savings achieved is considered to be included in the regular monitoring reports, in particular where these savings have already been included in the budget. The focus on outturn reporting ensures that anticipated savings are included as soon as they are identified.

Members are provided with an indication of the identified financial risks within the annual budget setting papers. There is scope to enhance this practice with quantification, using management's experience and judgement, of the likely potential impact of the risks identified should they materialise.

Recommendation two

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Financial position (continued)

Total capital expenditure in 2012-13 was £84.8 million, below the approved capital plan budget of £94.3 million. This level of capital investment was in line with the prior year.

We have made recommendations to management to review the format and content of capital monitoring reports, which have been accepted.

Capital programme

Total capital expenditure in 2012-13 was £84.8 million, below the original capital plan budget of £94.3 million. Total capital investment was in line with the prior year expenditure. The table below provides analysis across general services and the housing revenue account, comparing actual capital expenditure to budget and the prior year.

Year	Total (£m)	HRA (£m)	General services (£m)
2012-13 budget	94.3	24.9	69.4
2012-13 actual spend	84.8	23.1	61.7
(Under) / overspend	**(9.5)**	**(1.8)**	**(7.7)**
Financed by:			
Capital grants and receipts	25.3	5.7	19.6
Borrowing	58.6	17.4	41.2
Direct revenue contributions	0.9	-	0.9
Total	**84.8**	**23.1**	**61.7**

Source: Dundee City Council analysis

The original capital budget included provision for `slippage' of £5.9 million. This was to allow for the fact that there was expected to be some projects which were delayed. The effective underspend in terms of the capital funding identified for the year was £3.6 million.

Our reporting also highlighted that because of the way that budget adjustments are processed in the capital monitoring reports, the focus is predominantly on in-year spend and not on an overview of over- or underspends on individual projects. Management has agreed to review the format and content of the capital monitoring reports, taking on-board also the recommendations made in the Audit Scotland's national study on *Major Capital Investment in Councils*. In particular, consideration will be given to incorporating information on total cost over the life-span of key capital projects.

A summary of the main areas of capital expenditure is show below.

Summary of key capital projects – expenditure incurred during 2012-13	Expenditure £m
New swimming pool and car park at Allan Street	13.3
Balgarthno primary school	5.9
Lochee multi-storeys external insulation	4.8
West End primary school	3.6
Dallfield multi-storeys external insulation	2.2

Source: Dundee City Council analysis

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Financial planning

Given the low level of reserves held by the Council, the 2013-14 budget anticipates a breakeven position and does not require funding from the Council's reserves.

Revenue budget 2013-14

The Council approved its budget in line with reporting on departmental budgets which affect the general fund balance, and so there are certain budget heads such as depreciation which are included in the comprehensive income and expenditure account, but which are not included in the budget for approval.

The table shows the budgeted amounts for 2013-14 and the corresponding amounts from 2012-13 on a comparative basis:

	2012-13 £m	2013-14 £m	Variance £m
Education	125.4	125.8	0.4
Social Work	89.2	93.7	4.5
City Development	31.7	31.0	(0.7)
Environment	22.6	21.5	(1.1)
Chief Executive	26.8	26.6	(0.2)
Corporate services	17.5	17.3	(0.2)
Other housing	3.1	3.0	(0.1)
Supporting people	12.3	11.8	(0.5)
Miscellaneous income	(2.8)	(2.7)	0.1
Police, fire and valuation services	29.4	1.0	(28.4)
Capital financing costs	24.2	25.0	0.8
Contingencies	0.7	2.1	1.4
Other, including Welfare Reform	2.1	3.8	1.7
Corporate savings	-	(2.6)	(2.6)
Total net revenue budget	**382.2**	**357.3**	**(24.9)**

Source: Summary of revenue budget 2013-14 –Dundee City Council policy and resources committee 14 February 2013

The key assumptions underlying the setting of the budget included:

- council tax continues to remain frozen;
- capital programme financed by £25 million of loan charges per year; and
- allowance for 1% pay award for all staff, plus allowance for the National Living wage of £7.50 per hour.

The overall budgeted expenditure has reduced by £25.3 million from 2012-13; £28.4 million of this is due to the abolition of the regional police and fire bodies and hence the Council does not have to pay these requisitions. There has been a corresponding reduction in the Council's revenue support grant allocation to reflect the new police and fire arrangements. In setting the budget, members approved budget savings of £6.5 million in order to balance the budget.

Based on experience, the 2013-14 social work budget has been significantly increased by £4.5 million from the budget originally set for 2012-13 to recognise the recurring pressures. This increase is after budget savings of £1.3 million, which included a 5% reduction on externally purchased services.

Savings totalling £2.6 million represent corporate saving and have been held centrally at the time of budget setting. This includes some efficiencies identified as part of the Council's Changing for the Future improvement framework. Where these are subsequently allocated to departments, the budget will be updated to reflect this.

The budget has been set on the basis of a continued council tax freeze, and assumes an allowance for non-collection of 3.2%. Based on the Council's history of council tax collection, this appears a reasonable assumption.

For 2014-15, management currently anticipate the need to identify a further £8.3 million of savings.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Financial planning (continued)

The Council has approved a general services capital plan covering 2013-17, and a housing revenue account capital plan for 2013-18. In 2013-14 the Council plans to spend a total of £73.7 million on capital projects.

Capital plan

The Council has formulated a general services capital plan for 2013-17, updating the existing 2012-16 plan to reflect the latest known phasing of expenditure. The plan takes account of the Council's property asset management process, which identifies six main areas of asset ownership: buildings and property, open space, roads infrastructure, vehicle fleet, information and communications technology, and council housing. The principles of affordability and sustainability have been applied in developing an affordable draft capital financial plan.

The total projected capital resource for 2013-14 to 2016-17 is shown below, which has been fully matched to planned expenditure projects.

Funding source – general fund services	2013-14 (£m)	2014-15 (£m)	2015-16 (£m)	2016-17 (£m)	Total (£m)
Borrowing	41.1	26.0	36.2	22.1	**125.4**
General capital grant	10.8	16.4	12.0	12.0	**51.2**
CFCR	-	-	-	-	**-**
Capital receipts	1.6	1.6	1.6	1.6	**6.4**
Total projected capital resources	**53.5**	**44.0**	**49.8**	**35.7**	**183.0**

Project	Amount (£m)
Central Waterfront and Dundee Railway Station	24.0
Strathmartine campus (including Baldragon Academy rebuild)	18.6
Menzieshill Primary, Nursery and community provision	14.5
Harris Academy rebuild (net Council contribution)	12.0
Coldside Primary and community facilities	11.5
National Housing Trust, phases 1 and 2	11.0

Source: Capital Plan 2013-17 – General services, Policy & Resources Committee 57-2013

The table excludes the £45 million funding for the V&A at Dundee, which is fully funded by external funding and forms part of the general investment in the central Waterfront area of Dundee.

Expenditure on the housing services capital plan totals £83.2 million over the period, and is summarised as follows:

Funding source – housing services	2013-14 (£m)	2014-15 (£m)	2015-16 (£m)	2016-17 (£m)	2017-18 (£m)
Borrowing	13.4	10.4	9.8	11.9	11.5
Capital receipts	4.3	4.7	4.8	4.9	5.0
Slippage on SHQS expenditure	2.5	-	-	-	-
Total projected capital resources	**20.2**	**15.1**	**14.6**	**16.8**	**16.5**

Key elements of the programme are in meeting the Scottish Housing Quality Standard, with expenditure on external insulation and cavity fill, plus renewal of heating, kitchens and bathrooms together representing 50% of the total expenditure.

In line with good practice under the Prudential Code, the capital plans for general fund services and housing services provided members with details of the prudential indicators for the periods of the plans as part of the approval process.

The investment in general services capital increases the ratio of financing costs to the net revenue stream from 6.8% currently to 7.5% at the end of the plan's period. An increase of 0.7% in this indicator is equivalent to approximately 50% of the Council's current level of free reserves being added to the financing costs on an annual basis.

In respect of the HRA, the percentage increases from the current level of 42% to a peak of 44.7% before reducing back to a forecast 41.3% by 2016-17.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Financial statements and accounting

Our perspective on the preparation of the financial statements and key accounting judgements made by management

Accounting policies

There have been no substantive changes to the financial reporting framework as set out in the *Code of Practice on Local Authority Accounting in the United Kingdom 2012-13* ("the Code of Practice").

There have been no changes to accounting policies in 2012-13. All accounting policies have been applied consistently.

Disclosure has been included in respect of the impact of revisions to IAS 19 *Employee benefits.*

The financial statements have been prepared on a going concern basis.

Accounting framework and application of accounting policies

Area	KPMG comment
Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 ("the Code")	■ The 2012-13 financial statements have been prepared in accordance with the Code of Practice which is based upon International Financial Reporting Standards ("IFRS"). ■ During the year there have been no substantive changes in financial reporting requirements, and consequently there are no material changes to the Council's accounting policies. ■ We are satisfied that the accounting policies adopted remain appropriate to the business, and have been applied consistently.
Impact of revised accounting standards	■ Disclosure has been included in the financial statements highlighting that the impact of revisions to IAS 19 *Employee benefits* if the standard had been adopted early in 2012-13 the estimated change to finance costs would be around £11 million. When fully adopted, this change will not impact on the Council's general fund balances. ■ No other newly effective accounting standards are considered to have a material impact on the Council's financial statements.
Going concern	■ The Council has net assets of £501 million at the balance sheet date. While current liabilities exceed current assets, through treasury management monitoring, the Council has access to borrowing as required to meet the liabilities as they fall due. Management has considered the funding available to the Council, which is approved for 2013-14, combined with longer term funding indications, and consider it appropriate to adopt a going concern basis for the preparation of these financial statements. ■ The group balance sheet has net assets of £84.9 million, with the impact of significant pensions liabilities in respect of police and fire the principal reason for the significant reduction in net assets between the Council and its group. This position will not occur in 2013-14 following police and fire reform. ■ We are satisfied that the going concern basis of preparation of the financial statements is appropriate.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Audit conclusions

We have issued an unqualified audit opinion on the financial statements.

We have reported in our audit opinion that the Council's environment (construction) significant trading operation did not meet the statutory objective to break even over the three year period to 31 March 2013.

Audit conclusions

We have issued an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2013, and of its expenditure and income for the year then ended. The financial statements have been properly prepared in accordance with the 2012-13 Code of Practice, and prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government Scotland Act 2003.

We have reported an `emphasis of matter' paragraph where the Council's environment (construction) significant trading operation did not meet its statutory objective to break even over the three year period to 31 March 2013. We report on this below. There are no other matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed a mixture of substantive and controls testing to ensure an efficient approach that covers all the key risks;
- liaised with internal audit and reviewed their reports to ensure all key risk areas having a potential financial statements impact have been considered;
- reviewed assumptions and judgements made by management and considered these for appropriateness;
- considered if the financial statements may be affected by fraud through discussions with senior management and internal audit to gain a better understanding of their work in relation to the prevention and detection of fraud with the potential to impact on the financial statements;
- held discussions with senior management, including the director of corporate services as the proper officer responsible for the preparation of the financial statements, and the head of democratic and legal services who holds the monitoring officer role; and
- attended the scrutiny committee to communicate our findings to those charged with governance, but also to update our understanding of the key governance processes and obtain key stakeholder insights.

Significant trading operations

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The environment (construction) significant trading operation did not meet this statutory objective for the three year period ending 31 March 2013.

Recommendation three

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Year end process

The unaudited financial statements were made available on a timely basis. Improvements from 2011-12 in the preparation of the financial statements were observed.

Management will need to take account of changes to the Local Authority Accounts (Scotland) Regulations, and the requirements in respect of financial reporting for charitable funds, in making early consideration of the preparation of the 2013-14 financial statements.

Financial statements preparation

- High quality working papers and complete unaudited financial statements were provided by the statutory deadline of 30 June 2013. This included the explanatory foreword, remuneration report and annual governance statement.
- We provided feedback to management on the content of the financial statements, explanatory forward and remuneration report, which were subsequently adjusted in the financial statements. We are satisfied that these are materially prepared in accordance with relevant regulations and guidance as appropriate.
- In 2011-12, we recommended that management review the manner in which both the comprehensive income and expenditure account and the balance sheet are reconciled to the underlying financial ledger. Management has progressed an exercise to increase the automation of the financial statements from the underlying records. This operated well in 2012-13 and should provide additional efficiency in future years' preparation of the financial statements.
- There are no non-trifling unadjusted audit differences, and there were no adjusted audit differences. There are no significant matters in respect of (i) auditor independence and non-audit fees and (ii) management representation letter content, as reported in appendix one.
- In preparing the financial statements in 2013-14, for both the Council and the associate bodies for which the Council acts as host authority, there is scope for greater identification by management of their timetable for preparation, finalisation and reporting of the financial statements for each of the individual entities for which they are responsible. This should take account of the updated requirements of the Local Authority Accounts (Scotland) Regulations.

Recommendation four

Changes to Local Authority Accounts (Scotland) Regulations

- The Scottish Government has commenced a consultation period to amend the Local Authority Accounts (Scotland) Regulations. The consultation period closes on 4 October 2013. The proposed draft regulations include a number of changes designed to help strengthen corporate governance processes. The intention is that the proposed regulations will be applicable to 2013-14 onwards and consideration should be given to the implications for the Council's reporting arrangements arising from the content of the consultation draft.

Financial reporting for charitable funds

- The Council has 28 registered charitable trust funds. From 2013-14, all charitable trust funds registered with the Office of the Scottish Charity Regulator ("OSCR") will require an audit. The audit of these charitable trust funds may result in a significant administrative and financial cost to the Council. The Council is intending to commence a rationalisation process which will see the number of registered trusts significantly reduced. This rationalisation process will require authorisation from OSCR. Many other councils are seeking to follow a similar process and hence this will result in significant additional work for OSCR. To ensure that OSCR has time to complete this work, management should ensure this process is progressed so that the rationalisation is completed by 31 March 2014.

Recommendation five

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Key accounting judgements

We have considered key accounting issues, in relation to valuation of property, plant and equipment, accounting for Dundee Energy Recycling Limited and employee benefits.

We concur with management's judgements regarding pensions and valuation of property, plant and equipment.

Key accounting judgements

Area	KPMG comment
Valuation of property, plant and equipment	Under the Code of Practice and IFRS, property, plant and equipment ("PPE") is required to be held on the balance sheet at fair value which for specialised assets is assumed to be depreciated replacement cost and for other PPE is open market value. In order to comply with these accounting requirements, Council assets are subject to rolling valuations. Between formal valuation periods, PPE is considered for any indications of impairment and where these are identified, formal valuations are performed and reflected in the financial statements. 2012-13 represented the first year of the revised revaluation programme now being followed. Following discussions on the programme of revaluations, management has changed from a departmental basis to an asset classification basis. This ensures that all assets of the same class are revalued in the same financial year. In line with this change, management reviewed the Council's componentisation policy in line with the requirements of the Code of Practice. We were satisfied that the refinements to the policy were appropriate. They resulted in an increase in the annual depreciation charge in 2012-13 of £0.6 million. Following our planning discussions with management, it became clear that the continued investment in the Council's asset base through its updated capital plan for 2013-17 had implications for the current carrying value of a number of existing assets, specifically in respect of the existing school estate. We requested that management undertake an early analysis of the impact of this impairment on the existing assets, due to the identified revision of the anticipated useful economic lives due to scheduled replacement. This analysis was undertaken in tandem with property valuation experts within the estates team to determine the element of impairment charge versus accelerated depreciation to be charged for the year. As a result, impairment adjustments totalling £11.4 million were charged to the comprehensive income and expenditure accounts in respect of a number of existing school assets, to reflect the revised likely economic life of the assets . The Council has assets under construction totalling £55.2 million as at 31 March 2013. The new Allan Street leisure pool and car park is the major element of this balance, totalling £32.3 million at the year end. It is important that significant assets under construction are valued at the time of transferring from assets under construction to operational assets, to ensure that their carrying value reflects their fair value at the time of becoming operational.
Provisions - other	■ Management has considered equal pay claims, following court rulings in respect of other councils. This is not considered to be a significant matter for the Council given its contractual arrangements; a small accrual has been recognised. ■ No landfill provision has been recognised as the Council do not own any landfill sites.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Key accounting judgements (continued)

Members and management have considered the Council's interest in Dundee Energy Recycling Limited during the year. Following the fire at the plant, additional investment was approved to enable improvements in equipment to be made during the plant's reinstatement. The plant recommenced operations in July 2013.

Other accounting and audit matters

Area	KPMG comment
Dundee Energy Recycling Limited	Dundee Energy Recycling Limited ("DERL") is a private limited company with ordinary and deferred (preference) shares. The Council currently holds 40% of the ordinary shares which have voting rights. It is currently in negotiation to purchase the remaining 60% interest from the two financial institutions which hold this interest. On 16 May 2012 there was a fire at the plant operated by DERL. The plant was non-operational from that date for the remainder of 2012-13. Management from both the Council and DERL have been involved in discussions in respect of the impact of this event on DERL's operations. Following the fire, the Council agreed to grant continued financial support to the plant, pending advice from the insurers in September 2012 that they had agreed to meet the full costs of reinstating the fire damage to the plant and the associated business interruption costs, subject to the limits of cover in the policy. Prior to the fire taking place, it had been recognised that the declining condition of elements of the plant equipment was impacting on the efficiency and future viability of the plant. The fire provided an opportunity to undertake improvement works while the plant was already inoperational. Based on a cost-benefit analysis performed by DERL, in conjunction with a specialist contractor, the policy and resources committee approved investment of £7.9 million to carry out improvement works at the plant. This would initially be funded by prudential borrowing, with DERL due to repay the Council through increased lease payments of £1.8 million per annum. This level of investment was the only option which was forecast to result in a positive net present value cashflow analysis. In considering the requirement to make further investment in the plant, members were advised of the likely costs to the Council should the plant no longer be available to provide waste recycling to the Council. This would lead to additional waste and landfill costs which would exceed the current costs and further investment in DERL. It was therefore considered appropriate to retain DERL in an operational capacity. The business interruption insurance ran until August 2013. By the end of July 2013, the improvement works had been completed to the point that the Council's waste was being treated by the reinstated plant. DERL has subsequently reinstated taking Angus Council's waste in line with contract agreements. In the longer term, management are considering the means to bring further long-term investment in the plant to further improve efficiency and meet future legislative requirements. The Council has accounted for £2.7 million of the improvement works as assets under construction at the year end. Recognising that there was increased uncertainty around the plant's future, the Council also increased to 60% its provision in respect of a long-term loan of £3.9 million. Total short-term financial support of £1.9 million was provided between June to August 2012 prior to commencement of the insurance payments. A 30% provision has been made against this balance based on the anticipated recovery under future cashflow forecasts. We are satisfied that this is an appropriate provision to be held against these balances.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Key accounting judgements (continued)

We are in agreement with judgements made by management in respect of actuarial assumptions used to provide a valuation of the Council's net pension liabilities.

Other accounting and audit matters	
Area	**KPMG comment**
Retirement benefits	The Council accounts for its participation in the Tayside Superannuation Fund in accordance with IAS 19 *Retirement benefits*, using a valuation report prepared by actuarial consultants. Our audit of the accounting for retirement benefits includes consideration of the data underlying the actuarial report. This includes the level of contributions made during the year, the financial assumptions and membership data provided to the actuary and the Council's share of the pension fund assets. The level of contributions made by the Council in the year is estimated based on data prior to the year end. It is important that this number is accurate as it is used to inform the calculation of the liabilities at the year end. Our testing included review of actual data against that used in the actuarial calculations. No issues were identified. The actuaries use a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. Our actuarial colleagues have reviewed the assumptions and concluded that those used fall within the range that we would normally consider acceptable for the purpose of IAS19 for a typical LGPS employer. The rate of salary increases is set taking into account the Council's expected long-term rate of salary increases, including incremental drift. The rate used (4.8%) is at the higher end of the range some other public sector clients (excluding councils) are using but is in line with the assumption used by the majority of other Scottish local authorities. Management should ensure that in setting this assumption it reflects the Council's long-term plans and strategy. The deficit in the scheme as at 31 March 2013 was £292.6 million (*2011-12: £318.9 million).* The present value of liabilities in the scheme increased to £1.1 billion, with the fair value of assets increasing to £0.8 billion. The total contributions expected to be made to the scheme in 2013-14 total £19.4 million, with a further £2.2 million payable in respect of benefits which have previously been awarded through the Discretionary Benefit Scheme.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Other accounting and audit matters

Other accounting and audit matters	
Area	**KPMG comment**
Tayside Contracts Joint Committee	Following detailed discussion in 2011-12 in respect of the proper accounting for Tayside Contracts Joint Committee ("TCJC"), the Council, in conjunction with Perth and Kinross Council, Angus Council and TCJC management, prepared an analysis of the accounting for TCJC in accordance with the group accounting requirements of the Code of Practice. While recognising that TCJC does not meet certain strict legal definitions of an `entity', its operational practice exhibits many characteristics of an entity, for example, it has its own VAT and PAYE registration, the ability to employ staff under the minute of agreement, it participates in the Tayside Superannuation Fund as a `scheduled body', and is capable of being taken to an employment tribunal. Moreover, under the requirements of the Local Government (Scotland) act 1973, TCJC is required to prepare its own financial statements and have them audited. As such, it is considered to meet the group financial statement definition of an entity and has been accounted for accordingly in the Council's group financial statements. We note that it is considered that the Minute of Agreement for TCJC requires to be updated to reflect the current working practices. We understand that this is being addressed by relevant management of the participating local authorities and management of TCJC.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Performance management

Our perspective on the performance management arrangements, including follow up work on Audit Scotland reports

Performance management

Our work has identified that the Council's Best Value and performance management arrangements are now well established.

The Council's Changing for the Future programme continues to be the mechanism for identifying corporate improvement and achieving efficiencies to deliver balanced budgets.

Best Value / performance management arrangements	A new Single Outcome Agreement ("SOA") has been developed by the Council and related partners. Management is awaiting final approval from the Scottish Government. In accordance with the principles of Best Value, the Council seeks to pursue 'continuous improvement'. The corporate improvement team sits alongside the performance and improvement section, and the community planning team, each with individual responsibilities, within the corporate division. `Changing for the Future' ("CftF") is the Council's policy programme for driving corporate improvement initiatives, and for establishing how it intends to achieve the level of savings required to deliver balanced budgets. Projects within the overall programme are identified within one of four sub-programmes: reshaping service delivery models; service prioritisation; enabling the change; and assets. Over the past year, management has focussed on the reporting of the results of individual projects within the programme, and the savings achieved. These reports go to the Changing for the Future Board, which currently is only attended by the administration group although all members have access to the papers. The latest reports to the Board show that a total of 49 projects have been undertaken since the launch of CftF in 2010 , of which 23 are now considered complete. Of the 16 projects currently in implementation, 12 of these are considered to be longer term projects with anticipated end dates in 2014, for example, the rationalisation assessment of the Council's estate. Management is now looking to progress with phase three of the CftF programme. This recognises that while CftF is intended as a corporate improvement programme, a number of the projects included within the phase two activity were specialised and focussed on departmental activity. Management expect 14 projects to be included as part of phase three of the programme, while these have yet to be finalised, there is an emphasis in considering wider corporate initiatives as well as focussing on areas where national benchmarking has shown the Council's cost per service to be an outlier compared to comparable authorities. The performance and improvement section reports on ongoing performance management arrangements, the conduct of Best Value service reviews, and general ongoing improvement activity. The performance monitoring framework includes the use of self-assessment mainly using the Public Service Improvement Framework ("PSIF"). All departments are now considered to have completed their initial review under PSIF. The next phase of reviews is currently being considered by the performance and improvement team. During 2012-13, the Council launched the 'STEP' programme, based on whole systems thinking, as a corporate framework tool to support all ongoing departmental improvement activity. An organisational culture survey was completed in 2012. In addition to the management leadership group who had completed a similar survey in 2010 and 2011, a random sample of staff were also asked to complete the survey, of whom 50% responded. The results of the survey were generally positive, with management and staff both recognising a commitment to continuous improvement and improving the ways the Council works.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Performance management (continued)

The arrangements for scrutiny of performance are considered to be maturing. We have made recommendations to enhance the arrangements to ensure the committee fully demonstrates its remit in scrutiny of Council performance.

Best Value / performance management arrangements (continued)	Together with an increasing focus on self-evaluation, the main element of performance management takes place through monitoring service performance against agreed performance indicators. As part of our audit work for the year, we considered the overall arrangements for scrutiny of performance, through discussion with members and officers, as well as review of committee agenda and reports. Elected member scrutiny of performance is primarily performed by the scrutiny committee. From our understanding of the committee structure, there is no apparent formal feedback process through which items of service performance which were of concern to the members of the scrutiny committee would be reported back to the relevant service committee to consider. The scrutiny committee's remit allows for reporting back to specific committees and, since all members of the scrutiny committee sit on all other service committees, our discussions with members did not highlight any specific matters in this area. However, consideration should be given as to whether the arrangements for feedback from the scrutiny committee in respect of performance matters are sufficiently clearly set out. ***Recommendation six*** The remit of the scrutiny committee is quite extensive, and has recently been added to in terms of review of the Council's revised risk management arrangements. From our review of the scrutiny committee agendas and papers over our time as appointment as the Council's external auditor, there are some areas where it is not clear that the committee has received reports or made consideration of all aspects of its remit. While in some instances this may be through the equivalent of a \`nil return', in our view there is scope to enhance the work of the committee through an annual programme of work. This should set out for members of the committee the reports which it can expect to receive throughout the year, including key reports from officers, internal and external audit, to demonstrate that the committee's remit in terms of scrutiny of performance is complete. This does not preclude the receipt of other reports throughout the year as the business becomes available. Management may also wish to give consideration as to whether a similar process is appropriate for other committees across the Council. ***Recommendation seven*** From our experience, the early focus of the scrutiny meetings appeared to concentrate on the Council's response to external scrutiny and performance reports. This is now maturing with appropriate emphasis given to summary, or headline, reporting from these external scrutiny bodies and with an increased attention to internally generated performance reports. Members have been provided with the Audit Scotland report *Managing performance: are you getting it right?* which provided a checklist for members and officers outlining the characteristics of an effective performance management and improvement process. Our discussion with members indicated that, in general, sufficient support for personal development was available from officers to members to assist them in their scrutiny roles, taking account of the time available to members to attend any training events identified. This is an area for continued consideration by management, in dialogue with all members, as regulatory and statutory requirements become ever more complex.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Performance management (continued)

Performance against statutory performance indicators and other local government bodies is measured by the Council and our responsibilities as external auditors extend to understanding the arrangements and systems.

Shared risk assessment	The Council considered the updated AIP on 25 June 2013. This has been used to support the Council's overall improvement plan. The LAN recognises the Council's ongoing commitment to continuous improvement and self-evaluation. The detailed findings of the AIP were set out earlier.
Local response to national studies	We have considered the Council's response to the Audit Scotland national report *Commissioning social care.* We prepared a short return to Audit Scotland in relation to the report. We reported that the Council had informally considered the report and would be considering it further at the relevant joint management meetings. As noted earlier in this report, we also considered the Council's response to the Audit Scotland's report *Scotland's public finances: Addressing the challenges.*
Statutory performance indicators	The Council reports on the 25 SPIs and also has a range of other performance indicators which it has developed to demonstrate progress to the outcomes contained in the Council plan and the Single Outcome Agreement. As the external auditor, our responsibilities extend to understanding arrangements and systems that the Council uses to generate performance results and consequent reports. The Council uses its own online performance monitoring system to input, manage, interrogate and present data. Each department is responsible for completing the current year figures based on the information they have gathered. This is performed by the compiler who is then required to calculate the percentage difference on the prior year. The compiler is then required to sign off this work and forward to the person responsible for checking the figures. On completion of the check, brief comments are attached to the result, with more detailed comments where variances are in excess of 5%. The final review is conducted by the head of service, before the performance indicators are subject to central collation. Management consider that there are adequate checks and controls to provide comfort over the completeness and accuracy of data. We are satisfied that this level of review is appropriate. The 2012-13 return submitted to Audit Scotland highlighted that the Council's performance improved for 24% of the performance indicators, with 55% showing little or no change, 13% deteriorating with the remaining 8% representing new indicators without a trend. Performance against the Council's performance indicators is reported in an annual performance report, including performance against the single outcome agreement.
Benchmarking	The Local Government Benchmarking Framework has been developed to help councils compare their performance using a standard set of indicators. The indicators in the framework replace the specified Statutory Performance Indicators ("SPI's") from 2013-14 onwards. Management reviewed the available 2011-12 results, and reported these to the policy and resources committee in June 2013. The Council's performance was considered according to comparison with comparable local authorities across Scotland. Members approved recommendations that the indicators should be included in the Council's annual self-assessment report, as well being included in the department service plans to ensure continuous improvement is monitored each year. We consider that this will support continuous improvement in performance reporting.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Governance and narrative reporting

Update on your governance arrangements

Our overall perspective on your narrative reporting, including the remuneration report and annual governance statement

Corporate governance arrangements

Over-arching and supporting corporate governance arrangements provide a framework for organisational decision-making.

An updated risk management strategic plan has been approved by the policy and resources committee.

Corporate governance	The Council has overarching and supporting governance arrangements which provide a framework for organisational decision-making. The Council operates a committee based structure, comprising service committees as well as the policy and resources committee, with most of its business delegated to those committees. With the exception of the licensing and scrutiny committees, which have eight members, all members sit on all other committees. The scrutiny committee is chaired by a member of the opposition. The Council has a local code of corporate governance which is subject to regular review by a working group of senior officers. A 31-point checklist is completed which covers four areas: service planning and performance management; internal control environment; budgeting, accounting and financial control; and risk management and business continuity. This indicated a high level of compliance. As part of our audit work, we undertook a sample check against the detail of management's self-assessment, and are satisfied that this is appropriately supported by documentary evidence. The Council's corporate governance arrangements are also supported by the work of internal audit. Internal audit's annual opinion for 2012-13 on the system of internal financial control was "the systems of internal financial control are operating satisfactorily". Internal audit's annual report also confirms that there were no "priority one (high risk, material observations requiring immediate action)" recommendations during the year. Following discussion in 2011-12, management has refreshed the content of the explanatory foreword to better communicate to the reader the key messages and issues faced by the Council. This includes key financial performance indicators, as agreed through the local authority directors of finance group.
Risk management	Internal audit conducted a review of risk management arrangements in 2011-12, which highlighted a number of areas for consideration. Risk management was also highlighted in the Council's 2013-16 assurance and improvement plan as an `area of uncertainty', as management had not yet implemented their response to the internal audit findings. Internal audit had highlighted that the Council's previous risk management strategic plan was heavily focussed on insurance and business continuity risks, as opposed to strategic risks. The strategic management team were involved in a workshop session, facilitated by the Institute of Risk Management in Scotland. The updated strategic risk register was approved by the policy and resources committee in June 2013. This ensures that the Council has an up to date register and that measures are in place to mitigate the likelihood and impact of significant risks. The format and scoring of risks within the strategic risk register will also be applied to all departmental risk registers. These are due to be completed by 31 March 2014 following facilitated sessions led by the Council's risk and resilience manager. The Council's tolerance and appetite for risk are set out in the revised risk management strategic plan. The scrutiny committee has been given responsibility for reviewing the strategic and department risk registers, and for reviewing annual risk management performance. The Council has therefore taken steps to address its approach to risk management. The revised arrangements will take time to become fully embedded following revision to the departmental risk registers.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Corporate governance arrangements (continued)

The annual governance statement identifies no major weaknesses in governance or internal control arrangements. A number of areas for continuous improvement are disclosed.

Annual governance statement	The governance statement provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. It describes a number of sources of assurance for the accountable officer and identifies areas for improvements to be focussed on in the future. The statement also highlights the annual self-evaluation exercise carried out by the Council, which is based on the SOLACE/CIPFA good governance framework. Improvement points from this exercise are included within the statement and in the corporate improvement plan. We are satisfied that the content of the annual governance statement is in line with our understanding of the Council, and the relevant guidance.
Remuneration report	We considered the contents of the remuneration report and reviewed against the requirements of the Local Authority Accounts (Scotland) Amendment Regulations 2011. A small number of presentation adjustments were required but we are satisfied with the content of the remuneration report. We tested a sample of exit package and other disclosures in the remuneration report to supporting documents.
Prevention and detection of fraud	A key mechanism in the allocation of authority, accountability and responsibility and the prevention and detection of fraud is the existence and maintenance of strategic and financial documentation. The Council has appropriate policies and codes of conduct for staff and councillors including a whistle blowing policy (the "helpline for employees – disclosure of information" policy). Management has identified no significant fraud or irregularities, other than issues that were already brought to our attention by internal audit. The policy and resources committee receives reports from the director of corporate services on the performance in respect of housing and council tax benefit fraud of the counter-fraud section within the Council's revenues division.
Maintaining standards of conduct and the prevention and detection of corruption	The Council has various organisational policies and procedures designed to prevent and detect corruption. Organisation-wide policies are important as they set the tone of the Council, outline expectations of employees, document key processes to be followed by all staff, and communicate the culture of honesty and ethical behaviour. There is also a specific members and officers code of conduct. The majority of these policies have recently been updated to reflect new requirements and are available to all staff on the intranet. Separate registers of interest exist for chief officers and elected members. Our testing confirmed that both registers were up to date. To ensure transparency in its arrangements, the register for members is available for inspection by the public.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Corporate governance arrangements (continued)

Our reporting through the year identified improvements in the governance and controls framework from the prior year. Management has demonstrated a commitment to continuous improvement, however a number of areas continue to require attention, including in respect of reconciliations and journal authorisation processes.

Systems of internal control	Our reporting throughout the year has identified a number of areas of the financial control framework that could be enhanced, including in respect of reconciliations and journal authorisation processes. In completing our high-level review of the Council's information technology controls, we have identified two further areas for management action. ***Recommendations eight and nine*** As the financial and operating environment in which the Council operates continues to change, with developing priorities and new and emerging financial and non-financial risks, it is increasingly important that the Council plan, supporting service plans and other developments are underpinned by effective organisation-wide controls, robust financial management processes and effective key financial controls.
National fraud initiative	The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches. NFI helps participating bodies to identify possible cases of fraud and to detect and correct under or overpayments. NFI also helps auditors to satisfy their duties to assess bodies' arrangements for preventing, deterring and detecting fraud. The Council has an established process for investigating cases of potential fraud highlighted by the NFI, falling largely under the control of benefits investigation officers as that is where the majority of cases fall. The key contact is a principal accountant, who has been involved in the exercise for a number of years. Management has expressed their commitment to NFI and the value of investigating all NFI matches, however resourcing issues in some departments meant that there had been some delay in initiating reviews of matches. It is intended to provide an update report to the policy and resources committee at the end of 2013. We are required by Audit Scotland to review the Councils progress and engagement with the NFI process. We will prepare a short return to Audit Scotland by January 2014 and will report these findings to the scrutiny committee separately.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Corporate governance arrangements (continued)

Internal audit	As set out in our audit plan and strategy, we have evaluated the work of internal audit. The content of the internal audit plan is in line with our expectations. We considered specifically the work in relation to: ■ payroll – overtime; ■ debtors and debt management – sundry debtors; ■ procurement; ■ fraud governance; and ■ statutory performance indicators. We have provided assistance to the chief internal auditor in respect of two specialised IT reviews contained within the internal audit plan. Internal audit reported that "*reasonable assurance can be placed upon the adequacy and effectiveness of the Council's control environment for the year to 31 March 2013*." This opinion was based on the internal audit work for the year, the assessment of risk completed during the preparation of the internal audit plan, knowledge of the Council's governance, risk management and performance management arrangements, as well as formal assurances received from the Council's directors / heads of service in the form of a Self-assessment checklist. The IASAB produced a common set of public sector internal audit standards ("PSIAS"), which require to be applied to the public sector from 1 April 2013. Internal audit has reported to the scrutiny committee on the introduction of the required standards, and the local government application note prepared by CIPFA, and has indicated that a review of the existing working practices and documentation of the Council's internal audit service would be undertaken and reported back to the committee.

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Appendices

Mandatory communications

There were no changes to the core financial statement, no adjusted audit differences and no unadjusted audit difference.

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	There were no audit adjustments required to the unaudited financial statements which impacted on the net assets or the surplus and deficit for the year.	-
Unadjusted audit differences	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you. There are no unadjusted audit differences.	-
Confirmation of Independence Letter issued by KPMG LLP to the scrutiny committee	We have considered and confirmed our independence as auditor and our quality procedures, together with the objectivity of our Audit Director and audit staff. Non-audit fees of £6,000 were payable in the year.	Appendix 2
Draft management representation letter Proposed draft of letter to be issued by the Council to KPMG prior to audit sign-off	There are no changes to the representations required for our audit from last year.	-

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Auditor independence and non-audit fees

Auditing standards require us to consider and confirm formally our independence and related matters in our dealings with the Council.

We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.

Auditor independence

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Council and its related entities for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Regular communications
- Internal accountability
- Risk management
- Independent reviews

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the members of the scrutiny committee.

Confirmation of audit independence

We confirm that as of 19 September 2013, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of scrutiny committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Action plan

The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

Priority rating for recommendations		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Financial strategy		**Grade two**
While we accept that there is uncertainty in future years' financial settlements, and that in the current economic environment, elements of the strategy may be aspirational, other local authorities have now set five year financial strategies even with these uncertainties. Without an approved medium to long-term financial strategy, there is a risk that the Council remains exposed to financial pressures which cannot be managed within the general fund resources available to it.	We recommend that management should seek to develop a medium -term financial strategy for approval by members, which should include an identification of a target level of reserves to be held which is fixed in relation to the level of expenditure incurred by the Council annually on services.	These issues will be considered as part of the forthcoming budget preparation process. **Responsible officer:** Director of Corporate Services **Implementation date:** February 2014
2 Quantification of financial risks		**Grade two**
Members are provided with an indication of the identified financial risks within the annual budget setting papers. There is scope to enhance this practice through quantification of the risks based on management's experience and judgement.	Management should consider enhancing their reporting on the risk analysis undertaken when preparing the budget papers. This will provide members with additional contextual information when setting the Council's budget for the year.	This matter will be considered as part of the forthcoming budget preparation process. **Responsible officer:** Director of Corporate Services **Implementation date:** February 2014

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
3 Significant trading operations		**Grade three**
Updated guidance has been made available to Councils on the classification of significant trading operations, depending on whether the majority of their activity is undertaken internally or for an external market.	It is recommended that management review the future operation of its existing significant trading operations within the context of the latest guidance.	The updated guidance will be reviewed as part of the Final Accounts Working Group's preparations for the 2013-14 accounts. **Responsible officer:** Finance Manager (Services) **Implementation date:** 31 March 2014
4 Preparation of financial statements		**Grade three**
In preparing the financial statements in 2013-14, for both the Council and the associate bodies for which the Council acts as host authority, there is scope for greater identification by management of their timetable for preparation, finalisation and reporting of the financial statements for each of the individual entities for which they are responsible.	As part of the final accounts working group, it is recommended that a more detailed timetable covering reporting and approval of the financial statements by the appropriate committee is prepared and agreed with all parties. This should take account of the updated requirements of the Local Authority Accounts (Scotland) Regulations. In addition, this should enable management to identify opportunities for faster closing and reporting where possible.	A more detailed timetable will be prepared as part of the Final Accounts Working Group's preparations for the 2013/14 accounts. **Responsible officer:** Finance Manager (Corporate) **Implementation date:** 31 March 2014
5 Charitable trust funds – financial reporting requirements		**Grade two**
The Council has 28 registered charitable trust funds. From 2013-14, all charitable trust funds registered with OSCR will require an audit. The audit of these charitable trust funds may result in a significant administrative and financial cost to the Council.	To ensure that OSCR has time to complete this work, management should ensure this process is progressed so that the rationalisation is completed in advance of 31 March 2014. If it becomes apparent that this rationalisation will not be completed in time, it will be essential to establish an action plan as soon as possible for the preparation of the required charity financial statements.	Proposals around charity reorganisation will be submitted to the Policy & Resources Committee in due course. Thereafter, the required applications will be submitted to OSCR. **Responsible officer:** Director of Corporate Services **Implementation date:** 30 November 2013

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
6 Scrutiny committee - review of performance		**Grade three**
From our understanding of the committee structure, there is no apparent formal feedback process through which items of service performance which were of concern to the members of the scrutiny committee would be reported back to the relevant service committee to consider.	While our discussions with members did not highlight any specific matters of concern in this area, it is recommended that consideration be given as to whether the arrangements for feedback from the scrutiny committee in respect of performance concerns are sufficiently clearly set out.	Given the Scrutiny Committee has now been in operation for more than 4 years, it would be an appropriate time to undertake a review of the operational arrangements currently in place. The outcome of this review will be submitted to the Council's Policy & Resources Committee in due course. **Responsible officer:** Chief Executive **Implementation date:** 31 March 2014
7 Scrutiny committee – programme of work		**Grade two**
From our review of the scrutiny committee agendas and papers over our time as the Council's external auditor, there were some areas where it was not clear that the committee has received reports or made consideration of all aspects of its remit.	While in some instances this may be through the equivalent of a \`nil return', in our view there is scope to enhance the work of the committee through an annual programme of work. This should set out for members of the committee the reports which it can expect to receive throughout the year, including key reports from internal and external audit, to demonstrate that the committee's remit in terms of scrutiny of performance is complete.	This will be considered as part of the above review. **Responsible officer:** Chief Executive **Implementation date:** 31 March 2014

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

Action plan (continued)

The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
8 IT controls over starters and leavers		**Grade three**
It was identified that no listing of new starters can be taken from the housing system and these changes are not recorded by either the IT department or the housing finance department. We also identified no controls for starters and leavers from the revenue system. There is a risk that access rights to the housing and revenue systems are not kept up to date, and therefore present or former employees who should no longer be able to access and change the data maintained on these systems could still do so.	It is recommended that suitable controls around authorisation and approval of starters to and leavers from the revenue and housing systems are established to ensure access rights are kept up to date and relevant.	The Council's IT Division have corporate controls in place with regards to restricting system access for leavers and long-term absentees (i.e. 32 days or more). These controls apply at a network level and would therefore negate this risk. Notwithstanding this, an electronic pro-forma will be created for use by managers to advise the Systems Team within Revenues of staff who are leaving and require their access to computer systems to be removed and from what date. This pro-forma will also be used to advise the Systems Team of new starts and what systems they require access to. **Responsible officer:** Senior Systems Officer (Finance Training & Systems) **Implementation date:** 1 October 2013

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
9 Revenue system – management of access and changes		**Grade two**
For the revenue system, change management is controlled by the iWord system vendor (Northgate). There is no recording of changes made to the system by Northgate and changes do not go through the Council's IT department 'BID' system as would be the case for all other systems used by the Council. The revenue system has a generic superuser account. Users of the superuser's account have the authority to allow changes to be made within the system without auditable recording of their actions. There are currently six known users of this superuser account, but the password for this account has not been changed since it was created in 1999.	It is recommended that the Council obtains and reviews a regular detailed listing of changes made to the revenue system by Northgate. The Council should also ensure that the password for the superuser account is regularly changed and only authorised users be given the current access rights. The password should be changed periodically, as well as any time a user no longer requires access to the superuser account.	The Council has a Data Base Administration support contract with Northgate and this allows Northgate to dial in direct to the system and maintain the database as and when required. After further investigation, Northgate has confirmed that they do record all external access to the system. The Council will liaise with Northgate to ensure that the reports are produced and sent to the Council on a regular basis. The superuser password will be changed on a regular basis and the Northgate user desk will be advised, to allow Northgate to continue to use this function as well as the specified local authority staff. **Responsible officer:** Senior Systems Officer (Finance Training & Systems) **Implementation date:** 1 January 2014

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.
Use of this report is RESTRICTED - See Notice on contents page.

KPMG

cutting through complexity

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. Use of this report is RESTRICTED - See Notice on contents page.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.