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**REPORT TO: AUDIT AND RISK MANAGEMENT SUB-COMMITTEE – 29 APRIL 2009**

**REPORT ON: EXTERNAL AUDIT REPORTS**

**REPORT BY: PEARL TATE, SENIOR AUDIT MANAGER**

**REPORT NO: 152-2009**

## **1 PURPOSE OF REPORT**

To submit to Members of the Audit and Risk Management Sub-Committee the External Audit Reports finalised since the last Sub-Committee and the Annual Audit Plan for 2008/09.

## **2 RECOMMENDATIONS**

Members of the Sub-Committee are asked to consider each of the individual reports.

## **3 BACKGROUND**

- 3.1 The final element of our 2007/08 work, the *Audit of Best Value and Community Planning: Progress Update to September 2008 report* has been finalised since the last Sub-Committee meeting
- 3.2 The 2008/09 Annual Audit Plan outlines the focus of our audit work for the year which is centred around four areas:
- the financial statements
  - the findings of our audit risk assessment process
  - a review and assessment of governance and performance arrangements
  - grant claims and returns.
- 3.3 The 2008/09 SARA outlines our findings from our audit risk assessment process and details the management actions being taken to mitigate these risks. Our risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland and work undertaken to identify issues and risks which are unique to the local situation. This report is not an exhaustive list of all the risks or management assurances nor does it reflect our conclusions at this point in time. The findings from our 2008/09 work will be detailed in our Final Report to Members in October 2009.

Pearl Tate  
Senior Audit Manager  
20 April 2009

# Dundee City Council

**The Audit of Best Value and Community Planning**

**Progress Update to September 2008**

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# Introduction

The Local Government in Scotland Act 2003 introduced new statutory duties relating to Best Value and Community Planning. The report on the Audit of Best Value and Community Planning, undertaken at Dundee City Council, and the Accounts Commission's findings were published in October 2005. The report described a council that faced a series of complex challenges as a result of the social and economic circumstances of its area. It had shown that it had a commitment to regenerating the city and that, in some parts of its business, it was capable of achieving improved performance without always relying on additional resources. It had strengths in partnership working, had made good progress with Community Planning and benefited from a strong track record of working with local people.

In its findings, the Commission also highlighted that there were issues which the council had to address if it was to be in a position to deliver best value:

- The lack of an effective scrutiny process by elected members which was largely attributable to the fact that all 29 members sat on all 13 committees. This made the independence of view essential to the scrutiny process difficult, if not impossible, to achieve.
- The consistent focus on policy making in private session, which raised concerns about transparency.
- The need to improve strategic management in a planned way in order to achieve appropriate structures, both at an elected member and officer level, not just reacting opportunistically to personnel and political changes.
- The need to relate systematically the council's policies and priorities to the resources available in order to strengthen its capacity to deliver best value.
- The adoption of blanket policy commitments which, taken with pressures on resources, from a declining population/ tax base and growing demand for services, severely limited the achievement of best value for the people of Dundee.
- Corporate processes which did not adequately support performance management.

The Commission was concerned that these issues, which related largely to the corporate centre at member and officer level, needed to be addressed to achieve continuous improvement in service delivery. It indicated that it expected progress to be monitored through the normal audit process and that it would pay particular attention to this aspect of audit reports. We note that the council did not agree with some of the issues highlighted by the Accounts Commission at the time of the audit.

In previous years we have reported on the progress made by the council in implementing the actions set out in its Best Value (BV) improvement plan. A further update is provided in this report, which also considers the extent to which the council has addressed the concerns expressed by the Commission.

# Progress update

## Overall conclusions

**Three years on from the original Best Value audit, actions identified in the council's best value improvement plan are generally well advanced. Improved direction by senior management has led to a greater focus on performance management and continuous improvement. This has contributed to improvements in measured performance. However, option appraisal remains underdeveloped and the council also remains cautious about the extent to which it can realign resources to better reflect its strategic priorities. Significant further development of asset and workforce management is also required.**

**Important improvements have been made in some key areas, most notably to corporate processes to better support performance management. However, there has been limited change to the manner in which council business is organised and conducted to address specific concerns raised by the Accounts Commission in relation to transparency of decision making, scrutiny and strategic management of organisational structure. It is clear that the council remains content with its current arrangements and that it does not wish to make further change to its political management structures, reflecting a continuing disagreement with the concerns previously highlighted.**

1. Since the publication of the Best Value audit report in October 2005, the council has made a step change to the manner in which it manages its performance. This has contributed to significant improvements in key performance measures, with the overall rate of SPI improvement amongst the best in Scotland. A number of improvements have also been made to corporate processes.
2. The actions identified in the improvement plan established as a result of the BV audit are generally well advanced with two thirds now considered fully or substantially complete. There is also a renewed focus on continuous improvement, using a range of review activities at both a corporate level and in examining individual services or processes.
3. However, there has been limited change to the manner in which council business is organised and conducted to address specific concerns raised in relation to transparency of decision making, scrutiny and strategic management of organisational structures. It is clear that the council remains content with its current arrangements and that it does not wish to make further change to its political management structures, reflecting its continuing disagreement with the concerns raised.
4. Moving forward the council is considering further improvements to its performance management arrangements, reviewing these to support an increased focus on outcomes. Further development is also needed to embed effective approaches to the management of people and assets and it needs to adopt a more robust approach to option appraisal across the range of its activities. Work is also continuing on community planning, equalities, sustainable development and procurement.
5. Overall, the council continues to exhibit a prudent, incremental approach. This has supported it well in ensuring that planned activity remains affordable while at the same time achieving some good improvements in measured performance. However, a number of concerns about its ability to achieve best value into the future remain to be addressed.

## Governance & accountability

**Better reporting has led to some improvements in the scrutiny of performance. However, all members continue to serve on all committees and there remains very little challenge and debate in public forums. The council has reviewed its political structures, and rationalised the number of committees. This has not addressed the underlying concerns relating to openness and transparency previously expressed by the Accounts Commission. Whilst all decisions are formally made in public, there is limited policy discussion in the public meetings.**

6. Following the 2005 BV audit the council undertook a review of its structures. The results of this were reported by the chief executive to the policy and resources committee in June 2006. The review concluded that:
  - the current committee and council structure was effective in dealing with the day to day decision making of the council and was fairly readily understood by members of the public.
  - some changes should be made to the remit of the Best Value committee to add duties in relation to performance management and efficiency (now the Best Value, Performance and Efficiency Sub-Committee).
  - the number of member/ officer working groups should be expanded, covering major projects.
  - the council structure should be reviewed again by the new Administration following the May 2007 elections. If, at this time or any time in the future, elected members decided to change the organisational structure of the council it would be appropriate to also review the structure of the management team. Any change before then should be incremental.
  - A programme of reviews had been established to review the potential modernisation of services.
7. The conclusions of the review were accepted by elected members. In the period immediately following the May 2007 elections the chief executive held discussions with each of the political groups. The results of these were reflected in a report to the statutory meeting of the new Council on 24 May 2007 that made proposals to streamline the council's committee structure, which were then agreed by members (with some minor amendments to the membership of some committees and sub-committees). These included a rationalisation of the number of service committees, reducing these from 13 to eight. All members continued to serve on the service committees and the Development Quality committee. The Audit and Risk Management sub-committee would continue to have six members, including three Administration members. No alternative options to the structures were presented at this time or have been considered subsequently.

### Action Plan No 1

8. There has been some improvement to scrutiny arrangements since the time of the BV audit. Changes to the remit of the Best Value, Performance and Efficiency sub-committee and significant improvements in the quality of performance information made available to it has improved the

effectiveness of the scrutiny of performance. The Audit and Risk Management sub-committee also makes a contribution to scrutiny of the areas covered by its remit. However, underlying concerns expressed by the Accounts Commission about all 29 members serving on all committees have not been addressed. The involvement of all members in policy decisions continues to make the independence of view essential to the scrutiny process difficult to achieve.

#### **Action Plan No 2**

9. While formal decision making takes place in public meetings, which are all conducted sequentially in a single evening, there is often limited challenge and debate around the decisions. Agendas, reports and minutes are made publicly available on the council's website, but the papers rarely include details of any other options considered. This coupled with the absence of full public discussion means that the reasoning which underpins the decisions of the council is not clearly traceable. The Accounts Commission's concern that decision making processes were not sufficiently transparent has not been addressed.

#### **Action Plan No 1**

10. While the council has completed the action contained in its BV improvement plan to review its political management arrangements, it has not accepted the underlying concerns expressed by the Accounts Commission in relation to scrutiny and transparency of decision making. It is clear that the council remains content with its current arrangements and that it does not wish to make further change to its political management structures.
11. Overarching policy commitments highlighted in the BV audit remain in place, but have not been formally stated. In each area the continuing relevance of these is kept under review based on prevailing circumstances including the overall financial position. The cap on rises in council tax has essentially been superseded by the commitment through COSLA to retain council tax at current levels in line with the national concordat. Discussions about the funding of this in future years are continuing. Funding requirements for improvements to housing stock necessary to meet the Scottish Housing Quality Standard have been kept under review, and rent rises have been restricted in line with the previous policy. Redeployment of staff has meant that no compulsory redundancies have been necessary and the council continues to aim to maintain facilities throughout the city.

## Corporate processes

**The council has made significant improvements to its performance management arrangements, introducing more systematic monitoring of key performance measures and progress on initiatives and projects. It has recognised a need for further improvement in the measures it uses, including a greater focus on outcomes, and has embarked on a review of its current approach.**

**Improvements have also been made to service planning linking this more closely to budgeting. The council's approach has been effective in ensuring that planned service activity is affordable within established budgets but it has been cautious about realigning resources to reflect strategic priorities. Option appraisal remains underdeveloped and there is scope to make better use of benchmarking.**

12. The council has made significant improvements to its corporate processes to support more effective performance management. It has well established reporting to elected members and the corporate management team covering a selection of key performance measures and progress against initiatives and projects. Monitoring information is aligned to strategic priorities and colour coding helps to improve evaluation. Formal reporting take place quarterly and management information is available directly from the strategic plan monitoring database on a continuing basis.
13. New service planning guidance has helped ensure that plans are more clearly specified and that relevant performance measures are established. However, this remains an area for continuing development as the council rebalances its approach to make less use of Statutory Performance Indicators (SPIs) and more use of outcome and other local performance measures linked to its key priorities. There is also scope for continuing improvement to data collection and reporting processes. The council has recognised this and has embarked on a review underpinned by the development of outcome agreements.
14. The council has also made progress in ensuring that its service plans are more closely linked to budgets. Activity included in service plans is related to available revenue and capital resources on a project by project basis, and requires to be fully funded. Budget setting remains the primary mechanism for considering resource allocation and service plans are developed subsequently. If there are service areas where further investment needs are identified, proposals require to be supported by planned savings elsewhere within the service before being presented to members for decision. This cautious approach ensures that activity is well controlled, but makes it difficult to realign resources more significantly to reflect corporate priorities.
15. The council considers its approaches using a range of review processes, including internal "lean service" reviews and EFQM. These lead to proposals for changes to the way things are done, but systematic option appraisal is not yet well embedded. Reports to members rarely include alternative options and evidence of robust option appraisal is limited.

**Action Plan No 3**

16. Some benchmarking takes place but requires to be used more widely. Work has commenced to apply an efficiency diagnostic tool, alongside existing lean service process reviews and more wide ranging service reviews. However, no lean service forward review programme is currently in place.

## The improvement agenda

**Improved direction by senior management has led to a greater focus on performance management and continuous improvement within the council. This has contributed to significant improvements in measured performance, underpinned by a range of self-evaluation and review activities. Actions identified in the council's best value improvement plan are generally well advanced contributing to some improvements in corporate processes and governance arrangements. However, in some important areas progress has been more limited and continuing effort is required to further improve asset and workforce management.**

17. A revised approach by the council's Corporate Management Team (CMT) means that meetings are now regularly devoted to strategy and performance issues. Improvements in performance information and reporting have supported a greater focus on performance management and continuous improvement at CMT meetings and more widely within the council.
18. The council has also made use of a number of self-evaluation and review techniques including European Foundation for Quality Management (EFQM) approaches, best value service reviews and lean service reviews. A corporate self-assessment using EFQM was completed in June 2007 and led to a number of improvement initiatives being incorporated into the current corporate plan. The council has recently reviewed its approach to self-assessment with a view to introducing a more structured corporate approach in line with the recommendations of the Crerar report on public sector scrutiny. It is considering a move to the Public Sector Improvement Framework which is based on the underlying EFQM model previously used.
19. In 2005, the council produced a three year 'Improvement Action Plan' outlining its response to the issues identified in the original Best Value audit report and the Accounts Commission findings, published in October 2005. The plan contained eighteen improvement actions and the council identified the anticipated outcomes from its implementation.
20. In August 2006, we reported that while progress had been made towards meeting some of the areas for improvement there had been slippage in a number of areas of the plan. We have continued to monitor the situation and in October 2007 we highlighted that the improvement plan had been incorporated into the Council's ongoing performance management arrangements and that, overall, monitoring reports indicated that it had made good progress in implementing the planned actions.
21. Almost three years from its introduction, the council has progressed much of its original best value improvement plan (see Appendix B). Progress currently recorded in the strategic plan monitoring database indicates that 12 (67%) actions are now considered fully or substantially complete, five (28%) are continuing on schedule and one (5%) has fallen behind schedule. Continuing actions relate to:
  - review of resource allocation and impact of community planning;

- making better use of benchmarking, best practice and option appraisal;
- completing corporate age, sexual orientation and belief equality schemes;
- implementing the sustainable development framework;
- business continuity and civil contingency planning;
- a best value approach to procurement.

#### **Action Plan No 4**

22. As described elsewhere in this report and in Appendix B, in some areas the improvement plan has made a significant contribution to addressing the issues highlighted in the original best value report (most notably improvements to the monitoring and scrutiny of performance). Elsewhere the impact has been more limited, particularly in relation to the transparency of decision making. In some cases work to further improve arrangements is continuing – for example in relation to asset and workforce management where significant further development is required. In others, having completed the action planned the council has decided that it is content with the current ways of working and nothing further is planned to address remaining issues.

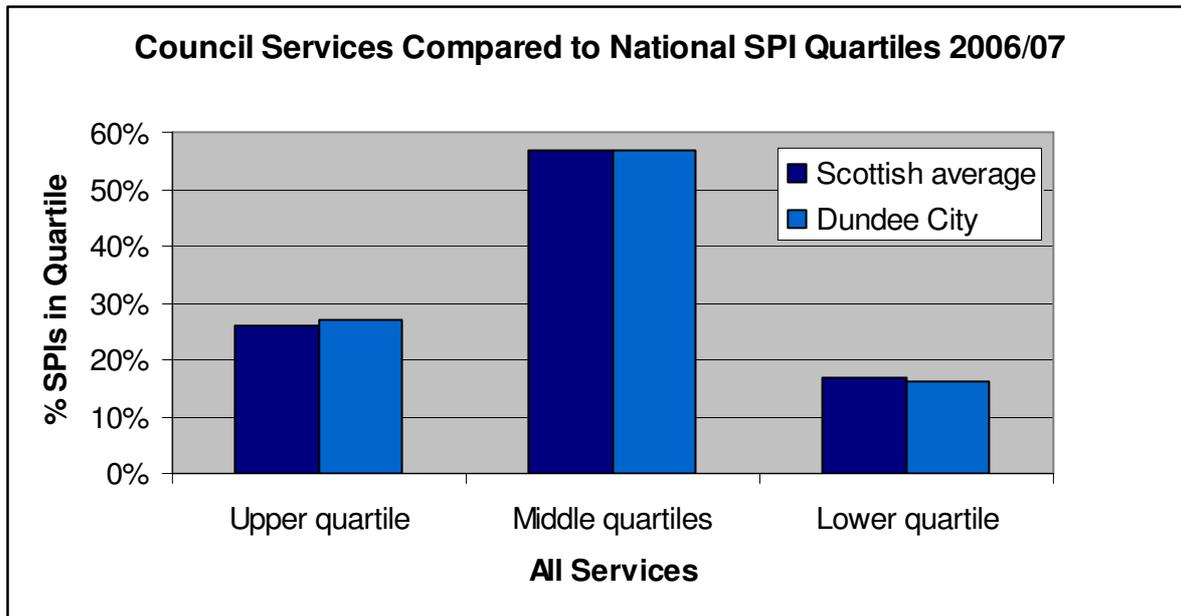
#### **Action Plan No 5**

23. In the period since the BV audit the council has achieved significant improvements in service performance as measured by Statutory Performance Indicators (SPIs). These do not give a comprehensive picture of performance across services, but they allow some comparisons to be made between councils and over time. They also provide a significant proportion of the measures the council has used to monitor its own performance during this time. We note that, in addition, an in-house performance database is in place and continues to be developed.
24. Between 2004/05 and 2006/07 performance improved by at least five percent on 23 SPIs and worsened by at least five percent on 10 measures, producing a 2.3:1 ratio of improvement to decline compared with a 1.5:1 ratio nationally. This is the sixth best improvement rate in Scotland. Comparative data is not yet available for 2007/08, but the council's own results have indicated that performance has continued to improve.
25. When ranked against other Scottish local authorities, the council's overall SPI performance is now broadly in line with Scottish averages. In 2006/07 it had marginally more indicators on average than other councils in the upper quartile of performance and marginally fewer indicators in lower quartile (Exhibit 1).

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## Exhibit 1

### SPI Profiles: proportion of measures in quartiles 1 to 4



Source: Audit Scotland SPI analysis

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26. There is evidence of significant improvement since 2004/05 in adult social work and corporate management. In contrast, there has been a significant decline in the cost of refuse collection.
27. In November 2007, the council received a “Performance Inspection Summary” report from the Social Work Inspection Agency. This highlighted a number of areas strength including the way the department managed, motivated and supported its staff, the use of external studies and internal reviews to check its own progress and good partnership working. Areas for improvement highlighted by the Inspectorate were:
- Single shared assessments with the Health Board for other people using community care services (currently done for older people)
  - To better support people with learning difficulties to live fuller lives and be more independent
  - Help more young people leaving care get employment, education or training
  - Ensuring carers have their expertise used to development services
  - Ensure regular reviews on the suitability of care given to older people living in care homes.
28. We note that an inspection is currently underway by the Scottish Housing Regulator looking at landlord and homelessness services provided by the council. A report is expected to be published towards the end of the year and early indications suggest that the council will need to address a number of areas for improvement.

# Appendix A: Risk summary and action plan

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
<b>Governance &amp; accountability</b>				
1.	<p>Concerns remain that decision making processes are not sufficiently transparent.</p> <p>Following the May 2007 elections the chief executive held discussions with each of the political groups on the structure of the council. This resulted in proposals to streamline the council's committee structure which were submitted to the council and approved. No alternative options to the structures were presented at this time or have been considered subsequently.</p> <p>This approach is common across committees with papers generally being submitted for approval with no indication of the alternative options that have also been considered.</p> <p>While formal decision making takes place in public meetings, there is often limited challenge and debate around the decisions.</p> <p><b>Risk:</b> <i>the manner in which council business is managed does not support public accountability.</i></p>	Chief Executive	<p>Disagree</p> <p>We strongly believe that our committee structures ensure effective scrutiny and transparency of decision making. Our performance statistics support this as does our work with the Dundee Partnership.</p> <p>The City Council has on a number of occasions considered whether it wishes to change its committee structures and the membership of committees and it has consistently decided that it does not wish to do so. This is because the current structures guarantee proportionality, and that all members are able to take part in all the business of the Council.</p> <p>We disagree that committee reports do not consider all the issues before arriving at a recommendation.</p> <p>Members take the opportunity to challenge policy proposals both prior to committee meetings and during the formal committee process.</p>	Not Applicable
2.	<p>As all members sit on all committees and are therefore involved in all decision making there is no independent review and scrutiny of decisions taken by the council. There remains very little challenge and debate in public meetings.</p> <p><b>Risk:</b> <i>the scrutiny of decision making and overall performance is not fully effective.</i></p>	Chief Executive	<p>Disagree.</p> <p>Dundee City Council has taken a decision to have all 29 members on all policy committees. We would argue that this facilitates maximum scrutiny of policy proposals prior to approval.</p>	Not Applicable

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
<b>Corporate processes</b>				
3.	<p>Systematic approaches to option appraisal are not well embedded. Members are rarely presented with alternative options in reports and evidence of robust option appraisal is limited.</p> <p><i><b>Risk:</b> reviews of ways of working are not rigorous and robust and do not take a fair and open approach to evaluation alternative approaches.</i></p>	Chief Executive	<p>Disagree that members are rarely presented with alternative options in reports.</p> <p>The Council is constantly improving its option appraisal process to ensure that members are able to reach decisions based on a robust evaluation of the options available.</p>	Ongoing
<b>The improvement agenda</b>				
4.	<p>Work is continuing to progress actions contained in the BV improvement plan in a number of important areas, including:</p> <ul style="list-style-type: none"> <li>• community planning (action H);</li> <li>• benchmarking &amp; option appraisal (I);</li> <li>• equalities (K1);</li> <li>• sustainable development (K2);</li> <li>• business continuity (N); and</li> <li>• procurement (O).</li> </ul> <p><i><b>Risk:</b> Key aspects of the council's approach to BV are not progressed satisfactorily.</i></p>	<p>As per BVIP</p> <p>Assistant Chief Executive (Community Planning)</p> <p>Assistant Chief Executive (Community Planning)</p>	<p>The Council will continue to address the actions identified in the BVIP, as appropriate.</p> <p>The Service Planning and Best Value Review guidance covers benchmarking and option appraisal. The online performance database is designed to include comparators and where available, the Annual Performance Report and Consumer Survey makes use of comparison with other local government reports (mainly through SPIs). In addition, the PSIF process will be in conjunction with a number of local authorities and will promote comparison. Projects of sufficient scale do include feasibility studies and report leading practice from benchmark studies. It is acknowledged however that there is a need to update the guidance and give greater weight to following it in future committee reports on review topics and the Service Planning and BV Review guidance notes will be updated accordingly.</p> <p>A report will be submitted to the CMT (Performance &amp; Strategy) following the conclusion of the Efficiency Diagnostic Study. This report outlines projects that will be carried out as part of the Council's Efficiency Plan, identifies BV reviews that will be established and sets out a rolling programme of Lean Service reviews.</p>	<p>As per BVIP</p> <p>March 2009</p> <p>November 2008</p>



# Appendix B: Improvement Action Plan Update

<b>Reference</b>	<b>Area for Improvement, Measures and Targets</b>	<b>Progress as recorded in Strategic Plan Monitoring Database June 08</b>	<b>Audit Comment</b>
<b>A</b>	<p>Review the political management and public performance reporting arrangements with a view to increasing openness and transparency of decision making, and ensuring members get better opportunities to exercise scrutiny and greater public accountability.</p> <p><i>Measures (Targets) - Report reviewing how to improve openness, transparency and scrutiny of decision making through the political management and public performance reporting to be approved by Committee (December 2005, Report to Policy and Resources (P&amp;R) Committee January 2006).</i></p>	<p><b>7/11/06 – On schedule – Alex Stephen</b></p> <p>Report on review of Council structure agreed by P&amp;R Committee on 12 June 2006 – structure to be reviewed by new Administration after the election in May 2007, based on a continual review of Council structures being operated by local authorities throughout Scotland. Performance and Monitoring report submitted to the BV Sub Committee on 26<sup>th</sup> June, where members agreed recommendations on progress made.</p>	<p>Confirmed in discussions with officers that members did not want to move away from sitting on all committees.</p> <p>Improved reporting to BV sub-committee on performance is evident. This has contributed to increased SPI rate of improvement and better annual key performance indicator results.</p>
<b>B</b>	<p>Ensure that members take a more active role in reviewing the performance of services and take steps to ensure more systematic and comprehensive reporting from services to service committees.</p> <p><i>Measures (Targets) - Review the service planning process and produce new comprehensive guidance and training on producing service plans and involving elected members in the process. The review will incorporate the improvements referred to in J &amp; K below (June 2006, Report to Policy and Resources Committee June 2006).</i></p>	<p><b>27/4/07 – Completed – Chris Ward</b></p> <p>The Corporate Planning and Finance departments are now providing regular performance monitoring reports to the BV Sub Committee making use of the Strategic Plan Monitoring Database and the statutory performance indicators. The meeting of the BV Sub Committee in June, December 2006 and then January 2007 considered specific performance reports in addition to the mainstream service plan reports. The guidance for future years service plans will deal explicitly with Elected Member involvement.</p>	<p>Traffic light system of reporting enables members (and CMT) to focus on poorer performing areas. Directors have advised that they are more aware now of impact of poor performance and the prospect of being held to account by CMT colleagues and elected members.</p>

<b>Reference</b>	<b>Area for Improvement, Measures and Targets</b>	<b>Progress as recorded in Strategic Plan Monitoring Database June 08</b>	<b>Audit Comment</b>
<b>C</b>	<p>Develop and implement an HR strategy that will ensure effective corporate management of staff absence, and ensure the Council's staffing establishment is as stream-lined and targeted as possible.</p> <p><i>Measures (Targets) - Corporate Human Resource strategy developed (March 2006) and agreed by Committee (report to Personnel Committee April 2006).</i></p>	<p><b>16/5/08 – Completed – Jim Petrie</b></p> <p>Strategic report to Personnel Committee in December 06.</p>	<p>The HR strategy is under-developed largely due as a result of resource intensive work on the single status agreement taking priority. We understand that now that the agreement is in place and coupled with the appointment of a new Head of Personnel the strategy will be revised.</p>
<b>D</b>	<p>Develop more coherent links between planning and budgeting and allocation of resources in accordance with policy priorities and objectives.</p> <p><i>Measures (Targets) - A working group will be established to bring forward measures aimed at integrating resource planning, including the financial costing of corporate/service objectives and new initiatives, into both corporate and service plans (Group in place by December 2005). Measurable financial performance targets will also be established and reported for significant areas (partial implementation by May 2006, full implementation of agreed proposals in May 2007).</i></p>	<p><b>5/9/07 – Completed – David Dorward</b></p> <p>Now included in the draft Service Plan Guidelines 2007-11.</p>	<p>Better links are now in place. Plans no longer have “aspirational” elements and all projects/objectives must be resourced.</p> <p>The Guidelines covered the need for SMART targets and plans include a significant number of SMART measures.</p> <p>Service plans link departmental priorities to council/community plans.</p> <p>To date, however, there has been no post implementation review carried out to determine how well the new approach is working.</p>

<b>Reference</b>	<b>Area for Improvement, Measures and Targets</b>	<b>Progress as recorded in Strategic Plan Monitoring Database June 08</b>	<b>Audit Comment</b>
<b>E</b>	<p>Review the format, content and frequency of financial reports to ensure members receive adequate information to monitor the financial position.</p> <p><i>Measures (Targets) - The format of the revenue and capital expenditure monitoring reports to be reviewed by Management Team and Finance Committee (December 2005, Report to Committee January 2006).</i></p>	<p><b>6/3/07 – Completed – David Dorward</b></p> <p>This item has been completed.</p>	<p>Extract from our Financial Strategy follow up report 2005/06</p> <p><i>Following a consultation exercise and review of best practice, revised formats for revenue and capital monitoring reports have now been agreed with the various political groups. The new style reports will be submitted to the Finance Committee on 14 August 2006.</i></p>
<b>F</b>	<p>Review the role of the Council Management Team (CMT) to bring a greater degree of corporate discipline to performance management, service review, and option appraisal ensuring that these are properly linked with corporate planning and budget setting processes and are better placed to deliver continuous improvement.</p> <p><i>Measures (Targets)- Review the functions of CMT and implement new performance management measures(December 2005), Review Service Plans 2006/07 (March 2006), Option Appraisal Review (March 2006), Further review of performance management (June 2006)</i></p>	<p><b>F1 8/2/06 – On schedule – Alex Stephen</b></p> <p>Functions of CMT have been reviewed as above now operational</p> <p><b>F2 19/4/06 – Completed – Alex Stephen</b></p> <p>A report was agreed by the CMT(Performance &amp; Strategy) in November 2005 setting out the format of a quarterly report covering performance on the objectives and projects in the strategic plan monitoring database. The first of these reports was considered in Feb 2006. The BV Sub Committee has adopted the remit of considering this report at least twice per year. The new service plan guidance to be issued in June 06 will complete the review of performance management.</p>	<p>Confirmed in discussions with senior officers that the new structure is working well giving more time to full discuss matters, supported by better performance reporting (see A above re improvements in indicators).</p> <p>Improved service planning helps to identify efficiencies although it is recognised that some departments are better than others at this. BV and lean service reviews have been regularly carried out with a view to continuous improvement.</p> <p>Option appraisal is not established in the council's culture. Papers to committees rarely include alternative options and evidence of robust option appraisal is limited.</p>

<b>Reference</b>	<b>Area for Improvement, Measures and Targets</b>	<b>Progress as recorded in Strategic Plan Monitoring Database June 08</b>	<b>Audit Comment</b>
<b>G</b>	<p>Review the Council structure to ensure a better fit with corporate objectives, the needs of service users and organisational efficiencies.</p> <p><i>Measures (Targets) - Review to be carried out and reported to Council for consideration (June 2006)</i></p>	<p><b>17/4/07 – On schedule – Alex Stephen</b></p> <p>Structure to be reviewed by new administration post May 2007 election.</p>	<p>Post election, the views of members were sought by the Chief Executive. This process confirmed that all members wanted to stay on all committees and this was reflected in the paper to the new council's statutory meeting. These discussions also confirmed that there was also no appetite to move to a cabinet style approach. The report taken to the statutory meeting therefore only reflected what had been agreed in political group discussions – resulting in a reduction in the number of committees from 13 to eight.</p> <p>Although committees have reduced, the number of departments remains largely the same (except for merger of Leisure &amp; Arts and Communities following the departure of a previous director).</p>
<b>H</b>	<p>Review the impact of community planning with the planning partners to ensure that all partners are directing adequate resources to agreed priorities.</p> <p><i>Measures (Targets) - New Community Plan 2005/2010 agreed and published in June 2005 (in place). The first annual monitoring review of the Plan and its 6 themes will include a review of impact and resource allocation (October 2006)</i></p>	<p><b>17/4/07 – On schedule – Chris Ward</b></p> <p>Evaluation report by Geddes was presented to DP Management Group on 9 March. Response being prepared for next meeting in May. Resource allocation to strategic themes now being considered as part of review of regeneration priorities. Theme leaders have been briefed and first two stages of review to be completed by end of April.</p>	<p>Officers confirmed that the Geddes report had been very informative and work is now underway to better link funding of projects to outcomes.</p>

<b>Reference</b>	<b>Area for Improvement, Measures and Targets</b>	<b>Progress as recorded in Strategic Plan Monitoring Database June 08</b>	<b>Audit Comment</b>
I	<p>Take steps to share good practice more widely and systematically within the Council and the management team to make better use of benchmarking and option appraisal, building on examples of these already being used in parts of the Council.</p> <p><i>Measures (Targets) - Review and report on the use of benchmarking and option appraisal in the Council recommending what steps to take (November 2005). Implement best practice and update service plans (May 2006)</i></p>	<p><b>27/11/06 – On schedule – Chris Ward</b></p> <p>A corporate strategy employee newsletter called “changing for the future” was introduced on the modernising government theme in June 2006. This will share good practice. The service plan guidance to be reported by October 06 (now November) will include guidance on benchmarking and option appraisal. A review of the training needs associated with the service plans will be completed by December 06. Once these tasks are complete a specific report on the use of best practice benchmarking and option appraisal can be carried out.</p>	<p>Only one corporate newsletter has been issued. It was subsequently agreed this was duplication given that a number of departments produce their own newsletter.</p> <p>The procedure for sharing good practice is now via management teams and CMT. Short life working groups have been set up to take forward potential good practice areas.</p> <p>BV/lean service reviews are also used to share good practice where appropriate.</p>
J	<p>Ensure that all service plans are SMART and that these and Council strategies are able to demonstrate that they respond to customer views as expressed through consultations and surveys.</p> <p><i>Measures (Targets) - All service plan performance targets and strategic projects milestones to be reviewed to make them as SMART as practicable (July 2006). Public consultation and communication strategies to be prepared and approved for all services (July 2006). Feedback reported via service plan reports to committees (July 2006). Monitoring and reviewing effectiveness of consultation and communication via the new CMT roles and via Service Plan reports to Committees (July 2006)</i></p>	<p><b>19/2/08 – Completed – Chris Ward</b></p> <p>Service plan guidance for 2007-11 includes instructions on making SMART targets and improving the link to customer feedback and consultation. The requirements to put the actions into the Strategic Plan Monitoring Database will also ensure targets are made SMARTER. Furthermore the instructions issued to Departments in March 06 on the annual service plan performance report explicitly required an update on consultation with stakeholders be included in the report.</p>	<p>The 2007-11 Plans include SMART targets. Reference is also made in the plans to customer feedback or satisfaction.</p>

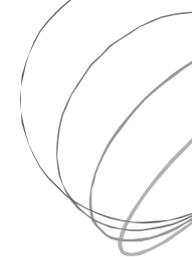
<b>Reference</b>	<b>Area for Improvement, Measures and Targets</b>	<b>Progress as recorded in Strategic Plan Monitoring Database June 08</b>	<b>Audit Comment</b>
<p><b>K</b></p>	<p>Take steps to ensure that the Council can demonstrate its commitment to equal opportunities in its service delivery, and show progress with its overall approach to sustainable development.</p> <p><i>Measures (Targets) - Develop and implement Equality Action Plans for each service (December 2005). Sustainability performance to be specifically monitored via the CMT, and Service Plan and Council Plan reporting procedures (July 2006 onwards). Sustainability Policy in place following approval by Committee (October 2005). A comprehensive environmental policy framework to be developed and approved by Committee (December 2005). Sustainability criteria incorporated into Council's procurement strategy (December 2005)</i></p>	<p><b>K1 11/3/08 – Behind Schedule - Stewart Murdoch</b></p> <p>The Council has now completed Race and Disability Equality schemes with departmental equality action plans placed on the corporate monitoring database. A Gender Equality Scheme was completed in June 2007. Schemes addressing Age, Sexual Orientation and Religion/Belief will be prepared by summer 2008. This project is behind schedule as we have been preparing our schemes in light of new legal responsibilities and guidance being supplied by the Commission for Racial Equality, Disability Rights Commission and the Equal Opportunities Commission.</p> <p><b>K2 19/3/08 – On Schedule – Jim Laing</b></p> <p>The Council's Sustainability Policy Review Group held an Annual meeting on 5<sup>th</sup> November 2007 to review progress against the Corporate Priorities, Action Plan and internal Working Groups for sustainable development. Report was submitted to Housing, DCS &amp; Environment Service Committee on 26<sup>th</sup> November 2007 outlining progress to date in implementing Council's Sustainable Development Framework. Work continues to implement the Framework inc completion of priority actions for 2008. The next Interim Review meeting will be held on 15<sup>th</sup> April 2007.</p> <p><b>K3 5/6/07 – Completed – David Dorward</b></p> <p>Corporate Procurement Strategy, including sustainability criteria, approved by Policy &amp; Resources Committee March 2007.</p>	<p>Whilst the implementation of Equality Actions Plans is behind schedule, their development has continued to be steadily progressed.</p> <p>Sustainable development is being progressed on an on-going basis.</p> <p>Strategy is in place and savings anticipated from 2009/10. The council needs to ensure its central procurement function is adequately resourced if anticipated savings are to be realised.</p>

<b>Reference</b>	<b>Area for Improvement, Measures and Targets</b>	<b>Progress as recorded in Strategic Plan Monitoring Database June 08</b>	<b>Audit Comment</b>
<b>L</b>	<p>Renewal of the importance of leadership in establishing a culture of Best Value.</p> <p><i>Measures (Targets) - Carry out a rigorous corporate EFQM self-assessment process and implement resulting action plan (August 2006)</i></p>	<p>19/2/08 – Completed – Alex Stephen</p> <p>The corporate EFQM process is complete. A report was agreed at the management team in June 07. It provided a valuable assessment of strengths and areas for improvement for the new council plan and the relevant recommendations adopted as projects in the plan.</p>	<p>The corporate EFQM led to a number of improvement initiatives being incorporated into the current corporate plan. The council has recently reviewed its approach to self-assessment with a view to introducing a more structured corporate approach in line with the recommendations of the Crerar report on public sector scrutiny. It is also considering a move to the Public Sector Improvement Framework which is based on the underlying EFQM model previously used.</p>
<b>M</b>	<p>Extend asset management arrangements across the Council to ensure assets are managed in the most effective way possible and are explicitly matched to the Council's objectives.</p> <p><i>Measures (Targets) - Complete property surveys and have information in accessible computer-based system (February 2006). Draft Asset Management Plan issued for consultation (September 2006). Finalisation, approval and implementation of Asset Management Plan (July 2007).</i></p>	<p>28/12/07 – Completed – Douglas Grimmond</p> <p>Asset Management Plan, covering all the Council's operational property, was approved by Policy &amp; Resources Committee in December 2007 (report 603-2007). The Plan includes indicators on which the assets can be judged from a corporate, strategic and financial viewpoint.</p>	<p>The Corporate Asset Management Plan (AMP) "Building our Future", covers the property portfolio of around £109 million, excluding Housing stock and roads infrastructure. The total value of assets held by the Council as at 31 March 2008 was over £790 million, including investment properties, social housing, schools, and infrastructure assets e.g. roads and bridges. Whilst, the corporate AMP is a good starting point it currently relates to only 15% of the council's asset base.</p>

<b>Reference</b>	<b>Area for Improvement, Measures and Targets</b>	<b>Progress as recorded in Strategic Plan Monitoring Database June 08</b>	<b>Audit Comment</b>
<b>N</b>	<p>Ensure that the Council's approach to risk management fully reflects business continuity issues and civil contingencies.</p> <p><i>Measures (Targets) - All Departments of the Council to produce their own detailed business continuity plans in an agreed format (December 2005). Business continuity plans to be modified in the light of specific obligations imposed by the Civil Contingencies Bill (Dependent upon publication date of the Bill).</i></p>	<p>07/06/07 – On schedule – David Dorward</p> <p>Most departments have now produced outline Business Continuity plans. Some aspects still require attention to ensure compliance with Civil Contingencies Act. Scottish Executive has only recently released guidance on Promotion of Business continuity to the Wider Public</p>	<p>Departmental Business Continuity plans continue to develop as guidance is issued.</p>
<b>O</b>	<p>Ensure that the Council's approach to procurement at all levels achieves best value.</p> <p><i>Measures (Targets) - Prepare bid for funding assistance to take forward procurement-related proposals under Efficient Government Initiative (July 2005). Investigate extension of joint working initiatives with other local authorities and public sector agencies to maximise buying power etc (October 2005). Annual review of corporate procurement strategy incorporated as part of overall annual review of Council Plan Performance (July 2006)</i></p>	<p>6/3/08 – On schedule – David Dorward</p> <p>Currently developing the procurement process over all Council departments. Establishing Commodity User Groups (UIG) to identify future contract and goods and services requirement. Roll-out of Authority Financials e-Procurement function in departments including appropriate staff training as required. The Tayside Procurement Consortium (TPC) is now fully established and operating to a limited degree. Reports are being prepared for Committee on the Council joining Scotland Excel and also a review of the Council's Standing Orders and Financial Regulations in respect of TPC and procurement in general.</p>	<p>A Corporate Procurement function has been established. However, this is at a very early stage of development. The new financial system, Authority Financials, has a number of procurement functions built in, for example, tolerance levels, user authorisation levels and budget checks. Other functions such as on-line catalogues and quote requests are being developed. The sound management of procurement arrangements is a complex and technical area and whilst there is clearly a commitment to improving procurement arrangements at the council, we have some concerns about the level of resources currently dedicated to improving procurement practices which may result in significant slippage and delays in achieving efficiencies in this area. Awareness amongst services is limited. More specialist staff are likely to be required to deal with this complex area.</p> <p>TPC is at an early stage of development.</p>

# Dundee City Council

**Annual Audit Plan 2008/09**



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# Summary plan

## Summary of planned audit activity

Based on our analysis of the risks facing Dundee City Council, our planned work in 2008/09 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they present fairly the financial position of Dundee City Council as at 31 March 2009 and its income and expenditure for the year then ended
  - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2008 SORP
- reporting the findings of our audit risk assessment process in a Strategic Audit Risk Analysis highlighting the key risks being faced by the council, the action under way or planned in response to these and the work we plan to undertake in relation to these. Our risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland and work undertaken to identify issues and risks which are unique to the local situation
- a review and assessment of Dundee City Council's governance and performance arrangements in a number of key areas including: review of adequacy of internal audit, ICT reviews and an assessment of the reliability of statutory performance indicators
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts

## Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Dundee City Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in Dundee City Council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of Dundee City Council, and sets out the audit work that we propose to undertake in 2008/09 to address these. Our annual audit plan reflects:

- the risks and priorities facing Dundee City Council
- current national risks relevant to local circumstances
- the impact of changing international auditing and accounting standards
- our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
- issues brought forward from previous audit reports.

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2. In addition to this annual audit plan, the first audit report of the year we will prepare is a Strategic Audit Risk Analysis which will focus on the key performance risks being faced by the council, along with other governance risks highlighted through our work. The Analysis will identify the action under way or planned in response to these risks, and the work we plan to undertake in relation to these. This risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland, along with work undertaken to identify issues and risks which are unique to the local situation.

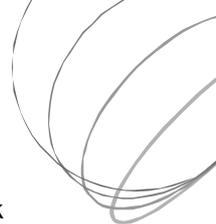
## **Our responsibilities**

3. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
5. In carrying out our audit, we seek to gain assurance that Dundee City Council:
  - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
  - has systems of recording and processing transactions which provides a sound basis for the preparation of financial statements and the effective management of its assets and interests
  - prepares financial statements which present fairly the financial position at 31 March 2009 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2008 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the SORP)
  - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
  - complies with established policies, procedures, laws and regulations
  - proactively manages and reviews its performance in line with its strategic and operational objectives
  - has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.



## Our approach to the audit of the accounts

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of Dundee City Council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
  - understanding the business of Dundee City Council and the risk exposure which could impact on the financial statements
  - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
  - identifying major transaction streams, balances and areas of estimation, understanding how Dundee City Council will include these in the financial statements and developing procedures to audit these
  - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
  - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
  
7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2008/09 includes:
  - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
  - clear responsibilities for provision of accounts and working papers being agreed
  - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
  - completion of the internal audit programme for 2008/09.
  
8. Auditing standards require internal and external auditors to work closely together to make optimal 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 early assessment of the internal audit function. Internal audit is provided by the Internal Audit Section within Dundee City Council. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.



9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance and opinion.
10. At the completion of the audit we will provide the Chief Executive with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## **Responsibility for the preparation of accounts**

11. It is the responsibility of Dundee City Council and the Head of Finance as Proper Officer to prepare the financial statements in accordance with the SORP. This means:
  - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
  - maintaining proper accounting records
  - preparing financial statements timeously which present fairly the financial position of Dundee City Council as at 31 March 2009 and its expenditure and income for the year then ended
  - preparing an explanatory foreword.

## **Format of the accounts**

12. The financial statements should be prepared in accordance with the SORP which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
13. The Government Resources and Accounts Act 2000 requires a set of Whole of government accounts to be prepared in accordance with UK Generally Accepted Accounting Principles. Dundee City Council prepares a consolidation pack annually for the Scottish Government under the requirements of this Act.

## **Audit issues and risks**

14. This annual audit plan focuses on governance and other risks specific to the financial statements of Dundee City Council. Our Strategic Audit Risk Analysis will provide a broader analysis of wider risks and issues your council faces, setting out our planned work in relation to performance and other governance issues in more detail.
15. Based on our discussions with staff and a review of systems and supporting information, we have identified the main financial statements risk areas for your organisation.



## Information Systems

16. Information systems provided by the IT department are subject to general controls over changes, problem management and disaster recovery. We plan to update our assurance in this area by placing reliance on Internal Audit's planned work on disaster recovery and business continuity. We will also conduct our own testing on change and problem management controls.
17. The new payroll and financial systems have now completed their implementation stages. We would expect the systems to conform to the normal standards of security and operations of Council systems and we will review application controls to confirm that this is the case. We will conduct a similar review on the GVA system for property management and maintenance that is used by Economic Development.
18. Information security remains an area of interest for us and we are pleased to note the progress with the CETIS, an on-line information security training programme. Research shows that staff training is the most cost-effective means of strengthening information security and this year, we will work with IT to provide access to the *Your Business @ Risk* survey tool. *Your Business @ Risk* is a behavioural survey that helps staff to identify security issues and reinforces the messages of previous training and it may be effective to offer this to staff that had completed CETIS some four to six months earlier.
19. One of the important ways of measuring Council performance is through statutory performance indicators (SPIs). Internal Audit will be auditing the reliability and accuracy of SPI data and we will review this work to inform our annual SPI return.

## Cash & Bank

20. During the year, the council implemented a new bank reconciliation process as part of its new financial management system. Bank reconciliations between the cash book and bank statements give reassurance on the accuracy of the ledger and therefore the accounts. We plan to undertake a detailed review of the bank reconciliation procedures as part of the 2008/09 audit.

## Fixed assets

21. Property data is held on various systems across the council. The GVA system is managed by the Economic Development Department and has two modules, property management and property maintenance. In previous years we have noted differences in the data held on the council asset register and the GVA system. We plan to review the GVA system during the year to determine the accuracy and completeness of the information used to manage the council's non-housing property portfolio.

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22. In prior years our financial statements audits have highlighted some potential double counting issues around component accounting. A valuation of housing stock is due to take place in 2008/09. We plan to review progress in this area at the year end.

## **Financial Pressures**

23. In line with most other local authorities the council faces a number of financial pressures in relation to single status, future pension liabilities and any further liability with regard to backdated equal pay claims. Departments are required to make on-going efficiency savings to balance the budgets. This is further compounded by the current economic downturn which has seen a number of businesses close in recent weeks impacting on the local economy which in turn impact on council services. It is important that standards of governance and financial management are maintained in the prevailing conditions. We plan to review the actions taken by the council to manage these pressures in 2008/09.

## **Corporate Governance**

24. Our 2007/08 final report to members noted that the council has a local code of corporate governance based on previous best practice identified jointly by CIPFA and SOLACE and a Corporate Governance Group has been established to keep arrangements under review. This code is due to be revised in line with updated guidance issued by CIPFA/SOLACE and we plan to review the updated code during 2008/09.
25. In 2007/08 we reported that the council's Audit & Risk Management Sub-committee cannot be sufficiently independent of the council's decision making and other scrutiny functions as all members are also members of all other service committees. Although this point was not accepted by the council we are aware that some changes in this area are being considered and we plan to review any agreed changes during the year.

## **Other matters**

26. From audit work performed in the course of our 2007/08 appointment, we have identified two areas that require attention this year:
- Implementation of LASAAC guidance on common good asset registers by 31/3/09
  - Reconciliation between the benefits system and the nominal ledger

## **Summary assurance plan**

27. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix A. In the period prior to the

submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

## Materiality

28. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
29. International Standard on Auditing 320 states that, *“information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omissions or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*
30. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
31. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be highlighted as a *matter of emphasis* paragraph, rather than as a qualification to the audit opinion.

## Reporting arrangements

32. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed between us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned committee dates and audit resources.
33. 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 Head of Finance and/or responsible director and relevant senior manager to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission.



34. A copy of all final agreed reports will be sent to the Chief Executive, Head of Finance, relevant senior manager, Internal Audit and Audit Scotland's Public Reporting Group.
35. We will provide an independent auditor's report to Dundee City Council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the controller of audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about Dundee City Council management of key risks.
36. All annual reports produced by Audit Scotland are published on our website: ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).
37. The full range of outputs to be delivered by the audit team are summarised below:

<b>Planned outputs</b>	<b>Target delivery date</b>
<b>Governance</b>	
Strategic Audit Risk Analysis	31 March 2009
Corporate Governance	30 June 2009
ICT review	30 June 2009
<b>Performance</b>	
Statutory PIs (return)	31 August 2009
<b>Financial statements</b>	
Report in terms of ISA 260 (Communication of audit matters to those charged with governance)	30 September 2009
Independent auditor's report on the financial statements	30 September 2009
Annual report to the Members and the Controller of Audit	30 October 2009
Audit opinion on Whole of Government Accounts	30 October 2009
<b>Grants</b>	
Audit opinions on six grants as defined by Audit Scotland Technical Services Unit	As required

## Quality control

38. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Dundee City Council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every

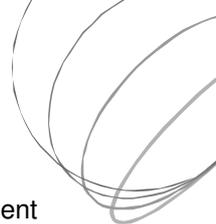


client; in your case this is Mark Taylor, who is responsible for ensuring that our work is carried out on time and to a high quality standard.

39. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

## Fees and resources

40. Our agreed fee for the 2008/09 audit of Dundee City Council is £413,900 comprising a local audit fee of £270,000 and a fixed charge of £143,900. Audit Scotland has been discussing with the Accounts Commission and the Scottish Commission for Public Audit the appropriate level of reserves to be carried forward from one year to another, and have agreed that these should be reduced by £1.3 million. This will mainly be achieved by way of a rebate to fee paying bodies and the council's share of this rebate will be £23,000. This will be deducted from the 2008/09 fee above giving a net amount payable in the year of **£390,900**. Our fee covers:
- all of the work and outputs described in this plan
  - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
  - attendance at the Audit Committee and key council/committee meetings
  - access to advice and information on relevant audit issues
  - access to workshops/seminars on topical issues
  - travel and subsistence costs.
41. In determining the agreed fee we have taken account of the risk exposure of Dundee City Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 30 June 2009. If the draft accounts and papers are late, agreed management assurances are unavailable, or planned internal audit reliance is not achieved, we reserve the right to charge an additional fee for further audit work.
42. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.
43. Lynn Bradley, Director, Audit Services (Local Government) is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For Dundee City Council the Assistant Director is Mark Taylor.



44. The local audit team will be led by Pearl Tate who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

## Independence and objectivity

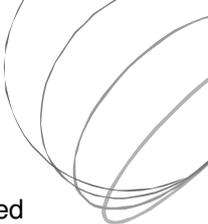
45. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team.
46. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.

## Client engagement across Audit Scotland

47. Due to the wider scope of public sector audit, business groups in Audit Scotland other than Audit Services Group, such as Audit Strategy, the Performance Reporting Group and Best Value teams, may have audit work ongoing in your organisation in the course of the audit year.
48. As part of our move to a more streamlined audit process, your Assistant Director for the local audit in their capacity as the Audit Scotland engagement lead will keep you informed of all Audit Scotland planned audit projects at the council. The planned national studies that are relevant to the council over the next year are shown in Table 1.

**Table 1**

<b>Planned National Studies</b>	<b>Expected Reporting Date</b>
Review of expenditure on drugs and alcohol services	March 2009
Asset management in councils	April 2009
Mental health overview	April 2009
Strategic procurement	Spring 2009
Review of civil contingencies planning	May/June 2009
Leisure services (physical recreation)	Late 2009/early 2010
Roads maintenance follow-up (the study is likely to involve collection of a small amount of information from all 32 councils around summer / autumn 2009.	2009/10
Looked after children in a residential setting	2009/10
Best value and resource management series: topic 1	Spring 2010
Managing unit costs	Spring 2010
Management of local government pension funds	Summer 2010
Delivering efficiencies	2009/10

- 
49. These are in addition to the audit work described in this annual plan. Further details of the proposed studies can be found on Audit Scotland's website (<http://www.audit-scotland.gov.uk/work/forwardwork.php>). Study sites have still to be selected for some of these reviews and we will discuss any specific proposals for detailed work where the council is selected. We would also welcome your suggestions on areas where you consider the council would merit selection as a study site.
50. If you have any queries on any planned work by Audit Scotland in any area, please contact Mark Taylor or Pearl Tate who will coordinate a response to your queries with colleagues as appropriate.



6 February 2009

# Appendix A

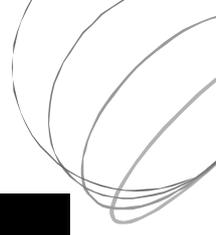
## Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of Dundee City Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of Dundee City Council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
<b>Information Systems</b>		
<p>Applications such as payroll, finance and the major departmental information systems depend upon central computer service operations. These operations ensure the systems are properly backed up, that changes are effectively controlled and that faults are properly investigated and fixed. If not operating effectively central computer operations will have an adverse impact on service delivery.</p>	<ul style="list-style-type: none"> <li>▪ Internal Audit work on disaster recovery and business continuity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review IT general controls over change management and application support</li> <li>▪ Review IA work on this area.</li> </ul>
<p>Major changes to the financial and payroll systems were completed in the last year. There is a risk that application controls are not yet in the mature state expected for key systems. We are also aware that the GVA system used in Economic Development is significant and we consider that it also carries control risks.</p>	<ul style="list-style-type: none"> <li>▪ The Council's security policy and application operating procedures provide an adequate framework of controls</li> </ul>	<ul style="list-style-type: none"> <li>▪ High level review of controls within finance, payroll and GVA systems</li> </ul>
<p>Although controls within IT are in place, the awareness of security issues around departments is less clear. Users represent the greatest risk to information security and it is appropriate to invest resources in training and awareness programs.</p>	<ul style="list-style-type: none"> <li>▪ Our Information Handling (Cultural Aspects) report issued in 2007/08</li> <li>▪ Follow-up of recommendations made in that report</li> <li>▪ The CETIS training program</li> </ul>	<ul style="list-style-type: none"> <li>▪ Support the CETIS program with the Your Business @ Risk survey tool.</li> </ul>
<p>Performance measures used by the Council and reported publicly may be unreliable.</p>	<ul style="list-style-type: none"> <li>▪ Internal audit review on SPI's, ensuring that planned management action is met</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review of internal audit work</li> </ul>



Risk	Source of assurance	Planned audit action
<b>Cash &amp; Bank</b>		
<p>During the year, the council implemented a new bank reconciliation process as part of its new financial management system. There is a risk that bank reconciliations may not be satisfactorily performed between the cash book and bank statements, resulting in inaccuracies and omissions in the ledger and therefore the annual accounts.</p>	<ul style="list-style-type: none"> <li>▪ Monthly reconciliation of main bank account</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review cash book system</li> <li>▪ Review bank reconciliations</li> <li>▪ Confirm bank balance in 2008/09 accounts to year end reconciliation.</li> </ul>
<b>Fixed assets</b>		
<p>Property data is held on various systems that are not interfaced (eg GVA, Housing database, AIRS Asset Register, national infrastructure database). There is a risk that the information held on these systems is inconsistent and that management information used to manage assets is incomplete or inaccurate.</p>	<ul style="list-style-type: none"> <li>▪ An exercise is on-going to better align data held in the various systems.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review actions taken by management during 2008/09.</li> <li>▪ Review GVA system</li> </ul>
<p>The Corporate Property Unit is currently preparing 10 year maintenance and investment plans. As no formal target date has been set for completing these 10 year plans, there is a risk that these will not be linked into capital plans and budgets and the corporate AMP.</p>	<ul style="list-style-type: none"> <li>▪ 10 year plan to be completed by 31/3/10.</li> <li>▪ Annual review of revenue and capital budgets.</li> <li>▪ Operation of Renewal and Repair Fund mitigates the risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review actions taken by management during 2008/09.</li> <li>▪ Review GVA system</li> </ul>
<p>The council has introduced component accounting for capital expenditure, such as replacement windows and kitchens, on council houses. There is a risk that the council may be overstating the value of houses and these components.</p>	<ul style="list-style-type: none"> <li>▪ A housing valuation is to be carried out in 2008/09 and component assets are expected to be written off in full by 31/3/09.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Detailed testing of housing valuation and component accounting at year end.</li> </ul>
<p>As PPP schools come on stream there is a risk that the accounting treatment may not be in line with SORP requirements.</p>	<ul style="list-style-type: none"> <li>▪ This matter is being taken forward by the Final Accounts Working Group</li> </ul>	<ul style="list-style-type: none"> <li>▪ Detailed testing at year end.</li> </ul>



Risk	Source of assurance	Planned audit action
<p>The Asset Management indicator was found to be unreliable for the second year due to the lack of robust data on the number of operational buildings and condition surveys</p>	<ul style="list-style-type: none"> <li>▪ Internal Audit undertaking review of SPIs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review work carried out by Internal Audit</li> </ul>
<h2 style="margin: 0;">Financial Pressures</h2>		
<p>Revenue budget pressures include a projected £1.5m overspend on SW budget largely for adult care for those with special needs (although pressures on all of the services SW provides). This is largely demand led. P&amp;T is also predicting an overspend of £550,000. Overall the council is facing a £0.4m overspend in 2008/09.</p> <p>The council hold limited reserves which may impact on financial security as financial pressures increase.</p>	<ul style="list-style-type: none"> <li>▪ On-going review of budgets.</li> <li>▪ Departments to make savings</li> <li>▪ Reserves strategy in place</li> <li>▪ Revenue monitoring controls</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review actions taken by management during 2008/09.</li> </ul>
<p>Although the relaxation of some ring fencing gives the council greater flexibility, the council tax freeze increases the pressure to identify and deliver efficiency savings. The required level of annual savings may be challenging to meet on a continuing basis.</p>	<ul style="list-style-type: none"> <li>▪ Improvement and Efficiency Board in place</li> <li>▪ Efficiency programme agreed by BV Performance &amp; Efficiency Sub-Committee December 08</li> <li>▪ Efficiency training to be arranged for departmental champions shortly</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review actions taken by management during 2008/09.</li> </ul>
<p>Recent heavy falls in global stock markets will impact on the funding level of public sector pension schemes. There is a risk of this resulting in increased pension contributions in future. Any significant downward revaluation of the pension fund assets could have an adverse impact on the council's balance sheet position.</p>	<ul style="list-style-type: none"> <li>• Quarterly monitoring reports from Actuary.</li> <li>• Triennial actuarial report 2008/09</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed testing at year end</li> </ul>
<p>Planned property maintenance (10 year plans being developed) is not incorporated within budgets. In the meantime there is therefore a risk of increased reactive maintenance costs and capital investment requirements in future.</p>	<ul style="list-style-type: none"> <li>▪ Annual review of revenue and capital budgets</li> <li>▪ Operation of Renewal and Repair Fund mitigates the risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review actions taken by management during 2008/09</li> <li>▪ Review GVA system.</li> </ul>



Risk	Source of assurance	Planned audit action
<p>In the wake of the credit crunch, there is a risk that the council may face:</p> <ul style="list-style-type: none"> <li>▪ difficulties in financing its capital plans</li> <li>▪ difficulties in selling surplus assets</li> <li>▪ increased bad debts through job losses and business closures</li> <li>▪ increased demand for services such as benefits.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Capital programme prepared within prudential limits</li> <li>▪ Less reliance on capital receipts over the next 3 years</li> <li>▪ Robust debt management approach in place</li> <li>▪ Debt advice service available</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review actions taken by management during 2008/09</li> </ul>
<h2>Corporate Governance</h2>		
<p>The council has adopted a local code of corporate governance based on previous best practice identified jointly by CIPFA and SOLACE and a Corporate Governance Group has been established to keep arrangements under review. CIPFA and SOLACE have published a revised Framework (and guidance note for Scottish LG) which is intended to be followed as best practice for developing and maintaining a local code of corporate governance. The council intended to review its local code by June 2008 but subsequently decided to wait until the Guidance Note was issued. Until the local code has been updated there is a risk that it may not be in line with current best practice.</p>	<ul style="list-style-type: none"> <li>▪ Local code of corporate governance to be updated by March 2009.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review revised code</li> </ul>
<p>The council's Audit &amp; Risk Management Sub-committee is a sub-committee of the Policy &amp; Resources Committee (PRC) It is chaired by the deputy convenor of the PRC. All members are also members of the PRC, and all other service committees. It cannot, therefore, be sufficiently independent of the council's decision making and other scrutiny functions.</p>	<ul style="list-style-type: none"> <li>▪ Review of scrutiny process underway and will be reported to P&amp;R Committee</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review revised arrangements</li> </ul>



Risk	Source of assurance	Planned audit action
<b>Other matters</b>		
<p>In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper recognises the legislative distinction of the Common Good as a managed fund, which requires disclosure within the local authority financial statements this year. It recommends councils have common good asset registers in place by March 2009. Without a register showing common good fixed assets, there is a risk that common good land could be inadvertently sold, or that land disputes cannot be efficiently or satisfactorily resolved. Currently the council does not have a separate common good asset register.</p>	<ul style="list-style-type: none"><li>▪ Review of common good and charities carried out in light of the LASAAC guidance.</li></ul>	<ul style="list-style-type: none"><li>▪ Review action taken in response to LASAAC Guidance on Common Good Assets.</li></ul>
<p>There is a risk that the benefit system / subsidy claim is not reconcilable to the ledger.</p>	<ul style="list-style-type: none"><li>▪ Annual reconciliation is performed but unexplained variances exist.</li></ul>	<ul style="list-style-type: none"><li>▪ Detailed testing at year end.</li></ul>

# Appendix B

## Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	December 2008 - June 2009
Provision of closedown procedures to audit	31 March 2009
Committee approval of unaudited financial statements	22 June 2009
Latest submission of unaudited financial statements with working papers package	30 June 2009
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for final clearance meeting with Head of Finance	11 September 2009
Draft management representations (ISA 580)	15 September 2009
Issue of report on the audit of financial statements (ISA 260)	30 September 2009
Independent Auditors Report signed	30 September 2009
Latest date for submission of unaudited whole of government accounts return to external audit	30 September 2009
Latest date for signing of WGA return	28 October 2009
Final report to Members and the Controller of Audit	31 October 2009
Annual report and certified accounts presented to Council	23 November 2009

# Appendix C

## Audit team

A summarised curriculum vitae for each core team member is set out below:

### **Lynn Bradley BSc CPFA CA - Director**

Lynn took up post as Director of Audit in January 2005. Originally trained as an auditor with National Audit Office, Lynn has worked in various senior posts in the public and private sectors in Scotland and England. She spent several years working with local authorities on housing and regeneration projects. Before joining Audit Scotland, she was the Section 95 officer in a Scottish Council. Lynn was the co-author of CIPFA guidance on audit committee principles. She was previously a CIPFA council member and the past chair of CIPFA in Scotland.

### **Mark Taylor BCOM(Hons) CPFA - Assistant Director**

Mark took up his current post as Assistant Director in early 2005, having previously undertaken a number of audit roles with Audit Scotland, and, before that the Accounts Commission, transferring from the Scottish Office Audit Unit in 1995. During this time he has gained extensive experience in local government audit, and led the introduction of our modernised audit approach. Currently Mark divides his time between a portfolio of local government audits and leading work to better integrate the annual and best value audit processes. He is part of the team leading the development of BV 2 for the Accounts Commission.

### **Pearl Tate BAcc (Hons) CPFA - Senior Audit Manager**

Pearl began her career as a finance trainee in the health sector and was then an internal auditor in health before joining Audit Scotland in 1996. As an external auditor she has covered a wide and varied portfolio of audits across the whole public sector and has specialised in local government audit for the last five years.

### **Francois de Villiers BCompt (Hons) CA (SA) - Senior Auditor**

Francois has 11 years of post-qualification auditing experience, including 6 years in the public sector. Prior to joining Audit Scotland in 2003, he worked for a "Big 4" global firm of accountants, in the UK and abroad. He has experience of a variety of private sector industries, local and central government sectors and has worked as both an accountant and auditor.

### **Edward Stansfeld ACA CISA - ICT Senior Auditor**

Edward trained as an auditor in private practice in the early 90s, and then worked in industry for five years. He joined Audit Scotland in 2001 as an IT audit specialist. Edward contributes to the international ISM3 information security standard which provides a process-based view of ISO27001/BS7799.

### **Mark Stewart BA MAAT - Auditor**

Mark joined the Accounts Commission for Scotland in April 1986. He has worked on the audit of a number of local authorities and associated bodies. He became a member of the Association of Accounting Technicians in 1991.

### **Jessica Curran, MAAT - Auditor**

Jessica joined Audit Scotland as an auditor in January 2004 specialising in the local government sector. Having become a member of the Association of Accounting Technicians in 2006 she is currently a CIPFA trainee and is on target to complete this by Spring 2010.

# Appendix D

## Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal 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 early assessment of the internal audit function. Our review of the internal audit service concluded that the internal audit service operates in accordance with the CIPFA code of practice for internal audit in local government. We therefore plan to place reliance on the work of internal audit in the following areas:

- Budget Process
- Corporate Debt Recovery
- Housing Benefit and Council Tax Benefit
- Non Domestic Rates - liability and billing
- Treasury Management
- Statutory Performance Indicators

# Appendix E

## Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication of audit matters to those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Head of Finance. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.