

REPORT TO: POLICY & RESOURCES COMMITTEE - 10 DECEMBER 2012

**REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S REPORT TO MEMBERS ON THE
AUDIT OF DUNDEE CITY COUNCIL FOR THE YEAR TO 31 MARCH 2012**

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 466-2012

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 2012. A copy of the External Auditor's report (Report No 465-2012) and the 2011/2012 Audited Statement of Accounts for the City Council (Report No 464-2012) are included on the agenda as separate items.

2 RECOMMENDATIONS

It is recommended that the Committee:

- i endorses this report as the Council's formal response to the External Auditor's report.
- ii notes the completed Action Plan appended to this report.

3 FINANCIAL IMPLICATIONS

None.

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 2011/2012 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 2011/2012 marked the first year of KPMG's appointment at the City Council.

- 4.2 The 2011/2012 Unaudited Statement of Accounts was circulated to elected members and to KPMG on 29 June 2012, in line with the statutory deadline. The Accounts have been subject to a three week statutory public inspection period and no objections were received. KPMG completed their audit work in mid-September and, in accordance with auditing standards (ISA 260), they were required to report the outcome of their work in relation to the financial statements, prior to issuing their audit opinion. This requirement was addressed via their Report To Those Charged With Governance, which was presented to the Scrutiny Committee on 24 September 2012 along with the draft 2011/2012 Audited Statement of Accounts.

4.3 External Auditor's Report to Members

The External Auditor's report describes the scope of audit work undertaken during 2011/2012 and the issues arising from that work. The report is divided into the following four key areas:

- Use of Resources
- Financial Statements
- Performance Management
- Governance

4.4 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.

4.5 Action Plan

The External Auditor has identified seven key issues arising from his 2011/2012 audit that he considers require further action by the Council. These relate to:

- 1 Review of Level of Reserves
- 2 Forecast Outturn Monitoring
- 3 Future Years Budget Information
- 4 Welfare Reform
- 5 Changing for the Future
- 6 Internal Arrangements in Respect of Statutory Performance Indicators
- 7 Member Training

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 ie "significant".

4.6 Conclusions

During 2011/2012, the External Auditor examined a number of areas covering a wide range of the City Council's activities. Whilst some areas for improvement have been identified, it is pleasing to note that the auditor's overall findings and conclusions are satisfactory. In particular, the Council can take encouragement from the following findings:

- the accounts were submitted on time and there was no qualification to the auditor's opinion
- there was an increase in the General Fund balance of £2.8m against a budgeted deficit of £0.9m ie an overall net underspend of £3.7m
- the Council has arrangements in place to report and respond to Welfare Reform and reforms to Police and Fire & Rescue Services
- 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
- amendments to the Accounting Code of Practice have been correctly implemented by the Council in the financial statements
- 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
- the Council has approved an updated Council Plan which wholly adopts the 2012-17 Single Outcome Agreement
- overall, the level of scrutiny risk has reduced since the last shared risk assessment

- no errors were identified in the External Auditor's sample testing of Statutory Performance Indicators
- 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 2012 (31 October 2012).

MARJORY M STEWART
DIRECTOR OF CORPORATE SERVICES

16 NOVEMBER 2012

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

Priority rating for recommendations	
<p>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.</p>	<p>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.</p>
<p>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.</p>	
Finding(s) and risk(s)	Recommendation(s)
<p>1 Review of level of reserves</p> <p>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.</p> <p>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.</p>	<p>It is recommended that an updated review of the target level of unrestricted reserves to be held by the Council is undertaken.</p> <p>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.</p>
	<p>Agreed management actions</p> <p>Grade two</p> <p>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.</p> <p>Responsible officer: Director of Corporate Services</p> <p>Implementation date: February 2013</p>

Appendix one Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>2 Forecast outturn monitoring</p> <p>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.</p>	<p>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.</p>	<p style="text-align: center;">Grade two</p> <p>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.</p> <p>Responsible officer: Finance Manager (Corporate)</p> <p>Implementation date: 31 December 2012</p>
<p>3 Future years budget information</p> <p>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.</p>	<p>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.</p>	<p style="text-align: center;">Grade two</p> <p>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.</p> <p>Responsible officer: Director of Corporate Services</p> <p>Implementation date: February 2013</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>4 Welfare Reform</p> <p>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.</p>	<p>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.</p> <p>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.</p>	<p style="text-align: center;">Grade three</p> <p>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.</p> <p>Responsible officer: Director of Corporate Services</p> <p>Implementation date: December 2012</p>
<p>5 Changing for the Future</p> <p>Achievement and delivery of the CTFP 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 CTFP is in place.</p>	<p>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.</p>	<p style="text-align: center;">Grade two</p> <p>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.</p> <p>Responsible officer: Corporate Improvement Manager</p> <p>Implementation date: Already in place and implemented.</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>6 Internal arrangements in respect of statutory performance indicators</p> <p>Through the audit process we identified there was no independent review in place to agree the completeness and accuracy of data used.</p> <p>We tested a sample of SPLs to ensure the guidance was followed and that data gathered could be agreed back to management systems and reports.</p> <p>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 SPLs reported.</p>	<p>We recommend that going forward management make arrangements to ensure a sample of SPLs are selected and tested to ensure arrangements are in place to collect the required data and the SPLs reported are complete and accurate.</p>	<p>Grade two</p> <p>SPLs will be tested on a sample basis to ensure their completeness and accuracy and to provide assurance regarding the underlying arrangements for gathering data.</p> <p>Responsible officer: Head of Corporate Finance</p> <p>Implementation date: 31 July 2013</p>
<p>7 Member training</p> <p>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.</p>	<p>It is recommended that the new and returning member checklist, included as part of the <i>Overview of local government in Scotland</i>, 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.</p>	<p>Grade three</p> <p>A survey will be issued to all elected members in order to 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.</p> <p>Responsible officer: Corporate Planning Officer</p> <p>Implementation date: 31 December 2012</p>