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Report No: 465-2012

Dundee City Council

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

Year ended 31 March 2012

31 October 2012

Contents

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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 and is made available to Audit Scotland and the Accounts Commission for Scotland (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.

We also draw your attention to the following:

- the Director of Corporate Services of Dundee City Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems;
- weaknesses or risks identified by us 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; and
- communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve Dundee City Council management from its responsibility to address the issues raised and to maintain an adequate system of control.

Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practise* ("the *Code*"). This specifies a number of objectives for our audit.

We reported, in our audit strategy, our responsibilities in respect of the audit. The Council's responsibilities are set out in appendix two.

This report summarises our work for the year ended 31 March 2012.

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

Use of resources	
The Council's outturn for the year against useable reserves, after adjustments made between the accounting and funding basis, was a surplus of £15.7 million. There was an increase in the general fund balance of £2.8 million, against a budgeted deficit of £0.9 million, which represents an overall net underspend of £3.7 million against the 2011-12 general fund revenue budget.	Page 4
From Audit Scotland's analysis of the 32 local authorities, the Council has the lowest level of unrestricted reserves as a percentage of net revenue expenditure when compared against the other 32 Scottish local authorities. While any decision to use available reserves is made annually as part of the budget approval process, the level of prudential reserves to be targeted has not been formally reviewed by committee since 2004.	Page 4
Total capital expenditure in 2011-12 was £86.9 million, lower than the approved capital plan of £96 million. This level of capital investment represented a 6% increase over 2010-11 levels.	Page 6
The 2012-13 adjusted budget forecasts a breakeven position, with no utilisation of reserves.	Page 7
A number of strategic issues are currently facing the local government sector. The Council has arrangements in place to report and respond to both welfare and police, fire and rescue service reforms. The Council continues to work closely with its partners to deliver the local community plan and major capital projects.	Pages 10-11
Financial statements	
Unaudited financial statements were provided on 29 June 2012, in line with the agreed timetable; we have issued an unqualified opinion. While appropriate supporting documentation was available for most elements of the financial statements, we experienced some delay in resolving year end bank reconciliation queries, and in obtaining supporting documentation in respect of the accounting for capital grants. We reported our full findings on the audit process to management and the scrutiny committee in September 2012, in advance of the approval of the Council's financial statements.	-
Audit risks were identified in respect of opening balances, organisational restructuring, valuation of property, plant and equipment, recoverability of loans to Dundee Energy Recycling Limited, heritage assets and the accounting treatment for Tayside Contracts Joint Committee, Leisure and Culture Dundee and the Tay Road Bridge Joint Board. Management prepared updated analysis during the audit process to support their accounting treatment in each area.	Page 12-16

Headlines

Performance management	
The Council's 'Changing for the future' programme sets out the Council's strategy for modernising its service delivery while achieving the efficiencies necessary to deliver balanced budgets in the future. To support this, a corporate improvement team has been established within the corporate division, working alongside the performance and improvement section and the community planning team.	Pages 17-18
We have considered the Council's response to a number of national reports by Audit Scotland and the Accounts Commission for Scotland. We made a recommendation within our interim management report that management should conduct a self-assessment of the Council against the reports findings, to determine if any follow-up action was required.	Pages 22-23
Governance	
Following local government elections, there has been revisions to the membership of the Council and its committees. The governance statement confirms the existence of a comprehensive framework of internal control. Arrangements to prevent and detect fraud are embedded in internal controls, including processes to comply with requirements in respect of the National Fraud Initiative.	Pages 24-26
Within our interim management report, we made a number of recommendations to improve the Council's control framework, which were accepted by management.	Page 25
Internal audit completed their annual internal audit plan and concluded that "reasonable assurance can be placed upon the adequacy and effectiveness of the Council's control environment for the year to 31 March 2012."	Page 26

Financial position

The Council's outturn for the year against useable reserves, after adjustments made between the accounting and funding basis, was a surplus of £15.7 million.

The Council has the lowest level of unrestricted reserves as a percentage of net revenue expenditure when compared against the other 32 Scottish local authorities.

While any decision to use available reserves is made annually as part of the budget approval process, the level of prudential reserves to be targeted has not been reviewed by committee since 2004.

Financial outturn

The Council's general services budget was approved by members in February 2011 at £356.8 million, to be financed by income from council services, revenue support grant including national non-domestic rate income, and council tax.

For the year ended 31 March 2012 the Council generated an accounting deficit of £37.9 million (*2010-11:* surplus £36.6 million). After the required statutory adjustments relating to differences in the accounting and funding basis, the net increase on the useable funds balance was £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	37.9	-	37.9
Other comprehensive income and expenditure	-	90.9	90.9
Total comprehensive income and expenditure	**37.9**	**90.9**	**128.8**
Adjustment between accounting basis and funding basis	(53.6)	53.6	-
Result for the year	**(15.7)**	**144.5**	**128.8**
Reserves brought forward	(15.9)	(597.5)	(613.4)
Reserves carried forward	**(31.6)**	**(453.0)**	**(484.6)**

The Council's usable reserves of £31.6 million as at 31 March 2012 consisted of the general fund (£9.5 million), unapplied capital receipts (£13.6 million), the capital fund (£2.8 million), the renewal and repair fund (£5 million) and the insurance fund (£0.7 million).

The increase in usable reserves of £15.7 million breaks down as follows:

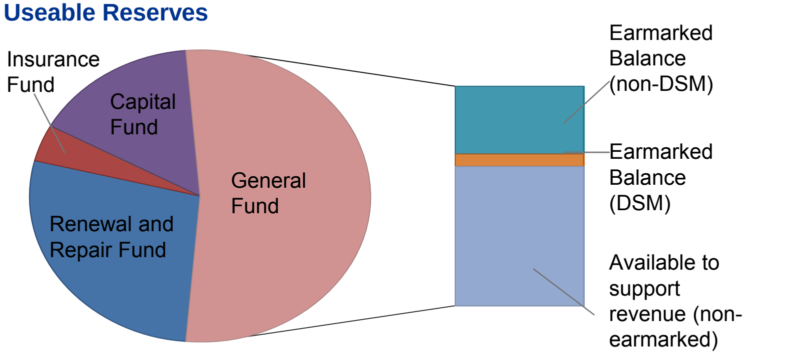
- an increase in the general fund of £2.8 million;
- An increase in unapplied capital receipts of £13.6 million, with a decrease in the capital fund of £2.1 million; and
- an increase across the renewal and repair fund and insurance fund of £1.4 million.

Within the general fund are various earmarked balances, including those for the devolved school management ("DSM") scheme and car parking. The breakdown of funds are illustrated in the diagram below.

Taking these balances into account the Council has uncommitted general fund balances of £6 million as at 31 March 2012. The Foreword to the financial statements reports that this level of free reserves is considered not unreasonable for the size and expenditure of the Council. Based on Audit Scotland's review of all 32 Scottish local authorities, the Council has the lowest level of unrestricted reserves as a percentage of net revenue spend. While any decision to use available balances is made annually as part of the budget approval process, since the Council reports that its protocol for holding reserves was reviewed by the policy and resources committee in 2004, we recommend that an updated consideration of the appropriate level of unrestricted reserves is undertaken.

Recommendation one

Useable Reserves



Financial position (continued)

Departmental outturn against budget

The table below shows the variance against budget for each of the services at the year end per the Comprehensive Income and Expenditure Statement ("CIES").

	Budget 2011-12 £000	Actual 2011-12 £000	Variance under / (over) £000
Education services	140,865	140,392	473
Social work	92,965	95,095	(2,130)
General fund housing	16,903	16,032	871
Housing revenue account	23,190	22,996	194
Cultural and related services	25,216	25,296	(80)
Environmental services	20,383	19,524	859
Roads and transport services	12,739	13,240	(501)
Planning and development services	32,911	34,546	(1,635)
Central services to the public	13,292	10,736	2,556
Police, fire and valuation services	29,767	28,695	1,072
Other	5,791	5,679	112
Total	**414,022**	**412,231**	**1,791**

Source: Dundee City Council

After adjustment between accounting and funding basis, the actual increase in the general fund balance of £2.8 million represented an overall net underspend of £3.7 million against the 2011-12 revenue budget, which had been set for a deficit outturn of £0.9 million.

Revenue budget monitoring during the year is undertaken in line with the Council's department structure, and not therefore, directly against the breakdown in the CIES. The largest overspend compared to budget was in the social work department. This was as a result of cost pressures in adult care and increased expenditure on family placements. These are due to an increased number of children to be looked after and accommodated. This position was anticipated during the year and the final outturn was in line with revised forecasts.

The largest underspends were:

- in the environment department, primarily arising from underspends in staff costs within the waste management division;
- in other housing, due to an underspend in private sector housing grants;
- in corporate and democratic core costs departments due to additional internal recharge income and grant income; and
- due to reduced contributions to the joint boards in respect of police, fire and valuation services.

In addition, management identified that at year end there were expenditure commitments of £1.9 million which will be carried forward to 2012-13.

The net underspend of £3.7 million in the general fund budget was significantly different when compared to the projected surplus of £0.1 million forecast as part of the reporting to the policy and resources committee in March 2012. While we understand from management that elements of this were not within their control, it is recommended that management seek to understand the reason for slippage of commitments into 2012-13 and whether these could have been identified earlier in the budget monitoring process.

Recommendation two

Financial position (continued)

Total capital expenditure in 2011-12 was £86.9 million, below the original approved capital plan of £96.0 million. This level of capital investment represented a 7% increase over 2010-11 levels.

Capital programme

Total capital expenditure in 2011-12 was £86.9 million, with £23.6 million within housing and the remaining £63.3 million on the Council's other general services including education, social work, city development, leisure & communities and environment. Included within the expenditure was £26.4 million of expenditure which was identified as not adding value and which was subsequently impaired.

The table below compares the capital expenditure in year against the general services and housing budgets.

Year	Total	Housing Revenue Account	General Services
2011-12 (£m)	86.9	23.2	63.7
Original approved budget (£m)	96.0	29.4	66.6
Under / (over) spend (£m)	9.1	5.8	3.3

Source: Dundee City Council

In respect of the housing revenue account capital expenditure, the largest element of underspend was in respect of the planned level of expenditure of £4.9 million to increase the supply of council housing. Due to lower than expected sales of council houses and other land receipts, there was a reduction in funding resources of £3.7 million from the original budget. The Council has an ongoing investment programme in order to achieve the Scottish Housing Quality Standard by 2015, and the reliance on borrowing to fund this remains a risk to the Council's overall level of indebtedness. In 2012-13, 78.6% of the approved budget is due to be met by borrowing.

Actual expenditure on the general services capital programme was spread across departments, with significant investment in education, city development and leisure and culture services; the most significant projects are set out below.

Analysis of capital projects: 2011-12

Capital project	Capital spent 2011-12 £m
HRA energy efficiency	14.5
Allan Street Leisure Pool	10.6
West End primary school	5.4
Whitfield primary school	5.3
Allan street car park	3.4

Source: Dundee City Council

The overall capital programme was funded from capital grants, borrowing and contribution from earmarked reserves

Source of funding in 2011-12	Total funding £m	As % of funding
Borrowing	57.0	65.6%
Capital receipts, including grants	28.2	32.5%
Funded from revenue	1.7	1.9%
Total	**86.9**	**100%**

Financial planning

The 2012-13 budget forecasts a breakeven position, with no utilisation of reserves.

As at 31 July 2012 there is a projected overspend of £0.6 million. Management has commenced action to address this forecast overspend.

Background

Scottish Government spending plans have identified that local government funding is expected to fall by 3% between 2011-12 and 2012-13, and cumulatively by 6.3% by 2014-15. Furthermore, capital funding is anticipated to continue to fall to 2013-14 with some increases from 2014-15.

Revenue budget

The 2012-13 revenue budget was approved by Council in February 2012. This used the 2011-12 budget as a base and reflected changes for known items of income and expenditure in future years. The adjusted 2012-13 budget forecasts a breakeven position.

The forecast variances against the 2012-13 budgeted figures for general fund departments as at 31 July 2012 is summarised below.

Department	Adjusted budget 2012-13 £000	Forecast outturn £000)	Variance (£000)
Social work	91,388	92,024	636
Education	120,985	120,985	-
City Development	12,254	12,254	-
Environment	22,609	22,609	-
Chief Executive	25,526	25,526	-
Corporate Services	16,810	16,810	-
Other Housing	3,562	3,562	-
Supporting People	12,161	12,161	-
Net expenditure	**305,295**	**305,931**	**636**

Source: Dundee City Council

This shows a projected revenue outturn overspend of £0.6 million against budget. This adverse variance has again been incurred within the social work department where payments for family placements are expected to be significantly higher than budget due to the increased number of children requiring to be looked after and accommodated.

Future years

Senior management has completed a process of updating their financial projection for the next three years, and intend to engage during the autumn with the new Council to identify priorities and areas for efficiency going forward. It is recommended that as part of the budget setting process for 2013-14, that future years' budgets are incorporated into this process to provide members with a more strategic overview of the revenue budget position.

Recommendation three

Capital budget

The capital expenditure programme for 2012-13, approved in February 2012 for general services is £61.9 million. As at July 2012 management projected a break even position with the adjusted budget. The table below highlights the departments where the majority of the capital expenditure will be incurred during 2012-13.

Department	Adjusted budget 2012-13 £000	As % of capital spend
Education	16,067	26%
Leisure and Culture	11,473	19%
City Development	12,189	20%
Roads Infrastructure	7,714	13%
Other	14,506	22%
Total	**61,949**	**100%**

Source: Dundee City Council

Financial planning (continued)

Of all Scottish local authorities, the Council has the fifth highest level of net external debt as a proportion of revenue spend, representing a significant risk.

The level of external debt needs to be considered in the context of the medium to long-term financial position to ensure that a sustainable financial position is achieved over the medium to long-term.

The Council has, however, already approved the revised capital plan for 2012-16, which considers the affordability of these plans against the Prudential Code. While borrowing is forecast to increase in initial years, this will level out by 2014-15.

Borrowing

The Council's capital expenditure is largely funded through borrowing, which has the effect of increasing the level of indebtedness which the Council must repay, with interest, from future revenue budgets.

Borrowing increased in 2011-12 by £34.9 million (11%), compared to a 7% increase in capital expenditure. The Council's level of external debt has remained below it's capital financing requirement, demonstrating that it is not borrowing for revenue purposes, and so remaining in compliance with the Prudential Code.

In benchmarking undertaken by Audit Scotland, from analysis of the unaudited financial statements of Scotland's 32 local authorities, the Council has the fifth highest level of net external debt when taken as a proportion of revenue expenditure (131%) and per head of population (£3,300 per head). In addition, the Council has the third highest level of debt as a proportion of fixed assets, with a ratio of 0.60.

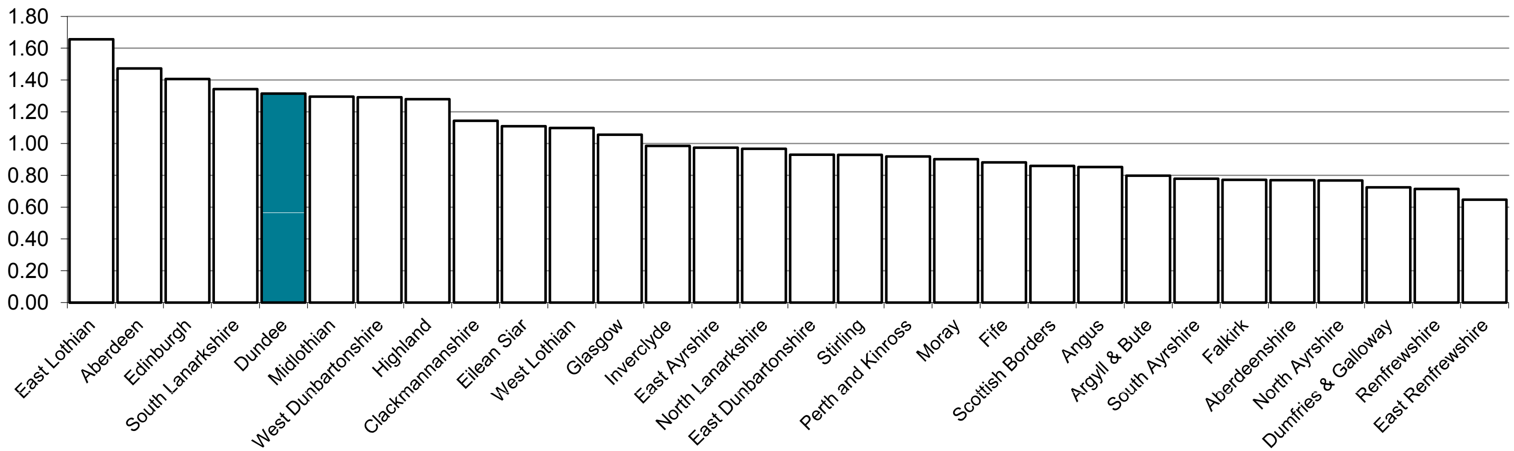
The impact that the Council's level of debt has on its revenue resources is affected not only by interest rates and average repayment periods, but also by the level of supported borrowing provided to individual local authorities under the Scottish Government formula.

Interest payable and similar charges as a proportion of net revenue spend is 6.7%, in line with the average for the 32 local authorities within Audit Scotland's analysis.

Capital plan 2012-16 – general services

The policy and resources committee approved the new capital plan, building on the 2011-12 capital outturn for the next four financial years. Built into the development of the capital plan were the asset management plans which were presented to committee in 2011, covering buildings and property; open space; roads infrastructure; vehicle fleet; information and communications technology; and council housing.

External debt as a proportion of revenue spend –32 Scottish local authorities



Financial planning (continued)

In line with the Prudential Code, the Council has a system of guidelines which require an option appraisal for all proposed projects over £250,000, with the findings of this appraisal being presented to committee where the project exceeds £1 million. The director of corporate services approves all projects between £250,000 and £1 million.

In light of the economic climate, the Council has minimised its reliance on capital receipts in preparing the capital plan, with only £1.6 million of receipts assumed annually.

In approving the capital plan, members were presented with the assessed impact on the Council's prudential indicators. While the net borrowing requirement continues to increase over the first few years of the plan, this is currently forecast to level out by 2014-15, albeit at a level of net borrowing which is approximately 17% higher than current levels. The ratio of financing costs to net revenue stream is forecast to remain stable at 6.8%.

Funding source	2012-13 £000	2013-14 £000	2014-15 £000	2015-16 £000
Borrowing	45,659	28,935	16,376	15,835
Element of borrowing funded by efficiency savings	3,387 (7.4%)	4,498 (15.5%)	1,316 (8.0%)	800 (5.1%)
Capital grants	7,113	6,491	15,686	11,474
Capital receipts	1,600	1,600	1,600	1,600
Funded from revenue	822	-	-	-
Element of slippage	2,900	-	-	-
Total projected capital expenditure	**58,094**	**37,026**	**33,662**	**28,909**

Source: Dundee City Council

Strategic issues

A number of strategic issues are currently facing the local government sector.

The Council has arrangements in place to report and respond to both welfare and police, fire and rescue reforms.

The Council continues to work closely with its partners to deliver the local community plan and major capital projects.

Welfare reform

As a result of the Welfare Reform Act 2012, a number of significant changes will be required 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"). Changes to current arrangements are expected to commence during 2013.

Officers have provided a number of briefings to members on the impending changes and the likely consequences for benefit claimants and Council staff. Additional briefings are planned once more information is available.

While responding to the introduction of universal credits, which not only impacts the nature of benefits available in the future, but also the Council's role in the administration of these benefits, will present challenges for the Council, it is clear that action has commenced by officers to mitigate the associated risks.

Given the significance of this matter it is important that continued regular updates are provided to members and there is continued senior officer involvement in ensuring the timely implementation of transition arrangements.

Recommendation four

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Partnership working

The Dundee Partnership ("the Partnership") pools together the strengths of key City agencies including Dundee City Council, Scottish Enterprise, Tayside Police and NHS Tayside, along with local academic institutions and representatives of the business, voluntary and community sectors, providing a vehicle for co-ordinated inter agency working.

The Partnership has led a range of projects making a major contribution to Dundee's physical and economic regeneration, and has evolved and broadened its remit to become the city's vehicle for the delivery of community planning.

The Council is also considering how to achieve greater collaboration and identify opportunities for shared services, infrastructure and assets through the Tayside Public Services Strategy Group. This consists of the Chief Executive Officers of Dundee City Council, Perth and Kinross and Angus Councils, NHS Tayside, Tayside Fire and Rescue and Tayside Police. Together, they sponsor a collaborative programme with a range of projects being developed including fleet management, property construction and asset management.

Significant partnership working is equally demonstrated in major capital projects including the waterfront redevelopment and the V&A. The Dundee Waterfront project is being delivered by Dundee City Council and Scottish Enterprise. V&A at Dundee is being delivered through Dundee Design Limited, a partnership between the V&A, University of Dundee, University of Abertay Dundee, Dundee City Council and Scottish Enterprise. The capital investment element of these projects will increase significantly in the coming years.

Strategic issues (continued)

Police & Fire and Rescue

The Police and Fire & Rescue Reform (Scotland) Act 2012 (“the Act”) created a national police force and a national fire and rescue force. This replaces local authorities’ current role as police authorities and fire & rescue authorities. The Act includes a framework for the delivery of local scrutiny and engagement arrangements, which all local authorities and the new services will need to implement when the legislation is enacted from April 2013.

Dundee has been accepted as a pathfinder to trial new local scrutiny arrangements with the Police in preparation for the establishment of a Scottish Police Service. The remit of the Council’s policy and resources committee has been extended to include approval of the local policing plan and scrutiny of police performance reports. The local police commander will brief and consult with members on a draft local policing plan and provide reports on the force’s performance for the scrutiny of members.

The success of this pathfinder exercise and the outcomes of pathfinders in other areas will inform a decision on the longer-term structures for scrutiny and engagement with both police and fire and rescue services.

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Audit focus areas

Audit risks were identified in respect of opening balances, organisational restructuring, valuation of property, plant and equipment, DERL loans, heritage assets and the accounting treatment for Tayside Contracts Joint Committee, Leisure and Culture Dundee and the Tay Road Bridge Joint Board.

Payments to individuals as a result of the organisational restructuring undertaken in year were made in line with procedures. We have reviewed the exit packages disclosure within the remuneration report, where appropriate, and concluded that they are appropriate.

Issue	Key risk and implications	KPMG comment
Opening balances	International Standard on Auditing (UK and Ireland) 510: *Initial audit engagements – opening balances* requires auditors to obtain sufficient, appropriate audit evidence that opening balances do not contain misstatements that materially affect the financial statements. The standard also requires auditors to verify that appropriate accounting policies are reflected in the opening balances and that they have been consistently applied in the current period's financial statements.	We have: ▪ held discussions with your previous external auditors in respect of previous significant audit issues, corporate governance and general risk assessment; and ▪ reviewed prior year financial statements, annual audit reports and other reports issued by your previous external auditors. As a result of this work we identified a number of areas for further enquiry and review across the financial statements and associated notes, including the group accounting boundary and accounting for balances relating to the operation of Dundee Energy Recycling Limited. Our consideration of these, and other technical accounting matters, are set out in the following pages.
Organisational restructuring	During 2011-12, as part of the 'Changing for the Future Programme', the Council has continued with organisational restructuring. The Council previously had the highest number of chief officers / departments of any Scottish local authority. The restructuring has rationalised the structure with the aim of producing a more efficient operating model.	The restructuring has been ongoing during 2011-12, including the consolidation of support services and creation of Leisure and Culture Dundee which included the transfer of leisure and community services. The new operating structure was fully implemented with effect from 1 April 2012. Linked to the above, the Council provided voluntary redundancy / retirement packages for senior, and other officers. These were made in line with the approved voluntary early retirement / voluntary redundancy scheme approved by members. We have reviewed the disclosures within the remuneration report and concluded that they are appropriate, and in accordance with the relevant regulations and guidance.

Audit focus areas (continued)

The Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 ("the Code") included a number of amendments. We discussed these changes to the Code with management. During our final financial statement audit, we confirmed that these have been correctly implemented in the financial statements.

Issue	Key risk and implications	KPMG comment
Application of the 2011-12 Code	The 2011-12 Code has a number of amendments from the 2010-11 version and management considered the reporting requirements for the financial statements. The amendments included: ▪ applicability of FRS 30 *Heritage Assets;* ▪ additional guidance in respect of leases; ▪ consideration of SIC 12 *consolidation – special purpose entities and other standards* ▪ additional disclosure requirements in respect of exit packages; and ▪ a requirement for a specific statement in the annual governance statement / statement on the system of internal financial control on whether financial management arrangements conform with the governance requirements of the statement on "the role of the chief financial officer in local government."	During our final financial statement audit, we confirmed that these changes had been appropriately applied. In particular, the implementation of FRS 30 *Heritage Assets* resulted in £8.1 million of heritage assets being capitalised. This value is predominately based on the insurance valuation of the Council's museums collections. Management provided us with their analysis which confirmed heritage assets matching this value had been identified. We concurred with management's view that this amount was not sufficiently material to require a prior year adjustment. On this basis, the adoption of the accounting policy and the required disclosures were appropriately applied in the financial statements. Leisure and Culture Dundee was established as a Scottish Charitable Incorporated Organisation ("SCIO") in 2011-12, being operational from 1 July 2011. The purpose of the SCIO was to manage the leisure and cultural facilities owned by the Council, replacing Dundee Leisure Limited which previously managed only the leisure facilities. The activities of Dundee Leisure Limited were consolidated into the Council's group financial statements up until 31 July 2011, when it transferred its activities to the SCIO. The SCIO has also been consolidated into the group financial statements, on an associate basis based on the membership composition of the board. On request, management conducted an analysis of the SCIO against the requirements of SIC 12, and concluded that there was insufficient evidence that the SCIO met the SIC 12 definition of a special purpose vehicle, and so should, consequently be consolidated fully in the group financial statements. We consider this to be a judgemental area, and based on the level of judgement involved in the analysis, combined with the overall materiality of the SCIO to the group financial statements, we are satisfied that the treatment as an associate is appropriate in 2011-12.

Audit focus areas (continued)

The Council's accounting policy in respect of the valuation of property, plant and equipment will be subject to further review from 2012-13.

During 2011-12, the Council moved into Dundee House, having incurred capital expenditure of around £38 million on its construction. The property was valued at £17.8 million, resulting in an impairment charge of £20.2 million. The reasons for the difference between the construction and fit-out costs and the accounting valuation are well understood by management, following discussion with the internal valuer.

Issue	Key risk and implications	KPMG comment
Valuation of property, plant and equipment	In compliance with IAS 16 *Property, plant and equipment,* as interpreted by the Code, property, plant and equipment is valued by the internal valuer. During 2011-12 the property, plant and equipment of the social work, support services and chief executive's departments will be valued. In addition, other elements of property, plant and equipment, where management consider there to be indicators of impairment will also be subject to valuation.	During 2011-12, the Council moved into Dundee House having incurred capital expenditure of around £38 million on its construction and fit -out. As a significant project completed in the year, the internal valuer completed a valuation of the property in the year. The Council's internal valuer has indicated that due to the nature of the building (a large city centre office building), that it would not be appropriate to value on a depreciated replacement cost basis. Consequently, it has been valued on an income stream method, with the market value being derived based on current market rents for similar property. The resulting valuation for accounting purposes was £17.8 million, resulting in an impairment of £20.2 million being charged to the comprehensive income and expenditure account. Having consulted further with the Council's valuation team, the significant reduction in accounting value, compared to construction and fit-out cost, has arisen from a combination of factors including the current office rental market conditions in Dundee resulting from the current economic climate. More significantly, is the difference between the actual cost of providing a property to the Council's required specification and the market value of the property constructed and fitted out to that specification. While the reasons for the difference between the construction and fit-out costs and the accounting valuation are understood, we have recommended to management that for future large scale projects over several years, earlier involvement of the estates team will allow indications of impairment to be identified during the project, and prevent this from all being charged in the year of completion of the project.

Audit focus areas (continued)

Tayside Contracts Joint Committee does not technically meet the definition of `an entity' for group financial statement reporting purposes.

Appropriate disclosures explaining the basis on which the Council's single-entity financial statements, and group financial statements have been prepared, has been included.

A short narrative disclosure in the financial statements to explain the rationale for the non-consolidation of the Tay Road Bridge Joint Board has been included.

Issue	Key risk and implications	KPMG comment
Group accounting boundary – Tayside Contracts	Tayside Contracts is comprised equally of six members from each of the three constituent authorities. In the group financial statements it is accounted for as a 'joint arrangement'. In the *single entity income and expenditure account* for 2010-11 the Council's share of the profit of Tayside Contracts has been recognised. In the *group balance sheet* the Council's share of all assets and liabilities are consolidated on a line by line basis.	We agreed with management's assessment that Tayside Contracts Joint Committee did not technically meet the definition of `an entity' for group financial statement reporting purposes. As a result, the Code requires that the Council's share of activities of Tayside Contracts Joint Committee are reflected in the single entity financial statements, rather than the group financial statements. Management confirmed that they agreed that this is the most appropriate accounting treatment. Management proposed that for 2011-12, a revised disclosure would be included such that the impact of Tayside Contracts Joint Committee would be reflected as an adjustment to the Council 'single-entity' financial statements. This ensures that appropriate information was provided, but reduced the need for management to process changes to a large number of notes to the financial statements. We have reviewed the disclosures and are content that these are reasonable in respect of the 2011-12 financial statements. It is important that for 2012-13 the full presentational adjustments required are reflected in line with the Code. We will continue to work with management in early 2012-13 to ensure that this matter is addressed.
Group accounting boundary – Tay Road Bridge Joint Board	The Joint Board is comprised of 12 members, of which six are members of the Council. This entity is not consolidated by the Council.	During 2011-12 we requested that management provide their analysis supporting the adopted accounting treatment. Management's updated analysis concluded that the Tay Road Bridge Joint Board should not be included in the Council's group financial statements on the basis of the lack of interest, financial or otherwise, in the Tay Road Bridge Joint Board's activities. We agree with management's view in this respect. To improve the transparency of the Council's financial statements, and specifically how the Tay Road Bridge Joint Board is accounted for we suggested that a short narrative disclosure should be included in the Council's financial statements. We have read the revised disclosure and consider this to be appropriate.

Audit focus areas (continued)

Issue	Key risk and implications	KPMG comment
Dundee Energy Recycling Limited ("DERL")	DERL is a private limited company with ordinary and deferred (preference) shares. The Council holds 40% of the ordinary shares which have voting rights. The DERL board comprises six directors of which two are Council representatives. In March 2004 the Council loaned DERL £2.3 million and in April 2010 a further loan was advanced of £1 million, both of which were funded internally by advances from the Council's loan fund. A further loan of £0.6 million was made in 2011-12. All loans are secured by floating charges over all of DERL's assets. Repayment of the first loan was due by instalments, commencing in 2006. This loan has been rescheduled several times and full repayment is now due in 2020. On 16 May 2012 there was a fire at the plant operated by DERL. Since this date the plant has been non-operational, and management from both the Council and DERL have been involved in discussions in respect of the impact of this event on DERL's operations. We requested that management prepare a paper considering the occurrence of the fire, and whether there were any additional disclosures or adjustments required under IAS 10 *Events after the reporting period*.	In respect of the property, plant and equipment which DERL leases from the Council, IAS 10 identifies that an event such as the fire would be a non-adjusting event in the 2011-12 financial statements, however, disclosure of the event and any quantification of the impact is appropriate. The Council has updated its post balance sheet event note to provide this disclosure. Management has also confirmed that they had undertaken an impairment review in respect of these assets as at 31 March 2012, and concluded that the valuation was appropriate. Prior to the fire, DERL had made losses for the previous four years, resulting in cumulative net liabilities of £4.2 million at 31 December 2011. The financial statements of DERL are prepared on a going concern basis due to the continued assurances of support from the Council. As a result of this, as part of our audit planning, we asked management to consider the recoverability of both the outstanding loan balances, and any shorter-term trading debtors. In light of the fire, it was appropriate to reconsider whether this provided new information on the recoverability of the outstanding balances, and management updated their analysis accordingly. While the full loan balances remain to be repaid by 2020, management has considered that a provision of £1.95 million, representing 50% of outstanding loan balances, was appropriate in respect of the outstanding balances. However, as the Council has already repaid £2.4 million of the capital financing costs on the loans, we have accepted the position that no further charge to the general fund was required in 2011-12. We are satisfied with management's view over the appropriateness of the level of this provision.

Changing for the future

Under the Local Government in Scotland Act 2003 ("the 2003 Act"), auditors have a duty to be satisfied that councils have made proper arrangements to secure best value.

The timing, nature and extent of Best Value work is determined as part of the shared risk assessment process.

The 'Changing for the Future Programme' sets out the Council's strategy for modernising its service delivery while achieving the efficiencies necessary to deliver balanced budgets in the future.

Changing for the future ("CFTF")

Changing for the future is a policy programme that sets out how the Council intends to achieve the level of savings required to deliver balanced budgets. It was approved by the policy and resources committee in August 2010.

The changing for the future strategy was developed on the basis of four discrete work streams:

- voluntary early retirement;
- department savings submissions of 5%;
- The corporate improvement programme; and
- Tayside collaborative opportunities programme with the other Tayside councils

CFTF has delivered savings of £8.5 million which were reflected in the 2011-12 revenue budget. The majority of these savings (£6.6 million) relate to the voluntary early retirement / voluntary redundancy schemes.

To support the effective implementation of CFTF the Council has developed a corporate improvement programme which considers benefits realisation management and how CFTF projects should be managed so that the quantative and qualitative improvements realised through the policy can be measured. The benefits realisation guidance includes a number of proformas designed to assist management in developing clear measurable benefits realisation plans.

Monitoring of progress

As well as having realistic and practicable benefits realisation processes and procedures, it is important for appropriate monitoring arrangements to be established to track individual elements of the CFTF programme.

Each element within the programme is identified as being at one of three stages: review; implementation or complete. Moreover, each project is identified with a specific programme element within the overall CFTF programme, and is assigned a project sponsor and identified project resources to work on implementation of the project.

Intended start and completion dates are also identified. To date 16 projects have been recorded as completed, and a further 31 projects are either being reviewed or in the process of implementation.

Achievement and delivery of the CTFT programme is key to the Council achieving its strategic objectives in terms of delivery of services, while making required operational efficiencies. The basis for accurately measuring and monitoring cash savings and improvements in service realised through CFTF is in place. Given the significance of this matter, it is important that continued regular updates are provided to members in respect of the progress of projects within the programme, and the resulting improvements in service delivery and / or achievement of efficiencies that result from these projects.

Recommendation five

Improvement framework

The Council has a corporate improvement team which has oversight of the single outcome agreement, changing for the future and corporate improvement.

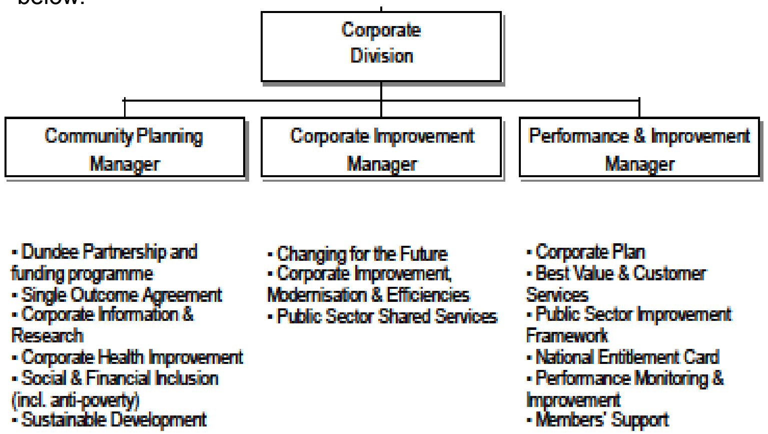
Corporate Improvement team

The 2010-12 Council plan established in June 2010 a corporate improvement team in order to:

1. Implement measures to achieve savings needed to achieve the Council's budget.
2. Review delivery options for Council services to achieve cost efficiencies.
3. Develop a shared services programme with other public sector bodies.
4. Create and implement a corporate improvement programme to modernise the Council's working methods to achieve efficiencies.

The team consisted of the secondment of three staff into the posts of corporate improvement manager, assistant corporate improvement manager and a corporate improvement officer, and the consolidation into this team of the previous organisational development section.

The corporate improvement team sits alongside the performance and improvement section, and the community planning team, with individual responsibilities within the corporate division as illustrated below.



Improvement activity is centred around the public sector improvement framework ("PSIF"). Individual services conduct their own reviews under a PSIF model, and the results of these are reported to the strategic management team.

In the past, the Council has operated in a department-by-department approach and the creation of the corporate improvement team was to provide a central team to aid the Council in making cross-departmental improvements in service delivery.

Specific services undertaken PSIF reviews in 2011-12 included housing repairs partnership, undertaken jointly between the housing department and the construction division of the environment department, and general finance.

Single outcome agreement

Following the local elections in May, the Council has approved an updated Council Plan which wholly adopts the single outcome agreement 2012-17.

Background	Findings
Single outcome agreements Single outcome agreements ("SOAs") align public sector activity to national priorities. While there are no audit requirements in respect of the Council's performance against its SOA, the Council is expected to have suitable arrangements in place to: ■ develop governance and accountability arrangements to support its SOA; ■ ensure clear links are in place between high-level SOA outcomes and more detailed service-level outcomes, both within the Council and across it's community planning partners; ■ ensure SOAs are supported by robust performance management and reporting arrangements; ■ report progress towards SOA outcomes to the Scottish Government; and ■ undertake public performance reporting on progress towards SOA outcomes.	■ Every four years, Dundee City Council agrees a Council Plan which sets out its key objectives and provides a framework for the development of detailed service plans by each department. The Council has also agreed a Single Outcome Agreement with its partners and the Scottish Government. This sets out the Council's shared commitment to the delivery of an agreed set of outcomes which reflect local and national priorities. The Council plan adopted by the Council in September 2012 wholly adopts the SOA 2012-17 outcomes as the Council's corporate objectives. **Council plan Single Outcome Agreement (SOA) 2012-17** ■ SOA 2012-17, reported to the policy and resources committee on 25 June 2012, sets out the eleven outcomes statements agreed by the partners. The SOA sets out the starting points for the delivery plans against each of these outcomes and will be the subject of monitoring reports to the Dundee Partnership Management Group and meetings of the council. ■ It is anticipated that refreshed guidance on SOAs will be available in Autumn 2012 from the Scottish Government. As a result of close collaboration between Council officers and responsible officers at the Scottish Government, the Council anticipates that the new SOA for Dundee 2012-17 will satisfy the new guidance given that it reflects the Christie Commission recommendations and the priorities identified in the Scottish Government's response, 'Reviewing Scotland's Public Services'. The new SOA will be assessed following receipt of the guidance and it will be amended if there are material changes required. ■ Leaders of theme groups are required to present a performance report on their theme group outcomes to the Dundee Partnership Management Group on a rolling basis. These reports scrutinise performance on the outcome indicators and actions delivered from the plan. ■ The Dundee Partnership delivered its progress report to the Scottish Government on time and maintains close liaison with the Scottish Government civil servant assigned to the Dundee Partnership. ■ The Council produces an annual performance report which reports its progress against the single outcome agreement.

Shared risk assessment; Statutory performance indicators - framework

Backgroundy	Findings
Shared risk assessment ▪ A key aspect of the Scottish Government's scrutiny agenda is to better coordinate and streamline scrutiny and achieve greater effectiveness, while protecting the independence of scrutiny bodies. ▪ The local area network ("LAN") met during early 2012 to update the three year rolling Assurance and Improvement Plan ("AIP") for the Council. The Council's updated AIP was published in May 2012, in conjunction with the National Scrutiny Plan for Local Government.	▪ As part of the LAN, we participated in the preparation of the updated 2012-15 AIP. This was presented by management to the policy and resources committee in June 2012. Overall, the level of scrutiny risk has reduced since the last shared risk assessment. Where risks have changed since the last assessment these have all been in a positive direction. ▪ The AIP update 2012-15 notes the delivery of the Scottish Housing Quality Standard (SHQS) remains a significant risk for the Council. The Council is aware of the risks associated with the delivery of the SHQS and continues to focus its improvement actions where they are most needed including areas such as performance in rent arrears. The Scottish Housing Regulator will continue to monitor progress towards achieving SHQS at the Council ▪ Updates to the AIP completed by the LAN are reported annually to the policy and resources committee and the scrutiny committee.

Shared risk assessment; Statutory performance indicators - framework

Backgroundy	Findings
Statutory performance indicators framework - The statutory deadline for publication by the Council of statutory performance indicators ("SPIs") is 30 September 2012. Since 2009-10, there has been a significant shift in approach to SPIs, with a significant reduction in the number of specific indicators that councils are required to use, while including measures designed to encourage councils to use a greater range of information as part of their mainstream performance management and reporting activities. - The Council is responsible for having appropriate arrangements to collect, record and publish complete and accurate data, so far as is practicable.	- The Council submitted its SPIs to Audit Scotland on the 30 August in line with the agreed timetable. In addition to the SPIs there is also a suite of other performance indicators which have been developed from service plans which are in turn linked to an outcome in the SOA. - As your external auditor, our responsibilities extend to understanding arrangements and systems that the Council uses to generate performance results and consequent reports. Performance indicators are considered quarterly by the policy and resources committee. Variances greater than 5% are highlighted in reports with explanations for these movements. - We tested a sample of SPIs to ensure that the guidance was followed and that the data gathered could be agreed back to management systems and reports. We did not identify any errors in our testing. - Internal audit has not carried out testing of SPIs for 2011-12 as part of its annual plan. - Lack of independent review of the completeness and accuracy may result in errors going undetected in the draft SPIs reported. We recommend that going forward management make arrangements to ensure a sample of SPIs are selected and tested to ensure arrangements are in place to collect the required data and the SPIs reported are complete and accurate. ***Recommendation six***

Local response to national studies

Our audit strategy and plan set out a number of national studies that we are required to follow-up to consider the local response to the findings made within these studies.

Audit area	Overview	Findings
Local response to national studies	Audit Scotland and the Accounts Commission periodically undertake national studies on topics relevant to the performance of public sector bodies. To ensure that added value is secured through the role of Audit Scotland and the Accounts Commission and its appointed auditors, auditors are required to continue to ensure that audited bodies respond appropriately to reports from the programme of national performance audits.	We have considered the Council's response to the following national reports: ▪ Scotland's public finance's: responding to the challenge; ▪ transport for health; and ▪ community health partnerships. We have prepared a short return to Audit Scotland for each report. The Scotland's public finance's report has been formally considered by the scrutiny committee, however, neither of the other two reports had been subject to formal consideration by the Council or a committee of Council. In addition, for these reports, while we have been advised that the findings from the reports have been considered, there is no evidence that management conducted a self-assessment against the reports findings. We raised a recommendation in our interim management report which was accepted by management that self-assessments should be performed and that appropriate action plans and timetables are agreed to feedback local actions.

Local response to national studies (continued)

Audit area	Overview	Findings
Maintaining Scotland's roads: a follow up	As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified the *Maintaining Scotland's road – follow-up* report for follow-up by local auditors in 2011-12. The aim of the follow-up work is to assess the progress that councils have made in driving forward road maintenance activities, managing the performance of road maintenance activities, and maximising value for money in road maintenance services. We have considered the following four questions in response to this report. 1. How did the Council respond to the *Maintaining Scotland's roads: a follow-up* report following publication? 2. Does the Council have appropriate plans in place to drive road maintenance activities? 3. How does the Council manage performance of its road maintenance activities? 4. What is the council doing to maximise value for money in its road maintenance service?	Roads maintenance is delivered through a partnership with Tayside Contracts and is managed by the roads maintenance partnership board. The national report has been considered by the city development committee and the roads maintenance partnership board. The Council is currently developing its roads asset management plan in accordance with the Society of Chief Officers of Transportation in Scotland ("SCOTS") asset management project. It is expected that this plan will be completed by the end of April 2012 and it has been informed by the national report. The Council manages and monitors the performance of its road maintenance activities through internal performance indicators and SCOTS core performance indicators. These are formally reported annually to the city development committee as part of an annual report on the performance of the roads maintenance partnership. The Council continually seeks to maximise value from its roads maintenance services. This has included: ▪ cost and performance comparison with neighbouring councils through the maintenance strategy group; ▪ the Council agreeing with neighbouring authorities to rationalise material specification for surfacing products to maximise the efficiency of the Tayside Contracts in-house quarry; ▪ utilising external firms to assist with winter maintenance; ▪ incorporating recycled material in carriageways and footways; and ▪ use of incinerated waste cyclone ash in base and binder materials which has generated financial benefits for the Council.

Corporate governance framework and supporting arrangements

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

Our reporting throughout the year has identified some weaknesses and risks arising from gaps in the financial control framework, including bank and other reconciliations and journal authorisation processes.

Corporate governance	The Council operates a committee structure with the Council supported by nine standing committees: city development; development management; education; environment; housing; licensing, policy and resources; scrutiny; and social work and health. The committee structured was revised during 2011-12 in line with the organisational restructuring that took place. 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 an approved local code of corporate governance, which consists of the following six main elements: ▪ creating and implementing a vision for Dundee; ▪ members and officers roles and responsibilities; ▪ promoting values and high standards of conduct and behaviour; ▪ transparency, scrutiny and risk; ▪ effectiveness and development of members and officers; and ▪ stakeholder engagement to ensure accountability. In line with good practice, the Council undertakes an annual review of the effectiveness of these arrangements, and reported its findings to the policy and resources committee meeting in June 2012. This corporate self-assessment is supported at department level by chief officers in those departments making a self-assessment of departmental arrangements for service planning and performance management; internal controls; budgeting, accounting and financial control; and risk management and business continuity. We intend to review the Council's self-assessment process as part of our 2012-13 audit. The annual governance statement discloses the key areas for continuous improvement arising from this activity.
Political landscape	The May 2012 elections saw the SNP gain three seats and secure an overall majority on the Council. All elected members were invited to an induction day after the elections. The Ethical Standards in Public Life (Scotland) Act 2000 places a duty on councils to promote high standards of conduct by councillors and the intention of this day was to assist councillors to observe the code of conduct In their *Overview of local government in Scotland*, published in March 2012, the Accounts Commission included a checklist for new and returning elected members to use to assess their own understanding and training needs. We recommend that this checklist is utilised as part of management's induction process, to inform additional training needs, but also as a basis for reviewing the effectiveness of the induction arrangements completed to date. ***Recommendation seven***

Corporate governance framework and supporting arrangements (continued)

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. We reviewed the content of the annual governance statement against the CIPFA/SOLACE *Delivering Good Governance in Local Government* framework. We have no matters to report arising out of our review. The annual governance statement also includes disclosure of how the Council's arrangements comply with the CIPFA *statement on the role of the financial officer in local government* (2010).
Remuneration report	Scottish Statutory Instrument 2011 number 64, *The Local Authority Accounts (Scotland) Amendment Regulations 2011 amended the Local Authority Accounts (Scotland) Regulations 1985* added the requirement for local authority bodies to prepare a remuneration report. The Local Government Finance Circular number 8/2011, issued by the Scottish Government, provides guidance that the remuneration report is a statement in its own right and not a note to the financial statements. While there is no statutory prescription on its placement in the financial statements, it suggests a suitable placement would be after the governance statement. In preparing the unaudited financial statements, management had followed the above guidance. As part of discussion during the audit process, it was agreed to move both the annual governance statement and the remuneration report to follow the foreword by the director of corporate services, which represents good practice.
Internal controls	Our reporting throughout the year has identified some areas of the financial control framework that could be enhanced, including in respect of reconciliations and journal authorisation. We are continuing to work with management to agree practical steps to implement our recommendations. 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.

Corporate governance framework and supporting arrangements (continued)

Standards of conduct and arrangements for the prevention and detection of bribery and corruption	The Council has policies and codes of conduct for staff and councillors including a whistle blowing policy (the “helpline for employees – disclosure of information” policy). Registers of members’ interests are also maintained and are available for inspection by the public to ensure transparency. We are satisfied that the Council arrangements are satisfactory, and have no specific matters to bring to your attention in this regard.
Prevention and detection of fraud and irregularity / National fraud initiative	Management has confirmed that no fraud or irregularities have been identified during the year which could have a significant impact on the financial statements. 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. 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 and suitable arrangements are in place to ensure this work is covered. If there are significant findings in the NFI process these are reported quarterly to the policy and resources committee in the counter fraud reports.
Internal audit	As set out in our audit plan and strategy, we have evaluated the work of internal audit and concluded that we can rely, where relevant, on their work. The content of the internal audit plan is in line with our expectations. Internal audit reported that *“that reasonable assurance can be placed upon the adequacy and effectiveness of the Council’s control environment for the year to 31 March 2012.”* The most significant areas where internal audit identified more than three significant weaknesses in the design or operation of internal controls included risk management arrangements, arrangements for the management of asbestos, residential parking permits, debtors and debt management and corporate governance.

Appendices

Action plan

The action plan summarises specific recommendations, 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 Review of level of reserves		**Grade two**
Based on Audit Scotland's review of all 32 Scottish local authorities, the Council has the lowest level of unrestricted reserves as a percentage of net revenue spend. While management consider that the level of reserves held remains appropriate for the size of the Council, this is considered against the protocol paper to the policy and resources committee from 2004.	It is recommended that an updated review of the target level of unrestricted reserves to be held by the Council is undertaken. This will enable the new Members to have input to the Council's financial strategy going forward, in light of the expected funding challenges facing the Council, and the local government sector in general.	A review of the Council's protocol on reserves will be undertaken as part of the 2013-14 Revenue Budget and Council Tax exercise. A report will be submitted to the policy and resources committee prior to the setting of the 2013-14 Revenue Budget and Council Tax. **Responsible officer:** Director of Corporate Services **Implementation date:** February 2013

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
2 Forecast outturn monitoring		**Grade two**
The net underspend of £3.7 million in the general fund budget was significantly different when compared to the projected surplus of £0.1 million forecast as part of the reporting to the policy and resources committee in January 2012.	While we understand from management that elements of this were not within their control, it is recommended that management seek to understand the reason for slippage of commitments into 2012-13 and whether these could have been identified earlier in the budget monitoring process.	A review of the final reported revenue monitoring position for 2011/12 will be undertaken to fully identify the reasons for the subsequent slippage of expenditure into 2012/13 and also to identify any possible improvements to existing expenditure monitoring procedures. **Responsible officer:** Finance Manager (Corporate) **Implementation date:** 31 December 2012
3 Future years budget information		**Grade two**
The 2012-13 budget setting process contained only one-years budget information. Senior management have been through the process of updating their financial projection for the next three years, and intend to engage during the autumn with the new Council to identify priorities and areas for efficiency going forward.	It is recommended that as part of the budget setting process for 2013-14, that future years' budgets are incorporated into this process to provide members with a more strategic overview of the revenue budget position.	As part of the 2013-14 Revenue Budget and Council Tax exercise, consideration will be given to extending the planning timeframe by including projections beyond 2013-14. **Responsible officer:** Director of Corporate Services **Implementation date:** February 2013

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
4 Welfare Reform		**Grade three**
As a result of the Welfare Reform Act 2012, a number of significant changes will be required in how councils deliver benefit services. The Council has established a welfare reform group to consider and plan for the associated risks and to ensure that Council is prepared to respond to the changes that are required.	While responding to the changes, such as the introduction of universal credits, will present challenges for the Council, it is clear that action has commenced by officers to mitigate the associated risks. Given the significance of this matter it is important that continued regular updates are provided to members and there is continued senior involvement in ensuring the timely implementation of transition arrangements.	The Council has established a welfare reform group which is led by the Director of Corporate Services. Agreed work-streams aligned to senior officers have been established which incorporate changes associated with Welfare Reform, and will be reported to members. Monthly updates will be provided to the Strategic Management Team. **Responsible officer:** Director of Corporate Services **Implementation date:** December 2012
5 Changing for the Future		**Grade two**
Achievement and delivery of the CFTF programme is key to the Council achieving its strategic objectives in terms of delivery of services, while making required operational efficiencies. The basis for accurately measuring and monitoring cash savings and improvements in service realised through CFTF is in place.	Given the significance of this matter, it is important that continued regular updates are provided to members in respect of the progress of projects within the programme, and the resulting improvements in service delivery and / or achievement of efficiencies that result from these projects.	Update reports on programme progress and savings identified will continue to be submitted to the Changing for the Future Board and thereafter made available to all elected members and staff. **Responsible officer:** Corporate Improvement Manager **Implementation date:** Already in place and implemented**.**

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
6 Internal arrangements in respect of statutory performance indicators		**Grade two**
Through the audit process we identified there was no independent review in place to agree the completeness and accuracy of data used. We tested a sample of SPIs to ensure the guidance was followed and that data gathered could be agreed back to management systems and reports. While we did not identify any errors in our testing, lack of independent review of the completeness and accuracy may result in errors going undetected in the draft SPIs reported.	We recommend that going forward management make arrangements to ensure a sample of SPIs are selected and tested to ensure arrangements are in place to collect the required data and the SPIs reported are complete and accurate.	SPIs will be tested on a sample basis to ensure their completeness and accuracy and to provide assurance regarding the underlying arrangements for gathering data. **Responsible officer:** Head of Corporate Finance **Implementation date:** 31 July 2013
7 Member training		**Grade three**
Although there has been no changes in the overall governance framework, there have been some changes in councillor composition and committee memberships as a result of the May 2012 elections. This provides a timely opportunity to review and develop the training available to members under the Council's existing arrangements.	It is recommended that the new and returning member checklist, included as part of the *Overview of local government in Scotland*, published in March 2012 by the Accounts Commission, is used by members as a tool to inform training needs or review the effectiveness of the Council's arrangements.	A survey will be issued to all elected members in order identify future training needs and to review the effectiveness of the Council's arrangements in this area. The survey will be based on the recommended checklist. **Responsible officer:** Corporate Planning Officer **Implementation date:** 31 December 2012

Audit Scotland code of audit practice – responsibilities of the Council

Financial statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and
- participating, when required, in data matching exercises carried out by Audit Scotland.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

Audit Scotland code of audit practice – responsibilities of the Council (continued)

Financial position

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

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