

REPORT TO: POLICY & RESOURCES COMMITTEE - 7 DECEMBER 2009

**REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S REPORT TO MEMBERS ON THE
AUDIT OF DUNDEE CITY COUNCIL FOR THE YEAR TO 31 MARCH 2009**

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 576-2009

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 2009. A copy of the External Auditor's report (Report No 575-2009) and the 2008/2009 Audited Statement of Accounts for the City Council (Report No 574-2009) 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 2008/2009 was carried out by Mr Mark Taylor CPFA, Assistant Director - Audit Services, Audit Scotland. Local authority external auditors are appointed for a five year period and the financial year 2008/2009 marked the third year of Audit Scotland's current appointment at the City Council.

4.2 External Auditor's Report

The External Auditor's report outlines his main responsibilities as auditor and describes the scope of audit work undertaken during 2008/2009 and the issues arising from that work. The report is divided into the following four key areas:

- Financial Statements
- Use of Resources
- Governance & Accountability
- Performance Management & Improvement

4.3 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 scrutiny by the Audit and Risk Management Sub-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 six key issues arising from his 2008/2009 audit that require action by the Council. These relate to:

- the Council's accounting arrangements for Common Good assets
- the Council's funding arrangements for DERL
- the effectiveness of the Council's scrutiny arrangements
- the Council's cash management arrangements
- the Council's arrangements for writing off uncollectable debt
- the requirement for the Council to deliver savings and efficiency in the medium-term

These matters have been considered carefully by the Chief Executive and Director of Finance and the completed action plan, incorporating the "planned management action", is appended to this report and 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.

4.6 Conclusions

During 2008/2009, 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
- a favourable underspend against budget was achieved and the Council has managed its overall financial position tightly over the past five years
- the Single Outcome Agreement signed by the Dundee Partnership in July 2009 has an appropriate strategic focus with a meaningful and manageable number of high level outcomes and supporting indicators
- the Council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption
- the Council makes good use of ICT to support and deliver services and has a clear strategy for the future development of ICT that is linked to the Council's objectives and restructuring plans
- the Council has a strong track record of working with communities and taking a systematic approach to defining their needs
- the Council has made significant improvements to support effective performance management, with an impressive performance monitoring database in place that allows users to easily analyse performance by a number of themes or services
- the Council's corporate performance scorecard showed improvement in 30% of the indicators and performance was maintained in 50% of the indicators
- the Council reduced energy consumption by 10% between 2002 and 2007
- the Council has prepared medium-term forecasts of its budget position in light of the impending constraints on public sector expenditure

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 Depute Chief Executive (Support Services) have been consulted on the content of this report.

7 BACKGROUND PAPERS

Audit Scotland: Dundee City Council - Report to Members and the Controller of Audit on the 2008/2009 Audit.

**MARJORY M STEWART
DIRECTOR OF FINANCE**

01 DECEMBER 2009

Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	35	<p>Common Good</p> <p>A separate account for the common good is disclosed in Dundee City Council's financial statements but no separate fixed asset register is maintained.</p> <p>Risks: In the absence of a clear record of which assets are held on the common good, the council is unable to demonstrate that it is performing its stewardship role effectively in relation to such assets.</p> <p>Common good land assets are inadvertently disposed of without the necessary judicial authority.</p>	<p>Although the Council does not have any assets in its Common Good Fund Accounts, the Council has an in-house Legal Team which carries out in-depth title searches prior to any decisions on asset sales and any applications for judicial authority required have been made.</p>	Director of Finance	30 June 2010
2	54	<p>Financial Support</p> <p>The council owns 40% of the ordinary share capital of DERL and this group entity is dependant on the financial support it receives from the council. The DERL financial statements have been prepared on a going concern basis, on the understanding that support from the council will continue to be extended. DERL has been operating its waste-to-energy plant for 9 years and during that time has accumulated losses of £42 million.</p> <p>Risk: Current funding arrangements for DERL are not sustainable in the longer term.</p>	<p>The financial and environmental rationale for the continued operation of DERL (as opposed to land-filling) is well established. The performance of DERL, both in financial and operational terms, has improved during 2009 and will continue to be closely monitored by the Council. Reports will continue to be submitted to Committee, as appropriate. The Council's three year Revenue Budget includes provision for payments to DERL in line with the existing contractual arrangements.</p>	Director of Finance / Head of Waste Management	On-going
3	104	<p>Effectiveness of scrutiny</p> <p>We have previously reported concerns about the</p>	<p>At its meeting on 11 May 2009, the City Council agreed to establish a Scrutiny Committee with its own specific scrutiny</p>	Chief Executive	31 January 2010

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>effectiveness of scrutiny. Since then the council has made a number of changes, including the introduction of a scrutiny committee, but arrangements in other areas remain as before.</p> <p>We are considering the effectiveness of the revised arrangements in the course of our BV audit, but in the meantime the council is planning its own review of its current arrangements. It is important that this takes a holistic view of the council's arrangements and approach to scrutiny.</p> <p><i>Risk: The planned review of scrutiny arrangements does not lead to a coherent and effective approach to scrutiny of decision making and performance.</i></p>	<p>role and to review the Committee and its operations after a period of six months.</p> <p>Scrutiny exists at many levels within the Council and involves both Officers and Members. The Policy & Resources Committee has the widest scrutiny role but all of the Council's Service Committees contribute to the work of scrutiny to some degree.</p> <p>In addition, the Audit & Risk Management and Improvement & Efficiency Sub-Committees also have their own specific scrutiny roles.</p> <p>All of the Council's scrutiny arrangements will be reviewed.</p>		
4	118	<p>Cash management</p> <p>Our report on cash management highlighted concerns about the effectiveness and efficiency of cash management processes, related to their underlying complexity. We also identified weaknesses in bank reconciliations during the year. We have raised these concerns with management and the council is now reviewing its procedures.</p> <p><i>Risk: The complexity of current arrangements results in inefficiency, a lack of transparency, uncertainty over responsibilities and accounting difficulties.</i></p>	<p>The external auditor's report on Cash Management included a 14-point agreed action plan. A series of changes / improvements are now being implemented in line with the agreed action plan. Progress against the overall action plan is being closely monitored and, indeed, some actions are already complete. All action plan points are due to be addressed by 1 January 2010. The external auditor's report was considered by the Audit & Risk Management Sub Committee on 28 September 2009.</p>	Director of Finance	1 January 2010
5	119	<p>Debt Write Off</p> <p>During 2008/09, the council wrote off debts totalling £4.8 million, in respect of council tax, rates, statutory additions, poll tax, sales ledger, rents, housing benefit overpayments and</p>	<p>The Director of Finance has been given delegated powers in respect of the write-off of debt. Therefore, it is considered that there is no requirement to report this matter to Committee.</p>		

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>parking fines. We noted that not all debts written off are reported to the Director of Finance although this officer has the delegated authority to write-off miscellaneous debts under the council's standing orders. No details of amounts written off are notified to committee.</p> <p>Risk: There is a risk that debts written off are not robustly monitored by those charged with governance.</p>	<p>The existing procedures for the write-off of debt will be reviewed and revised, as necessary, to ensure that all debt write-offs are reported to the Director of Finance for authorisation.</p>	<p>Director of Finance</p>	<p>30 June 2010</p>
6	142	<p>Savings and efficiency</p> <p>The council anticipates a significant real terms reduction in the resources available to it over the medium term and has forecasted that it will need to identify savings of up to £30 million over the next 4 years.</p> <p>Achieving the level of efficiencies and other savings required will require much better coordination of the council's efforts.</p> <p>The council recognises that there is much greater scope for sharing services with neighbouring councils and other public sector bodies. While initial discussions have been held, there is still much to do before specific plans are developed and implemented</p> <p>Risk: The council cannot balance future budgets without significantly compromising its ability to deliver on its priorities and corporate objectives.</p>	<p>The Council is acutely aware of the short and medium-term financial difficulties facing it, due to the impending reductions in grant funding. The Council will continue to seek to identify opportunities for real efficiencies across the wide range of services that it provides, in order to minimise the impact on the level or quality of services provided. The Council has already entered into a number of joint projects with other public sector partners that are aimed at minimising duplication, achieving economies of scale and delivering real efficiency gains. Examples include the Tayside Procurement Consortium, the Joint Equipment Store and the Joint Archive Facility.</p>	<p>Director of Finance</p>	<p>On-going to 2014</p>