

**REPORT TO: POLICY & RESOURCES COMMITTEE – 21 NOVEMBER 2022**

**REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S ANNUAL AUDIT REPORT TO MEMBERS OF DUNDEE CITY COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR TO 31 MARCH 2022**

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

**REPORT NO: 303-2022**

## **1 PURPOSE OF REPORT**

This report is a response to the report prepared by the Council's external auditor on the audit of Dundee City Council for the year to 31 March 2022. A copy of the external auditor's report (Report No 302-2022), the 2021/2022 Audited Annual Accounts for the City Council (Report No 304-2022), the 2021/2022 Audited Dundee City Council Charitable Trusts Annual Accounts (Report No 305-2022), the 2021/2022 Audited Lord Provost of Dundee Charity Fund Annual Accounts (Report No 306-2022) and the 2021/2022 Audited Dundee Trust Annual Accounts (Report No 307-2022) are also included on the agenda as separate items. The aforementioned reports were submitted to the Scrutiny Committee on 26 October 2022, along with this report.

## **2 RECOMMENDATIONS**

It is recommended that the Committee:

- i notes the contents of the external auditor's report including the completed action plan at Appendix 1, and in particular that Audit Scotland have issued an unqualified audit opinion on each of the 2021/2022 Annual Accounts noted above.
- ii notes this report as the Council's formal response to the external auditor's report

## **3 FINANCIAL IMPLICATIONS**

- 3.1 The Council's 2021/2022 Audited Annual Accounts show that there was a net underspend on services of £16.697m and an overall net underspend of £20.684m. The main components of the net underspend are shown on page 3 of the accounts, with a more detailed analysis of the main areas of budget variance shown on pages 4 and 5. The table on page 6 of the accounts shows that cash-backed reserves increased by £11.397m over the year, with a closing balance of £81.291m. Within this total, General Fund balances increased by £10.739m to £61.313m at 31 March 2022. The various ear-marked components of the General Fund balance, totalling £52.001m, are shown in note 10 on page 80 of the accounts. The uncommitted element of the closing General Fund balance is estimated at £9.312m. This equates to 2.6% of annual budgeted net expenditure. Please note that the £9.312m uncommitted element is a revised estimate, and is lower than the estimated £9.793m reported to Scrutiny Committee on 29 June 2022. The underlying reason for the downward adjustment is necessary corresponding increases to earmarked portions of the general fund, particularly in relation to carry forward funds and second home discounts.
- 3.2 Capital expenditure in 2021/2022 totalled £57.375m. The key projects in the capital programme are shown in the table on pages 7 and 8 of the accounts. The Balance Sheet on page 68 of the accounts shows that the Council's overall net assets have increased by £52.779m, to £827.100m at 31 March 2022.
- 3.3 The Council's pensions liability, as measured under International Accounting Standard 19 (Employee Benefits) decreased by £68.161m, to £66.915m at 31 March 2022.

## 4 MAIN TEXT

### 4.1 Introduction

External audit is one of the key methods by which the activities and performance of local government are independently scrutinised and reported upon. The external audit of Dundee City Council for the financial year 2021/2022 was carried out by Mrs Fiona Mitchell-Knight, Assistant Director (Audit Services), Audit Scotland. Local authority external auditors are normally appointed for a five-year period but the current appointment was extended by one year as an exception due to covid, financial year 2021/2022 therefore marked the sixth and final year of Audit Scotland's current appointment.

4.2 The 2021/2022 unaudited Annual Accounts were submitted to Scrutiny Committee earlier this year, (Article VI of the Minute of the Meeting of the Scrutiny Committee 29 June 2022, Report No: 190-2022 refers). The accounts were submitted to Audit Scotland on 30 June 2022. The accounts have since been subject to a three-week statutory public inspection period and no objections were received.

### 4.3 External Auditor's Report

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

4.4 The report summarises the findings in relation to the overall audit of the Council for the year ended 31 March 2022. The attached report describes the scope of audit work undertaken during 2021/2022 and the issues arising from that work are divided into five key areas looking at:

- audit of 2021/2022 annual accounts
- financial management
- financial sustainability
- governance and transparency
- best value (including a review of progress in implementing the recommendations from the September 2020 Best Value Assurance Report (BVAR))

4.5 In addition to the elected members of Dundee City Council, the external auditor's report is also addressed to the Controller of Audit at the Accounts Commission for Scotland. Given this wider audience, and the extent of the external auditor's responsibilities and scope of work, the report is by necessity both fulsome and extensive. It contains much information that has already been reported to the relevant committees of Dundee City Council. Further to this, external audit reports issued previously already include agreed management action plans that are the subject of separate consideration by the Scrutiny Committee. Accordingly, it is not the intention in this report to provide a detailed response or commentary on all of the external auditor's findings.

### 4.6 Audit Adjustments

Through the audit process, five technical adjustments to the figures in the Council's financial statements were identified. Further details are provided in Exhibit 3 on page 14 (items 1, 2 and 3) and paragraph 31 on page 15. The main adjustments related to elimination of inter-company transactions in the Group Accounts, and the transfer of an asset from Assets Under Construction to operational assets. With the exception of item 2 on page 14 which increased the earmarked portion of the General Fund balance by £0.506m, the adjustments had no impact on the General Fund balance or usable reserves generally.

#### 4.7 Action Plan

The external auditor has made six recommendations arising from the 2021/2022 Council audit that require further action by the Council, and one recommendation relating to Hospital Fund. These recommendations have been considered carefully by the Chief Executive and Executive Director of Corporate Services and the completed action plan, incorporating the "agreed management action / timing", is included at Appendix 1 to the external auditor's report. The progress on implementing these agreed action points will be monitored by the Council's Risk and Assurance Board through the Council's established procedures for dealing with external audit reports and reviewing previously agreed action plans.

#### 4.8 Conclusions

The external auditor has undertaken a thorough and wide-ranging review of the financial statements and the processes and procedures around their preparation. The report identified no unadjusted misstatements that exceeded the reporting threshold. In addition to the audit of the accounts, the external auditor examined a number of areas covering a wide range of activities during 2021/2022 and has also reviewed progress in implementing the recommendations from the September 2020 Best Value Assurance Report (BVAR).

Whilst a small number of adjustments were required to the unaudited accounts and some areas for improvement have been identified, it is pleasing to note that the overall findings and conclusions are satisfactory. In particular, the Council can take encouragement from the following key findings:

- the Council has made good progress in implementing many of the actions to deliver the recommendations for improvement from the Best Value Assurance Report
- financial management is effective
- financial systems of internal control operated effectively during the year
- the council had appropriate and effective governance arrangements in place to support scrutiny of decision-making
- the accounts were submitted in line with the audit timetable and unqualified audit opinions will be issued

### 5 **POLICY IMPLICATIONS**

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

### 6 **CONSULTATIONS**

The Council Leadership Team was consulted in the preparation of this report.

### 7 **BACKGROUND PAPERS**

Audit Scotland: 2021/22 Annual Audit Report to Members of Dundee City Council and the Controller of Audit

**ROBERT EMMOTT**  
**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**11 NOVEMBER 2022**

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