

**REPORT TO:** SCRUTINY COMMITTEE – 17 APRIL 2019

**REPORT ON:** DUNDEE CITY COUNCIL – AUDIT SCOTLAND ANNUAL AUDIT PLAN 2018/19

**REPORT BY:** EXECUTIVE DIRECTOR OF CORPORATE SERVICES

**REPORT NO:** 163-2019

**1 PURPOSE OF REPORT**

To submit to elected members the above report that describes how Audit Scotland will deliver the audit of Dundee City Council for the year ending 31 March 2019.

**2 RECOMMENDATIONS**

It is recommended that elected members note the information included in the attached report.

**3 FINANCIAL IMPLICATIONS**

The proposed external audit fee for 2018/19 is £349,000 which is an increase of £6,430 (1.9%) from 2017/18. Provision for the proposed external audit fee has already been made in the Corporate Services 2018/19 revenue budget. There is also an additional audit fee of £4,690 for the audit of the Council's three registered charities. There are no further direct financial implications arising from this report.

**4 MAIN TEXT**

4.1 Following Audit Scotland's appointment as external auditor for Dundee City Council for five years from 2016/17, they have produced the above report outlining the planned approach to the audit of Dundee City Council for the year ending 31 March 2019. The document sets out the statutory and professional responsibilities in terms of the Code of Audit Practice and also outlines their key audit objectives.

4.2 The report is divided into the following sections:-

Risks and Planned Work (pages 4-11)

- Audit Risks (pages 4-10)
- Reporting Arrangements (page 10)
- The Audit of Trusts Registered as Scottish Charities (pages 10-11)
- Audit Fee (page 11)
- Responsibilities (page 11)

Audit Scope and Timing (pages 12-18)

- Annual Accounts (page 12)
- Materiality (pages 12-13)
- Timetable (pages 13-14)
- Internal Audit (pages 14-15)
- Audit Dimensions (pages 15-17)
- Housing Benefit Performance Audit (page 17)
- Independence, Objectivity & Quality Control (page 17-18)

**5 POLICY IMPLICATIONS**

This report has been subject to an assessment of any impacts on Equality and Diversity, Fairness and Poverty, Environment and Corporate Risk. There are no major issues.

**6 CONSULTATIONS**

The Council Management Team were consulted in the preparation of this report and agreed with its contents.

**7 BACKGROUND PAPERS**

None.

**G COLGAN  
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**1 APRIL 2019**

# Dundee City Council

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

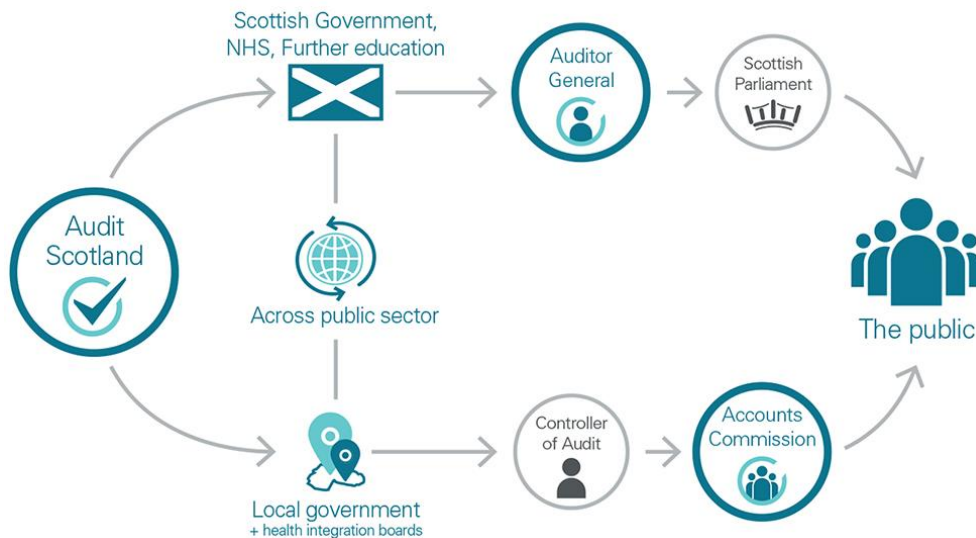
Prepared for Dundee City Council  
March 2019



## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.



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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


## Adding value


3. We aim to add value to Dundee City Council (the council) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the council promote improved standards of governance, better management and decision making and more effective use of resources.


## Audit risks


4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).


## Exhibit 1: 2018/19 Key audit risks


 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>ISA 240 <i>The auditor's</i> responsibilities relating to fraud in an audit of financial statements includes certain</p>	<ul style="list-style-type: none"> <li>Regular budget monitoring and reporting.</li> <li>Local code of corporate governance outlining the</li> </ul>	<ul style="list-style-type: none"> <li>Analytical procedures on income/expenditure.</li> <li>Testing of key internal financial controls</li> </ul>


 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>requirements relating to the auditor's consideration of fraud.</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant.</p> <p>The council receives a significant amount of funding from the Scottish Government, however income is received from other sources, including council tax, housing rents etc.</p> <p>Additionally, the Code of Audit Practice requires consideration of the risk of fraud over expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<p>governance framework.</p> <ul style="list-style-type: none"> <li>• Completion of annual governance statement checklists.</li> <li>• Internal controls in financial systems to mitigate risks of error or manipulation.</li> <li>• Participation in the National Fraud Initiative.</li> <li>• Internal audit is reviewing internal financial controls as part of its 2018/19 work.</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed testing of transactions focusing on the areas of greatest risk.</li> <li>• Review the council's involvement in the National Fraud Initiative.</li> </ul>
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Valuations and impairment review of non-current assets by professional valuer in line with 5 year rolling programme. Includes the council house revaluation in 2018/19.</li> <li>• Actuarial valuation to provide pension figures for the financial statements and officer review of actuary information to ensure data and assumptions used are reasonable.</li> <li>• Confirmation from legal services of all potential legal cases, together with an assessment of potential liability and likelihood of settlement.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the work of an expert in accordance with ISA 620. This will apply to the work of the actuary and the property valuer.</li> <li>• Focused testing of non-current assets, pensions and provisions.</li> </ul>
<p><b>4 Group entities consolidation</b></p> <p>The council's group accounts bring together the council's interests in entities which would be regarded as subsidiaries, associates and joint ventures. The council's relationships with organisations need to be reviewed annually to identify the group boundary for the accounts. Changes this year include:</p> <ul style="list-style-type: none"> <li>• Dundee City Developments Limited being wound up.</li> </ul>	<ul style="list-style-type: none"> <li>• Tay Cities Region Joint Committee relationship to the council in respect of the group accounts will be considered.</li> <li>• Consider the accounting entries required to reflect the winding up of Dundee City Developments Limited</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the council's consideration of related parties to ensure all group entities are appropriately recognised</li> <li>• Review of accounting basis for preparation of the group accounts.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<ul style="list-style-type: none"> <li>The establishment of a new body in relation to the Tay Cities Deal.</li> </ul>		
<p><b>5 Service concession assets</b></p> <p>A service concession arrangement is an arrangement whereby the council contracts with a private operator to develop, operate and maintain an asset. A significant service concession arrangement in relation to waste management project is currently under construction. The council need to consider whether this service concession asset and associated liability should be recognised in the financial statements in 2018/19. There is a risk that this arrangement is not appropriately recognised in the financial statements.</p>	<ul style="list-style-type: none"> <li>The Final Accounts Working Group are considering the accounting treatment of the project and will liaise with external audit.</li> </ul>	<ul style="list-style-type: none"> <li>Review of service concession model and disclosures in the accounts including asset valuation and liability.</li> </ul>
<p><b>6 Code of practice on local authority accounting</b></p> <p>The main changes to the 2018/19 Code since last year include:</p> <ul style="list-style-type: none"> <li><i>IFRS 15 Revenue from contracts with customers</i>, with additional guidance on the principles of revenue recognition</li> <li>amendments in respect of segmental reporting requirements</li> <li>the adoption of <i>IFRS 9 Financial instruments</i></li> <li>removing the requirement to disclose the analysis of debtors and creditors.</li> </ul> <p><i>IFRS 16 Leases</i> also requires consideration as its application can be considered once IFRS 15 has been adopted.</p> <p>There is a risk that these changes are not appropriately recognised in the financial statements.</p>	<ul style="list-style-type: none"> <li>The Final Accounts Working Group are considering the accounting treatment of these areas and will liaise with external audit where appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Review the financial statements and supporting information to ensure areas have been accounted for appropriately.</li> </ul>
<b>Wider dimension issues and risks</b>		
<p><b>7 Financial sustainability</b></p> <p>The council is facing the prospect of having to make significant budget savings. The council has a relatively low level of usable reserves in comparison with other authorities and continues to face increasing demands. This position is</p>	<ul style="list-style-type: none"> <li>In November 2018 the council considered the impact of the budget and the Scottish Government's Medium-Term Financial Strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Review the council's process for monitoring the transformation programme progress.</li> <li>Review financial monitoring reports and the financial position.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>exacerbated through the uncertainty presented by EU withdrawal. There is a risk that the council is unable to deliver the efficiencies required to balance its budget whilst meeting its strategic priorities.</p>	<ul style="list-style-type: none"> <li>Projected savings and efficiencies required over the next three years have been identified as between £38.3 million and £55.1 million (with £10.3 million of this required in 2019/20). These were considered by the Policy and Resources Committee in February 2019.</li> <li>Regular financial monitoring reports presented to Members.</li> <li>Changing for the future programme – C2022 approved and progress regularly monitored.</li> <li>Internal audit is reviewing transformational change as part of its 2018/19 work.</li> <li>Ongoing preparation for Brexit including Council consideration of Audit Scotland's report on Brexit, regular meetings of the Brexit working group and regular updates to Members on the potential impact of Brexit.</li> </ul>	<ul style="list-style-type: none"> <li>Review how well the audited body has prepared for EU withdrawal and how the council is responding to any emerging risks.</li> <li>Review any debt reprofiling to ensure compliance with regulations, financial sustainability and compliance with the council's treasury management strategy.</li> </ul>
8	<p><b>Performance management</b></p> <p>The council's performance management framework is going through significant changes.</p> <p>A revised performance management framework was approved in August 2018. This framework includes the introduction of service scorecards which align service performance with key priorities and outcomes</p> <p>The council uses the Pentana performance management system to record performance management data and this forms the basis of reporting to management and members. The system is still in its infancy with many elements still being populated to ensure the</p>	<ul style="list-style-type: none"> <li>Pentana will continue to be populated to allow services to monitor all areas through the system.</li> <li>Quarterly performance monitoring reports to the Scrutiny Committee.</li> <li>Implement improvements highlighted through internal audit's reviews of public performance reporting, Pentana and data integrity.</li> </ul>	<ul style="list-style-type: none"> <li>Review progress with performance reporting and the use of the Pentana system, including an update on internal audit's recommendations.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>system is an embedded management tool within services.</p> <p>Our 2017/18 Annual Audit Report highlighted that it is too early to assess the impact of the new framework on the outcome for customers and citizens.</p> <p>Until the framework and system are fully operational there is a risk that the members cannot effectively scrutinise and take informed decisions on the allocation of resources and the prioritisation of improvement actions in services.</p>		
<p><b>9 Risk management</b></p> <p>Our 2017/18 Annual Audit Report highlighted that work on the risk management framework is ongoing and development of the risk management framework continues to feature in the 2018/19 corporate governance improvement agenda. The risk management improvement plan identified agreed actions to be addressed to improve the process.</p> <p>Until the framework is fully embedded within services there remains a risk that the council is not mitigating risks to an acceptable level.</p>	<ul style="list-style-type: none"> <li>• Risk Management Policy and Strategy, Corporate Risk Register and Risk Management Improvement Plan considered by Members in December 2018.</li> <li>• Corporate Risk Management Co-ordinator liaising with service management teams to develop service risk registers.</li> <li>• Updating Pentana to allow monitoring of progress of actions to address issues highlighted on risk registers.</li> <li>• Regular progress updates on risk management improvement plan and the Corporate Risk Register considered by Members.</li> <li>• Internal audit is reviewing risk management arrangements as part of its 2018/19 work.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor the progress in implementing the improvements to the risk management arrangements.</li> <li>• Review the content of the Annual Governance Statement regarding risk management.</li> <li>• Review the council's considerations to establish the extent, value and nature of key supplier dependencies and the robustness of the business continuity arrangements in place.</li> </ul>
<p><b>10 Internal audit</b></p> <p>The first internal audit plan progress report was considered by the Scrutiny Committee in February 2019. This recognises slippage in the plans with 5 areas from the 2017/18 internal audit plan yet to be reported. Several other areas from</p>	<ul style="list-style-type: none"> <li>• Delivery of internal audit reports in line with plans.</li> <li>• Review of the 2018/19 internal audit plan, to confirm ongoing relevance of the individual assignments.</li> </ul>	<ul style="list-style-type: none"> <li>• Review progress against plans to ensure this is appropriately reflected in the assurances provided in the Annual Governance Statement.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>the 2017/18 plans were carried forward to the 2018/19 plan.</p> <p>From the 2018/19 internal audit plan only four areas are noted as complete.</p> <p>This presents a risk to obtaining the necessary assurances management and members require for the Annual Governance Statement.</p>	<ul style="list-style-type: none"> <li>Regular progress reports against plans to be provided to the Scrutiny Committee.</li> <li>Internal audit's annual report to provide assurance on the council's governance arrangements.</li> <li>The council's co-source Internal Audit Service facilitates flexibility in scheduling delivery of the Internal Audit Plan.</li> </ul>	
<p><b>11 Capital expenditure</b></p> <p>The council's capital programme 2019-24 was approved in October 2018 and includes a programme of £347 million of expenditure planned over the period. The programme is front loaded with £124 million planned for 2019/20 alone.</p> <p>Our 2017/18 Annual Audit Report highlighted that capital expenditure in 2017/18 was underspent by £32.4 million (20.3%) against the original budget.</p> <p>There is a risk that the council is unable to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area due to delays in investment or improvements to the asset base.</p>	<ul style="list-style-type: none"> <li>10-year Capital Investment Strategy aligned to the City Plan.</li> <li>5-year capital budget builds in a contingency for slippage in the capital programme (£10 million built into 2018/19 programme).</li> <li>Capital expenditure monitoring reports provide members with regular updates including project completion dates.</li> <li>Tay City deals agreed. Council established governance arrangements to ensure funding and spending effectively managed.</li> <li>Internal audit plan to review the housing capital plan as part of their 2018/19 work.</li> </ul>	<ul style="list-style-type: none"> <li>Review capital expenditure monitoring reports and the progress with projects.</li> </ul>
<p><b>12 Journal backdating</b></p> <p>Our 2017/18 Annual Audit Report highlighted that there continued to be a considerable level of back-dating of transactions throughout the year. There is a risk that significant backdating of journals during the year may make it more difficult for budget holders to track year to-date and monthly expenditure. This also increases the risk of fraud or error.</p>	<ul style="list-style-type: none"> <li>Data will be reviewed to highlight the areas which are causing the level of backdating. These areas will be addressed and action taken to reduce the period where backdating is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>Review actions to address issues by client and review the level of backdating being undertaken.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>13 ICT capacity</b></p> <p>The council are planning to move to cloud services e.g. Office 365. The skillsets required for this work is relatively new and the service acknowledge action is required to develop capacity in this area. The enterprise architecture skills required are in high demand in both the public and private sector. There is a risk that the council is unable to deliver the planned move to cloud services.</p>	<ul style="list-style-type: none"> <li>Budget established for consultancy skills to assist in the migration and setup of new services.</li> <li>IT strategy recognises the need to evaluate existing staff skillsets and where appropriate reskill and retrain staff.</li> </ul>	<ul style="list-style-type: none"> <li>Review actions to address issues by client and monitor progress in implementing cloud services in the council.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to Dundee City Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide the council and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2 2018/19 Audit outputs

<b>Audit Output</b>	<b>Target date</b>	<b>Committee Date</b>
Annual Audit Plan	21 March 2019	17 April 2019
Management Report	5 June 2019	26 June 2019
Annual Audit Report *	18 September 2019	25 September 2019
Independent Auditor's Report	25 September 2019	25 September 2019

\* This date is the date the proposed Annual Audit Report will be presented for those charged with governance. To allow for potential subsequent post balance sheet events, the formal Annual Audit Report cannot be presented until after the date of certification of the annual accounts on 25 September 2019.

Source: Audit Scotland

## The audit of trusts registered as Scottish charities

8. The Members of the council are sole trustees for a number of trusts, registered as Scottish charities, with total assets of around £6 million. The preparation and audit of financial statements of registered charities is regulated by the Charities

and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

**9.** The Charities Accounts (Scotland) Regulations 2006 require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for the three sets of charity accounts.

**10.** There are no specific risks for these audits which we require to bring to your attention.

## Audit fee

**11.** The proposed audit fee for the 2018/19 audit of Dundee City Council is £349,000 (2017/18 £342,570). In determining the audit fee we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 30 June 2019.

**12.** We have also agreed a fee for the audit of the three registered charities of £4,690 (£4,600 in 2017/18).

**13.** The combined fee of £353,690 represents a small increase of £6,520 (1.9%) over the £347,170 fee charged in 2017/18.

**14.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Scrutiny Committee and Executive Director of Corporate Services

**15.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and propriety that enable them to successfully deliver their objectives.

**16.** The audit of the annual accounts does not relieve management or the Scrutiny Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**17.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**18.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.



# Audit scope and timing

## Annual accounts

**19.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Dundee City Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Dundee City Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**20.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the Code, of the state of affairs of the council and its group and of the income and expenditure of the council and its group for the year;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## Other information in the annual accounts

**21.** We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**22.** We also read and consider any information in the annual accounts other than the financial statements and the audited part of the remuneration report and report any uncorrected material misstatements.

## Materiality

**23.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.



24. We calculate materiality at different levels as described below. The calculated materiality values for the council are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018, based on the latest audited accounts.	£7.36 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£4.42 million
<b>Reporting threshold (i.e. 'clearly trivial')</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£0.15 million

Source: Audit Scotland

25. We set separate materiality levels for the audits of the charities accounts, as detailed in [Exhibit 4](#) below.

### Exhibit 4 Trust materiality levels

Trust	Planning materiality *	Performance materiality **	Lower performance materiality ***	Reporting threshold
Dundee City Council Charitable Trusts	£116,000	£87,000	£700	£6,000
Lord Provost Charity Fund	£1,050	£800	£150	£100
Dundee Trust	£1,400	£1,050	n/a ****	£100

\* planning materiality based on 2% of the 2017/18 audited net asset value

\*\* higher performance materiality based on 2017/18 audited net asset value.

\*\*\* lower performance materiality based on 2017/18 gross revenue expenditure.



\*\*\*\* Dundee Trust expected expenditure in 2018/19 equates to the net assets therefore no lower performance materiality required.

### Timetable

26. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 5](#).

## Exhibit 5

### Annual accounts timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	26 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2019
Latest date for final clearance meeting with officers	6 September 2019
Issue of letter of representation and proposed independent auditor's report	11 September 2019
Agreement of audited unsigned annual accounts	13 September 2019
Issue of proposed Annual Audit Report including ISA 260 report to those charged with governance	18 September 2019
Independent auditor's report signed	25 September 2019
Latest date for signing of whole of government accounts return	30 September 2019

### Internal audit

**27.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function at audited bodies.

**28.** The council's internal audit function is delivered utilising a mix of in-house and external resources, overseen by the council's Senior Manager - Internal Audit. The external resources are provided by KPMG who were approved as the council's co-sourcing partner for the delivery of internal audit services with effect from November 2017.

**29.** Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and that it generally complies with the requirements of the Public Sector Internal Audit Standards (PSIAS). An external quality assessment and a self-assessment against the PSIAS were reported to the Scrutiny Committee in June 2018, with agreed improvement actions identified including

- linking the internal audit planning process to identified risks once risk registers are developed in council services
- developing the use of assurance mapping
- developing regular progress reports against the annual plan to the Scrutiny Committee
- the introduction of a formal process of recording training records for internal audit staff.

**30.** Progress on implementing internal audit recommendations is reported annually to the Scrutiny Committee based on assurances received from management on progress against recommendations. Annually internal audit also undertake a risk assessment and identify previous audit reports to follow-up and this is agreed as part of internal audit's annual audit plan approved by the Scrutiny Committee.

These follow-up reports are to confirm the progress noted by management is accurate and evidenced based.

**31.** We do not plan to place reliance on the work of internal audit for our financial statements work, however to support our wider dimension audit responsibilities we plan to consider internal audits reports on the following areas:

- Transformational change
- Internal financial controls
- Communication strategy
- Housing capital plan
- Dundee Health & Social Care Partnership
- General Data Protection Regulation
- Risk management
- Fraud governance.

## Audit dimensions

**32.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#).

### Exhibit 6 Audit dimensions



Source: Code of Audit Practice

**33.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

### Financial sustainability

**34.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

## Financial management

**35.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment, including internal controls, are operating effectively. We will review, conclude and report on:

- whether the council has arrangements in place to ensure systems of internal control are operating effectively
- whether the council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how the council has assured itself that its financial capacity and skills are appropriate
- whether the council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

## Governance and transparency

**36.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as Arms' Length External Organisations (ALEOs))
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

## Best Value / Value for Money

**37.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

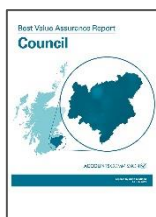
**38.** A key feature of the approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- The Annual Audit Report for each council that will provide a rounded picture of the council overall.
- An annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports.
- A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five-year period.

**39.** The seven councils on which a BVAR will be published during the third year of the approach are listed in [Exhibit 7](#). Reports will be considered by the Accounts Commission in the period between March and November 2019.

## Exhibit 7

### Best Value Assurance Reports



North Lanarkshire Council

Highland Council

Stirling Council

Scottish Borders Council

South Lanarkshire Council

Perth and Kinross Council

Midlothian Council

Source: Audit Scotland

**40.** The Best Value audit work planned in the council this year will focus on the arrangements for demonstrating effective vision & leadership and governance & accountability. The results of this work will be reported in our Annual Audit Report.

### Housing benefit performance audit

**41.** The Accounts Commission has responsibility for the audit of housing benefit services in Scotland and Audit Scotland carries out a programme of performance audit work every year. The structural changes to the social security landscape, both at UK and Scottish level, are presenting significant implications for councils. In this context the Commission is considering a more strategic approach to the housing benefit performance audit from 2019/20. This would change the balance between reports on the risks at individual councils to more cross-cutting thematic reviews that look at risks across councils.

**42.** Audit Scotland will continue to review the relative performance of all councils' housing benefit services throughout the year, and will take a risk based and proportionate approach to changes in performance at an individual council. Currently there are no plans for audit work at the council. Once finalised, the change in approach will be fully communicated to councils along with planned reviews and timescales

### Independence and objectivity

**43.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**44.** The engagement lead (i.e. appointed auditor) for the council is Fiona Mitchell-Knight, Audit Director. The engagement lead for the charitable trusts is Bruce Crosbie, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the council or the charitable trusts.

### Quality control

**45.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**46.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**47.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Dundee City Council Council

## Annual Audit Plan 2018/19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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