

REPORT TO: SCRUTINY COMMITTEE – 25 SEPTEMBER 2019

REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S ANNUAL AUDIT REPORT TO MEMBERS OF DUNDEE CITY COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR TO 31 MARCH 2019

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 339-2019

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 2019. A copy of the draft external auditor's report (Report No 338-2019), the draft 2018/2019 Audited Annual Accounts for the City Council (Report No 334-2019), the draft 2018/2019 Audited Dundee City Council Charitable Trusts Annual Accounts (Report No 335-2019), the draft 2018/2019 Audited Lord Provost of Dundee Charity Fund Annual Accounts (Report No 336-2019) and the draft 2018/2019 Audited Dundee Trust Annual Accounts (Report No 337-2019) 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 1, and in particular that Audit Scotland have indicated they will issue an unqualified audit opinion on each of the 2018/2019 Annual Accounts noted above.
- ii endorses this report as the Council's formal response to the external auditor's report
- iii 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 2019
- 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

The Council's draft 2018/2019 Audited Annual Accounts show a closing General Fund balance of £13.865m at 31 March 2019. Within this overall total it is estimated that £7.5m is uncommitted. This equates to 2.2% of annual budgeted net expenditure. These figures are unchanged from the position reported in the 2018/2019 Unaudited Annual Accounts, as submitted to Scrutiny Committee on 26 June 2019.

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 2018/2019 was carried out by Mrs Fiona Mitchell-Knight,

Assistant Director (Audit Services), Audit Scotland. Local authority external auditors are appointed for a five year period and the financial year 2018/2019 marked the third year of Audit Scotland's current appointment.

- 4.2 The 2018/2019 unaudited Annual Accounts were submitted to Scrutiny Committee earlier this year (Article XIII of the Minute of Meeting of the Scrutiny Committee 26 June 2019, Report No: 249-2019 refers). The accounts were submitted to Audit Scotland, prior to the required statutory deadline of 30 June 2019. 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

Audit Scotland 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 2019. The attached report describes the scope of audit work undertaken during 2018/2019 and the issues arising from that work are divided into five key area looking at:

- audit of 2018/19 annual report and accounts
- financial management
- financial sustainability
- governance and transparency
- best value

- 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, external audit 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 Audit Adjustments

Through the audit process, five technical and presentational adjustments to the figures in the financial statements were identified. The main adjustment related to the impact of a court judgement ("McCloud Judgement") which has increased the pension liability figures included in the accounts of UK local government bodies. Further details are provided in Exhibit 3 on page 11 of the external auditor's report. Whilst the sums involved were significant, it is emphasised that none of the technical and presentational adjustments impacted on the Council's General Fund balance or on the Council's usable reserves generally.

4.7 Action Plan

The external auditor has made four recommendation arising from the 2018/2019 audit that require further action by the Council. These recommendations have been considered carefully by the Chief Executive and Executive Director of Corporate Services and the completed action plan, incorporating the "agreed management action/timing", is included at Appendix 1 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.

4.8 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 misstatements that exceeded the reporting threshold. In addition to the audit of the accounts, the external auditor examined a number of areas covering a wide range of activities during 2018/2019.

Whilst some adjustments were required to the unaudited accounts and 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 submitted ahead of the statutory deadline and unqualified audit opinions will be issued
- the working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit
- financial management is effective with a budget process focussed on the Council's priorities
- systems of internal control operated effectively in 2018/19
- the Council has made good progress in financial planning with the introduction of a long-term financial strategy
- governance arrangements operated effectively during the year
- the Council demonstrates a commitment to transparency in the way that it conducts its business
- the Council is continuing to improve its public performance reporting

4.9 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 the Council's subsidiary bodies will then be published on the Council's website by no later than 31 October 2019.

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 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.

7 **BACKGROUND PAPERS**

Audit Scotland: Proposed 2018/19 Annual Audit Report to Members of Dundee City Council and the Controller of Audit

GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

19 SEPTEMBER 2019

