

**REPORT TO:** POLICY & RESOURCES COMMITTEE – 28 OCTOBER 2013

**REPORT ON:** RESPONSE TO EXTERNAL AUDITOR'S ANNUAL AUDIT REPORT TO THE MEMBERS OF DUNDEE CITY COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR TO 31 MARCH 2013

**REPORT BY:** DIRECTOR OF CORPORATE SERVICES

**REPORT NO:** 425-2013

## **1 PURPOSE OF REPORT**

This report is a response to the report prepared by the Council's External Auditor on the audit of Dundee City Council for the year to 31 March 2013. A copy of the External Auditor's report (Report No 424-2013) and the 2012/2013 Audited Statement of Accounts for the City Council (Report No 423-2013) are included on the agenda as separate items.

## **2 RECOMMENDATIONS**

It is recommended that the Committee:

- i notes the contents of the External Auditor's Report, and in particular that KPMG LLP have issued an unqualified audit opinion on the 2012/2013 financial statements
- ii notes the completed Action Plan at Appendix 3 to the External Auditor's Report
- iii endorses this report as the Council's formal response to the External Auditor's report

## **3 FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

## **4 MAIN TEXT**

### **4.1 Introduction**

External audit is one of the key methods by which the activities and performance of local government are independently scrutinised and reported upon. The external audit of Dundee City Council for the financial year 2012/2013 was carried out by Mr Stephen Reid, Director, KPMG LLP. Local authority external auditors are appointed for a five year period and the financial year 2012/2013 marked the second year of KPMG's appointment.

- 4.2 The 2012/2013 unaudited Statement of Accounts was circulated to elected members and to KPMG on 27 June 2013, in line with the required statutory deadline. The Accounts have since been subject to a three week statutory public inspection period and no objections were received.

### **External Auditors Report**

- 4.3 KPMG have now completed their audit work and, in accordance with auditing standards (ISA 260: Communication with those charged with governance), are required to report the outcome of their work in relation to their review of the financial statements, prior to issuing their audit opinion. This requirement has been addressed in the attached report.
- 4.4 For the first time as a combined report, the External Auditor's report also summarises the findings in relation to the overall audit of the Council for the year ended 31 March 2013. The attached report describes the scope of audit work undertaken during 2012/2013 and the issues arising from that work and is divided into the following four key areas:

- Strategic Overview and Use of Resources
- Financial Statements and Accounting
- Performance Management
- Governance and narrative reporting

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

#### 4.6 Action Plan

The External Auditor has identified nine key issues arising from his 2012/2013 audit that he considers require further action by the Council. These relate to:

- 1 Financial Strategy
- 2 Quantification of Financial Risks
- 3 Significant Trading Operations
- 4 Preparation of Financial Statements
- 5 Charitable Trust Funds – financial reporting requirements
- 6 Scrutiny Committee – review of performance
- 7 Scrutiny Committee – programme of work
- 8 IT controls over starters and leavers
- 9 Revenue system – management of access and changes

These matters have been considered carefully by the Chief Executive and Director of Corporate Services and the completed action plan, incorporating the "agreed management actions", is appended to this report and also to the External Auditor's report. The progress on implementing these agreed action points will be monitored through the Council's established procedures for dealing with external audit reports and reviewing previously agreed action plans. It should be noted that none of the above items have been classified by the External Auditor as Grade One i.e. "significant".

#### 4.7 Conclusions

The External Auditor has undertaken a thorough and wide-ranging review of the financial statements and the processes and procedures around their preparation. Whilst some minor presentational changes were agreed to the 2012/2013 financial statements following his audit, there were no specific issues that required to be reported to members or further action by the Council.

In addition to his audit of the accounts, the External Auditor examined a number of areas covering a wide range of activities during 2012/2013. Whilst some areas for improvement have been identified, it is pleasing to note that the overall findings and conclusions are satisfactory. In particular, the Council can take encouragement from the following findings:

- the accounts were again submitted on time and there was no qualification to the auditor's opinion
- improvements to the preparation of the financial statements since last year were observed including more effective use of the financial ledger
- arrangements for Best Value and performance management continue to be well established

- financial management is considered to be strong with robust monitoring arrangements in place
- the Council continues to work closely with its partners to deliver the local community plan and major capital projects
- arrangements to prevent and detect fraud are embedded in internal controls, including processes to comply with National Fraud Initiative requirements
- all accounting policies have been applied consistently in the financial statements
- the Changing for the Future Programme continues to set out the Council's strategy for modernising its service delivery while achieving the efficiencies necessary to deliver balanced budgets in the future
- the overall level of scrutiny risk identified by external scrutiny agencies has reduced since the last shared risk assessment
- no errors were identified in the External Auditor's sample testing of Statutory Performance Indicators
- steps have been taken to address the Council's approach to risk management with an updated strategic risk register being approved during the year
- the Council's arrangements for standards of conduct and for the prevention and detection of bribery and corruption are deemed to be satisfactory

## **5 POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

## **6 CONSULTATIONS**

The Chief Executive and Head of Democratic & Legal Services have been consulted on the content of this report.

## **7 BACKGROUND PAPERS**

KPMG: Annual Audit Report to the Members of Dundee City Council and the Controller of Audit – Year Ended 31 March 2013 (27 September 2013)

**MARJORY M STEWART**  
**DIRECTOR OF CORPORATE SERVICES**

**17 OCTOBER 2013**



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# Dundee City Council

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

Audit: year ended 31 March 2013

27 September 2013



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**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

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### Appendix – action plan

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#### 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.

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
<b>1 Financial strategy</b>		<b>Grade two</b>
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.  <b>Responsible officer:</b> Director of Corporate Services  <b>Implementation date:</b> February 2014
<b>2 Quantification of financial risks</b>		<b>Grade two</b>
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.  <b>Responsible officer:</b> Director of Corporate Services  <b>Implementation date:</b> February 2014

## 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
<b>3 Significant trading operations</b>		<b>Grade three</b>
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.  <b>Responsible officer:</b> Finance Manager (Services) <b>Implementation date:</b> 31 March 2014
<b>4 Preparation of financial statements</b>		<b>Grade three</b>
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.  <b>Responsible officer:</b> Finance Manager (Corporate) <b>Implementation date:</b> 31 March 2014
<b>5 Charitable trust funds – financial reporting requirements</b>		<b>Grade two</b>
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.  <b>Responsible officer:</b> Director of Corporate Services <b>Implementation date:</b> 30 November 2013

## 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
<b>6 Scrutiny committee - review of performance</b>		<b>Grade three</b>
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.  <b>Responsible officer:</b> Chief Executive <b>Implementation date:</b> 31 March 2014
<b>7 Scrutiny committee – programme of work</b>		<b>Grade two</b>
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.  <b>Responsible officer:</b> Chief Executive <b>Implementation date:</b> 31 March 2014



## 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
<b>8 IT controls over starters and leavers</b>		<b>Grade three</b>
<p>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.</p> <p>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.</p>	<p>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.</p>	<p>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.</p> <p>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.</p> <p><b>Responsible officer:</b> Senior Systems Officer (Finance Training &amp; Systems)</p> <p><b>Implementation date:</b> 1 October 2013</p>

## 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
<b>9 Revenue system – management of access and changes</b>		<b>Grade two</b>
<p>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.</p> <p>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.</p>	<p>It is recommended that the Council obtains and reviews a regular detailed listing of changes made to the revenue system by Northgate.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p><b>Responsible officer:</b> Senior Systems Officer (Finance Training &amp; Systems)</p> <p><b>Implementation date:</b> 1 January 2014</p>



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