

REPORT TO: SCRUTINY COMMITTEE – 28 SEPTEMBER 2016

REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S ANNUAL AUDIT REPORT TO THE MEMBERS OF DUNDEE CITY COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR TO 31 MARCH 2016

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 309-2016

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 2016. A copy of the draft external auditor's report (Report No 308-2016), the draft 2015/2016 Audited Annual Accounts for the City Council (Report No 305-2016), the draft 2015/2016 Audited Dundee City Council Charitable Trusts Annual Accounts (Report No 306-2016) and the draft 2015/2016 Audited Lord Provost of Dundee Charity Fund Annual Accounts (Report No 307-2016) are also included on the agenda as separate items.

2 RECOMMENDATIONS

It is recommended that the Committee:

- i notes the contents of the draft external auditor's report including the completed action plan at Appendix 5, and in particular that KPMG have indicated they will issue an unqualified audit opinion on each of the 2015/2016 Annual Accounts noted above.
- ii endorses this report as the Council's formal response to the external auditor's report
- iii approve for each of the Audited Annual Accounts noted above to be signed as necessary
- iv instruct the Executive Director of Corporate Services to arrange for each of the Audited Annual Accounts noted above to be signed and then returned to the external auditor
- v instruct the Executive Director of Corporate Services thereafter to arrange for the above Annual Accounts, including copies of all audit certificates and accounts of the Council's subsidiary bodies to be published on the Council's website by no later than 31 October 2016
- vi notes that the external auditor's report will also be considered by the Policy & Resources Committee in due course, together with each of the Audited Annual Accounts noted above

3 FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

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 2015/2016 was carried out by Mr Hugh Harvie, Partner, KPMG. Local authority external auditors are appointed for a five year period and the financial year 2015/2016 marked the final year of KPMG's appointment.

4.2 The 2015/2016 unaudited Annual Accounts were submitted to Scrutiny Committee earlier this year (Article XIII of the Minute of Meeting of the Scrutiny Committee 29 June 2016, Report No: 242-2016 refers). Following this meeting the accounts were submitted to KPMG, prior to the required statutory deadline of 30 June 2016. The accounts have since been subject to a three week statutory public inspection period and no objections were received.

4.3 External Auditor's Report

KPMG have now completed their audit work and, in accordance with auditing standards (ISA 260: Communication with those charged with governance), are required to report the outcome of their work in relation to their review of the financial statements, prior to formally issuing their audit opinions. This requirement has been addressed in the External Auditor's report.

4.4 The report summarises the findings in relation to the overall audit of the Council for the year ended 31 March 2016. The attached report describes the scope of audit work undertaken during 2015/2016 and the issues arising from that work are divided into three key area looking at

- financial position
- financial statements and accounting
- the wider scope of the audit

4.5 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, the 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.

4.6 Action Plan

The external auditor has identified three key issues arising from the 2015/2016 audit that require further action by the Council. These relate to:

- 1 Journal documentation
- 2 Financial planning
- 3 Exit package approval

These matters have been considered carefully by the Chief Executive, Executive Director of Corporate Services and other appropriate officers and the completed action plan, incorporating the "agreed management actions", is included at Appendix 5 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 these items have been classified by the external auditor as being "significant".

4.7 Conclusions

The external auditor has undertaken a thorough and wide-ranging review of the financial statements and the processes and procedures around their preparation. The report identified no unadjusted audit differences. Any amendments made to the accounts following the audit were all minor presentational changes.

In addition to the audit of the accounts, the external auditor examined a number of areas covering a wide range of activities during 2015/2016. Whilst some areas for improvement have been identified, it is pleasing to note that the overall findings and conclusions are satisfactory. In particular, the Council can take encouragement from the following findings:

- the accounts were again submitted on time and there was no qualification to the external auditor's opinions.
- working papers relating to the annual accounts were deemed to be of a 'high-quality' standard
- all supporting documentation was provided to external auditor on a timely basis and audit queries were answered promptly
- all accounting policies have been applied appropriately and consistently in the financial statements
- the governance framework of the Council is considered to be appropriate and controls relating to financial systems and procedures are operating effectively
- the internal audit service operates in accordance with Public Sector Internal Audit Standards
- best value and performance management arrangements are generally robust
- arrangements to prevent and detect fraud are appropriate

4.8 The Way Ahead

Following the approval of the accounts for signature, the relevant statements of the Annual Accounts will be signed and dated by the appropriate officers and then returned to the external auditor. In line with statutory requirements, copies of the Annual Accounts together with the audit certificate and accounts of all the Council's subsidiary bodies will then be published on the Council's website by no later than 31 October 2016.

A copy of the final external audit report together with the Audited Annual Accounts will be also be submitted to the Policy & Resources Committee in due course.

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: Draft Annual Audit Report to the Members of Dundee City Council and the Controller of Audit – Year Ended 31 March 2016

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

19 SEPTEMBER 2016

