

**REPORT TO: POLICY & RESOURCES COMMITTEE - 10 DECEMBER 2007**

**REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S REPORT TO MEMBERS ON THE  
AUDIT OF DUNDEE CITY COUNCIL FOR THE YEAR TO 31 MARCH 2007**

**REPORT BY: HEAD OF FINANCE**

**REPORT NO: 619-2007**

## **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 2007. A copy of the External Auditor's report (Report No 656-2007) and the 2006/2007 Audited Statement of Accounts for the City Council (Report No 655-2007) 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 2006/2007 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 2006/2007 marked the first 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 2006/2007 and the issues arising from that work. The report is divided into the following four key areas:

- Performance
- Financial Position
- Governance
- Financial Statements

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, as outlined above, the External Auditor's detailed reports already include agreed management action plans and 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.

#### 4.4 Action Plan

The External Auditor has identified five key issues arising from his 2006/2007 audit that require action by the Council. These relate to:

- the Council's arrangements for preparing Statutory Performance Indicators.
- implementation of actions agreed from the December 2006 HMIE Report.
- implementation of a Single Status agreement.
- arrangements for identifying and reporting savings as part of the ongoing Efficient Government agenda.
- reviewing the applicability of component accounting in relation to capital expenditure incurred for Council houses.

These matters have been considered carefully by the Depute Chief Executive (Finance), Head of Finance and other relevant Chief Officers 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.

#### 4.5 Conclusions

During 2006/2007, 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.
- the Council dealt well with the significant changes to the format of the accounts.
- a favourable underspend against budget was achieved.
- corporate governance systems in place during 2006/2007 operated well, within a sound control environment.
- the Council reported a number of improvements in performance including a number of substantial improvements in areas measured by performance indicators.
- good progress has been made in implementing the actions contained in the Council's Best Value Improvement Plan.

### 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, Depute Chief Executive (Finance) 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 2006/2007 Audit.

**MARJORY M STEWART  
HEAD OF FINANCE**

**05 DECEMBER 2007**



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	21	<p><b>Reliability of performance information</b></p> <p>Our review of the reliability of the Council's arrangements to prepare Statutory Performance Indicators (SPIs) identified that while overall the quality of working papers provided to support the SPIs was adequate, there was scope for improvement.</p> <p>Given the increasing role that corporate and departmental performance scorecards will play it is important that appropriate arrangements are in place to ensure that quality and reliability of the information reported.</p> <p><b>Risk: Performance measures used by the Council and reported publicly are unreliable.</b></p>	<p>New assurance sheets will be issued to Departments by the Head of Finance, aimed at improving the overall reliability of SPIs. These will also be discussed with departmental SPI co-ordinators and other relevant staff.</p>	Head of Finance	31 March 2008
2	47	<p><b>School capacity</b></p> <p>The December 2006 HMIE report "Inspection of the education functions of local authorities - Dundee City Council" noted that the decreasing trend in population created challenges for the Council, for example, in addressing the over-capacity in its schools.</p> <p>Whilst this was beginning to be addressed through the Council's PPP programme, it could impact on the Council's ability to demonstrate best value in its educational expenditure.</p> <p><b>Risk: Assets are not being effectively and efficiently managed and potential savings are not being realised.</b></p>	<p>School rolls do not decrease proportionately in line with population and take time to impact on school assets held by the Education Department. We would also need to consider the implications of the Scottish Government's aspiration to reduce class sizes in P1 - P3.</p>	Director of Education	2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	87	<p><b>Single status</b></p> <p>The Council remains to implement the single status agreement.</p> <p><b>Risk: Initial and continuing costs are considerably in excess of expected levels.</b></p> <p><b>Industrial relations difficulties restrict the ability to deliver on key objectives.</b></p> <p><b>The Council may be judged to be contravening the equal pay act.</b></p>	<p>The Single Status Agreement will be implemented by 1 April 2008.</p>	<p>Assistant Chief Executive (Management)</p>	<p>1 April 2008</p>
4	93	<p><b>Efficiency programme</b></p> <p>In a tightening fiscal environment and in pursuance of best value objectives there is a need to identify and release efficiencies on an ongoing basis.</p> <p><b>Risks: the Council is unable to achieve the efficiencies necessary.</b></p> <p><b>It is unclear the extent to which savings comply with definitions of efficiency.</b></p> <p><b>Savings achieved impact on service quality and outputs to a greater extent than intended.</b></p>	<p>The revised guidance on Service Planning contains specific references to identifying and recording efficiencies.</p> <p>In addition, the recently approved Council Plan for 2007-2011 contains various references to the Council's efficiency plans, including :</p> <p>1) prepare an annual efficiency statement and forecast based on projects proposed to deliver efficiencies</p> <p>2) deliver a corporate procurement strategy that includes more joint procurement and efficient processes</p> <p>3) develop a programme that applies whole system thinking (lean service) principles to service reviews</p>	<p>Head of Finance</p> <p>Depute Chief Executive (Finance)</p> <p>Assistant Chief Executive (Management)</p>	<p>June 2011</p> <p>May 2009</p> <p>2011</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	135	<b>Component accounting</b> In applying component accounting to capital expenditure on housing in areas such as replacement windows and kitchens, no adjustment has been made to the carrying value of asset values or to the component element for subsequent disposals. <i>Risk: the carrying value of council houses is overstated.</i>	This matter will be reviewed by the Final Accounts Working Group and appropriate guidance will be issued prior to work commencing on the Council's 2007/08 accounts.	Head of Finance	31 March 2008