

REPORT TO: FINANCE COMMITTEE - 11 DECEMBER 2006

**REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S REPORT TO MEMBERS ON THE
AUDIT OF DUNDEE CITY COUNCIL FOR THE YEAR TO 31 MARCH 2006**

REPORT BY: HEAD OF FINANCE

REPORT NO: 688-2006

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 2006. A copy of the External Auditor's report and the 2005/2006 Audited Statement of Accounts for the City Council 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

There are no financial implications arising directly from this report, or from the External Auditor's report.

4 SUSTAINABILITY POLICY IMPLICATIONS

There are no direct sustainability policy implications.

5 EQUAL OPPORTUNITIES IMPLICATIONS

There are no direct equal opportunities implications.

6 BACKGROUND

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 2005/2006 was carried out by Ms Fiona Kordiak CPFA, Assistant Director - Audit Services, Audit Scotland. Local authority external auditors are appointed for a five year period and the financial year 2005/2006 marked the final year of Audit Scotland's current appointment at the City Council. Audit Scotland have, however, been reappointed from 2006/2007 and will therefore continue as the Council's External auditor for the next five years.

7 EXTERNAL AUDITOR'S REPORT

7.1 The External Auditor's report outlines her main responsibilities as auditor and describes the scope of audit work undertaken during 2005/2006 and the issues arising from that work. The report is divided into the following four key areas:

- Performance
- Financial Position
- Governance
- Financial Statements

7.2 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, her 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.

8 ACTION PLAN

8.1 The External Auditor has identified three key issues arising from her 2005/06 audit that require action by the Council. These relate to the implementation of actions agreed from the 2005 Best Value Audit, clarification of the legal status of Tayside Contracts and preparations for the significant changes that are included in the 2006 SORP. The External Auditor's recommendations are set out in the form of an Action Plan. These matters have been considered carefully by the Head of Finance and the completed Action Plan, incorporating the "Management Response", is appended to both this report and to the External Auditor's report. It should be noted that good progress on the implementation of the agreed actions from the Best Value Audit has already been made, and where slippage has occurred revised implementation dates have been set. The progress of the agreed action points will continue to be monitored closely by the Council. In addition, a review of both the legal status of Tayside Contracts and the necessary changes to the 2006/2007 Statement of Accounts will be co-ordinated through the Council's established year-end accounts preparation procedures.

9 CONCLUSIONS

During 2005/2006, 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.
- corporate governance systems in place during 2005/2006 operated well, within a sound control environment.
- the Council demonstrated a clear commitment to the efficient government agenda.
- arrangements to ensure the accuracy of Statutory Performance Indicators were much improved this year.
- the Council's internal audit service continues to be well managed.
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10 **CONSULTATION**

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

11 **BACKGROUND PAPERS**

None

**MARJORY M STEWART
HEAD OF FINANCE**

29 NOVEMBER 2006



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	34	<p>Best value</p> <p>Overall the Council has made some progress against most of the improvement actions agreed as a result of the 2005 best value audit. The Council requires to maintain the pace of change and take account of issues raised in other councils' best value reports.</p> <p>Risk: the Council may be unable to demonstrate continuous improvement.</p>	<p>The Council will continue to implement the actions outlined in the agreed best value audit plan and to address the wider best value agenda by continually reviewing its services and processes. The Council will also benchmark with other organisations and seek to identify and learn from deemed best value practice.</p>	Various – in line with Best Value Improvement Plan	Various – in line with original target dates or revised dates where applicable.
2	109	<p>Group accounts</p> <p>Tayside Contracts has been included in the group accounts as a joint arrangement as the Council is of the opinion that the organisation does not constitute a legal entity. Tayside Contracts, however, produces its own financial statements which is generally an indicator that a body is an entity. The Council should clarify the formal status of Tayside Contracts prior to the preparation of the 2006/07 financial statements.</p> <p>Risk: the legal standing of Tayside Contracts is unclear. The Council may fail to comply with accounting requirements.</p>	<p>We consider our treatment of Tayside Contracts to be correct, however we are happy to review the position as recommended.</p> <p>The approved 2006-2011 business plan for Tayside Contracts includes a full appraisal of the possible legal status options for the organisation. The outcome of this appraisal will, in turn, inform the Council's review of the appropriate accounting treatment of Tayside Contracts.</p>	Head of Finance	20 June 2007



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
3	116	Financial reporting Changes have been made to the 2006 SORP which will have a significant impact on the presentation of the 2006/07 annual financial statements. <i>Risk: in the event of insufficient preparation, the 2006/07 financial statements may not comply with accounting requirements. Differences between financial reporting requirements and budget monitoring during the year may result in a lack of transparency for members and the public.</i>	<u>2006 SORP</u> It is acknowledged that the changes included within the 2006 SORP will have a major impact on the presentation of the 2006/2007 Statement of Accounts. The Council's preparations for this are ongoing and will be co-ordinated through the Final Accounts Working Group. <u>Presentation of Financial Information</u> The Council will review this for 2006/2007 and a statement reconciling the movements between the approved Revenue Budget and the adjusted budget, as shown in the Consolidated Revenue Account, will be included in the 2006/2007 Statement of Accounts.	Head of Finance Head of Finance	30 June 2007 30 June 2007