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REPORT TO: AUDIT AND RISK MANAGEMENT SUB-COMMITTEE
REPORT ON: DUNDEE CITY COUNCIL AUDIT RISK ANALYSIS AND PLAN 2005/06
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REPORT NO: 324-2006

1 PURPOSE OF REPORT

To submit to Members of the Audit and Risk Management Sub-Committee the 2005/06 Audit Risk Analysis and Plan (ARAP).

2 RECOMMENDATIONS

Members of the Sub-Committee are asked to consider the ARAP.

3 BACKGROUND

- 3.1 The 2005/06 ARAP outlines the focus of our audit work for the year which will be centred around the key risks faced by the Council and the actions management are taking to mitigate these risks.
- 3.2 The ARAP 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 2005/06 work will be detailed in our Final Report to Members in October 2006.

Pearl Tate
Senior Audit Manager
5 May 2006

Dundee City Council

Audit Risk Analysis and Plan 2005/06

April 2006



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Summary of planned audit activity

Based on our analysis of the risks facing Dundee City Council, our planned work in 2005/06 includes:

- tracking management assurances we have been given in relation to the management of a number of the Council's key risks;
- follow-up of a number of recommendations made in previous years, including progress in implementing the Best Value Improvement Plan;
- review of aspects of the Council's governance arrangements;
- review of progress in relation to the Efficient Government initiative;
- review of arrangements for the strategic planning of social services;
- assessment of the reliability of statutory performance information;
- audit of the financial statements and provision of an opinion on whether they present fairly the financial position of the Council and its income and expenditure for the year;
- review of the Statement on the System of Internal Financial Control to assess whether the disclosures are consistent with our knowledge of the Council;
- provision of an opinion on a number of grant claims and returns.

Introduction

1. Our audit is focused on the identification and assessment of the key risks to Dundee City Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the Council's financial statements. This report summarises the key risks facing the Council and sets out the audit work that we propose to undertake in 2005/06. Our plan reflects:

- your local risks and priorities;
- current national risks relevant to local circumstances;
- the impact of changing International Auditing Standards;
- our responsibilities under the Code of Audit Practice as approved by the Accounts Commission; and
- issues brought forward from last year's audit.

Our responsibilities

2. 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, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
3. 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 made proper arrangements for securing best value in its use of resources and is complying with its community planning duties;
 - proactively manages and reviews its performance in line with its strategic and operational objectives;
 - has a system of recording and processing transactions which provides a sound basis for the preparation of financial statements and the effective management of the Council's assets and interests;
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption;
 - prepares financial statements which present fairly the financial position at the 31 March 2006 and income and expenditure for the year then ended;
 - complies with established policies, procedures, laws and regulations.
4. The Local Government in Scotland Act 2003 created new arrangements for the audit of best value. Best value audits are based on a cyclical approach and involve a detailed review of the Council by a specialist team every three years, with checks on ongoing progress in intervening years. An initial best value audit has already been undertaken at Dundee City Council, with the findings reported in October 2005. The principles of best value are central to our new audit approach and the local auditor was a member of the best value team to ensure that local knowledge was communicated to the rest of the team. The evidence and assurances obtained through the best value audit of the Council have been utilised to support our new audit approach.

Our approach

5. The key features of our risk-based audit approach include:
 - integration of audit work on financial statements, performance and corporate governance;
 - an increased focus on key business, operational and financial risks;

- a more streamlined financial statements audit which maximises assurance from existing control processes; and
 - development of tailored reviews of the Council's priorities and risks.
6. Our preliminary audit work has involved us in assessing the significant risks facing your organisation. This assessment is based on the likelihood of the risks occurring and the impact they could have on the delivery of services and the Council's financial position. We have also assessed the adequacy of the arrangements in place to address the identified risk and the extent to which these reduce the risk to an acceptable level. We have used a number of audit tools to assess the issues and risks facing Dundee City Council, including the Priorities and Risks Framework (PRF). The PRF is a planning tool which helps ensure that audit work is properly focused, and takes account of both national and organisational priorities and risks, when combined with knowledge of the key priorities and risks for Dundee City Council. The priority areas identified in the 2005/06 local government PRF are:



Strategic risk analysis

7. Based on our discussions with staff and a review of supporting information, we have identified and assessed the following strategic risk areas for Dundee City Council. Risks exist in all organisations which are committed to continuous improvement and, inevitably, are higher in those undergoing significant change. The objective is to be “risk aware”, and have sound processes of risk management, rather than be “risk averse”. Conversely, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Funding future improvement

8. The Council has significant concerns about its funding position and, in line with agreed Council policy, only moderate reserves are held so there are clearly risks to the Council's ability to maintain the current level of services it provides. Particular financial pressures include single status and equal pay, pension costs, any resource implications arising from a recent review of social service provision and funding of major infrastructure projects for schools, housing and the waterfront area.
9. The Efficient Government initiative has incorporated some assumed efficiency savings into annual financial settlements, presenting an immediate challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised. Failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on the quality of services provided.
10. The absence of a comprehensive policy-led approach to budgeting presents further risks to the Council's ability to resource sustainable service improvements and accommodate new demands for services. Although increased freedoms are available to the Council, such as prudential borrowing, these require to be utilised in a way that is affordable, prudent and sustainable.

Delivering improved performance

11. The best value audit highlighted that although the Council delivers services that are generally good, evidence of deterioration in a number of statutory performance indicators suggests the need for greater focus on continuous improvement. The Council has a corporate system for managing and reporting performance but this is not consistently applied, with the risk that it is difficult for elected members and the public to form a judgement on the Council's performance.
12. In order to claim efficiencies under the Efficient Government initiative the Council needs to demonstrate that service outcomes have been maintained or improved, presenting a real challenge to evidence the link between resources and performance measurement. The best value audit also identified scope for the benefits of service review and option appraisal to be applied more widely. In the absence of a systematic review process, there are risks that efficiency programmes are not appropriately targeted at those activities with the most scope for efficiency gains and service improvements in both the short and long term.

Political and management structures

13. While the Council is politically stable and leaders share a common vision for the city, there is a risk that the decision-making process of committees is not transparent and that scrutiny processes are not seen as fully effective. Significant change in the local government environment in 2007, with the introduction of proportional representation and multi-member wards, may mean that current political governance structures will no longer be appropriate.
14. The Council's management structure has evolved as opportunities for change have presented themselves, rather than as a result of a systematic review, and to date there has been limited

reconfiguration of services. Existing organisational structures may not be the most appropriate for dealing with the changing environment in which the Council operates. The Efficient Government initiative also expects savings to be generated through service redesign, streamlined bureaucracy and shared service support. Failure to deliver such savings could increase pressure on existing resources.

Workforce management

15. People play the key role in delivery of high performing services and the Council may not have the right skills, in the right place, at the right time, on a continuing basis. The Council has a high staffing complement, and high absence levels, compared to other Scottish councils. In the absence of a comprehensive system of corporate workforce planning, there are risks that the Council cannot demonstrate that its staffing levels reflect the needs of the city and represent good value for money.
16. Like many other councils, Dundee City Council has not yet implemented the 'single status' agreement. This complex and sensitive area exposes the Council to risks in relation to staff morale, potential industrial relations difficulties and the financial impact of any revised pay and grading structures.

Effective partnership working

17. Increasingly the Council is dependent on partnership working to deliver service improvements. There is a risk that partners are unable or unwilling to work effectively in a joined-up manner and do not achieve best value in the use of public services as a result. The Dundee Partnership Forum structures are complex and have evolved over time, with the potential for duplication and overload for those involved. Partners may be unable to demonstrate sufficient progress in improving outcomes within challenging timescales.
18. New partnership structures are being developed, such as the Community Health Partnership, Central and Tay Transport Partnership and Tayside Community Justice Authority. These new structures will require partners to develop an agreed and integrated agenda even although there may be differences in governance and resourcing arrangements.

Delivering improved infrastructure

19. The Council needs facilities and infrastructure that are suitable and sufficient to meet the requirements placed on them in the provision of services and the delivery of Council objectives now and in the future. A requirement for significant investment has been identified in a wide range of areas including school buildings, housing, transport, waste management, care homes and information systems. In building infrastructure and in delivering its services the Council is required to comply with new sustainable development requirements under the Local Government in Scotland Act 2003.
20. Some projects are already underway, such as the Waterfront project, PPP projects and implementation of a range of IT systems. Project management carries with it risks that expected benefits are not delivered, or that they are only delivered at greater than expected time and cost. A focus on major projects may limit the ability of individuals to manage 'business as usual'.

Summary assurance plan

21. Within these strategic risk areas there is a range of more detailed risks and these are summarised at Appendix A. In most cases actions are either planned or already underway within the Council to manage key risks. Details of the management assurances that we have received against each of the risks and the audit work to be undertaken on identified residual risks are also set out in Appendix A. The work of internal audit plays a key part in the management assurance framework and specific areas where we plan to place reliance on their work in 2005/06 are outlined at Appendix B.
22. Our *Financial Statements Strategy*, which accompanies this document, sets out our approach to the audit of Dundee City Council's financial statements. This provides more detail in how we will approach our audit of the financial statements and the significant accounting or financial risks which we have identified for 2005/06. The Financial Statements Strategy, together with this Audit Risk Analysis and Plan, form our overall strategy for the audit in 2005/06.

Reporting arrangements

23. Matters arising from our audit will be reported on a timely basis during the year and will include agreed action plans. Draft reports will be issued to the responsible director and appropriate senior officer to confirm factual accuracy. Responses to draft reports are expected within **four weeks of submission**.
24. A copy of all final agreed reports will be sent to the Chief Executive, Depute Chief Executive (Finance), relevant senior officer, internal audit and Audit Scotland's Performance Audit Group. All formal reports will be made available to the Audit and Risk Management Sub-Committee for their consideration. Regular updates on the completion of audit reports will be provided to the Audit and Risk Management Sub-Committee.
25. We will provide a report to the Council and the Accounts Commission 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 the members of the Council will also be produced to summarise all significant matters arising from the audit and overall conclusions about the Council's management of key risks. From 2005/06, all annual reports produced by Audit Scotland will be published on our website (www.audit-scotland.gov.uk).

26. The full range of outputs to be delivered by the audit team are summarised below:

	Target delivery Date
Governance	
Follow up of Prior Year Recommendations	30 Sept 2006
Review of Governance Arrangements	30 Sept 2006
Performance	
Efficient Government	31 May 2006
Follow up of Financial Strategy	30 June 2006
Statutory Performance Indicators (return)	31 August 2006
Follow up of Best Value Improvement Plan	30 Sept 2006
Strategic Planning in Social Services	30 Sept 2006
PRF Position Statement	30 Sept 2006
Financial statements	
Financial Statements Strategy	31 March 2006
Report to Council in terms of ISA 260	30 Sept 2006
Independent auditor's report on the financial statements	30 Sept 2006
Annual report to Members and the Controller of Audit	31 Oct 2006
Grant claims	
Audit opinions on grant claims and other returns	Within 3 months of receipt of claim & working papers

27. In addition to the above work which will result in reports directly to the Council, Audit Scotland is conducting a programme of studies on behalf of the Accounts Commission. Current studies include:

- Community Planning Partnerships (March 2006);
- A Teaching Profession for the 21st Century (March 2006);
- Housing Stock Transfer (March 2006);
- Waste Management (late 2006).

Quality Control

28. 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 the Council receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client (for Dundee City Council this is Fiona Kordiak who is responsible for quality control). As part of our commitment to quality and continuous improvement, we may seek your views from time to time. We would be grateful for any feedback on our services.

Fees and resources

29. Our agreed fee for the 2005/06 audit of Dundee City Council is £390,800, comprising a local audit fee of £251,500 and a fixed charge of £139,300. 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 Accounts Commission;
- attendance at the Audit and Risk Management Sub-Committee and key Council/Committee meetings;
- access to advice and information on relevant audit issues;
- access to workshops/seminars on topical issues; and
- all travel and subsistence costs.

30. In determining the agreed fee we have taken account of the risk exposure of the Council and the management assurances in place. We have assumed receipt of the draft accounts and working papers by 30 June 2006. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. Similarly, fee reductions may be negotiated where additional management assurances are received. An additional fee will be required in relation to any work on PPP or other major work not within our planned audit activity.

31. Gavin Stevenson, Director of Local Government, is the appointed auditor for local authorities audited by Audit Scotland. In practice, this is operated by delegating management and certification responsibilities to Assistant Directors. For Dundee City Council, the Assistant Director is Fiona Kordiak and she is responsible for ensuring that our work is carried out on time and to a high quality standard. The local audit team will be led by Pearl Tate, who will carry out the day to day management of the audit and will be your primary contact. Details of the experience and skills of our core staff are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

Appendix A: Summary assurance plan

Summary assurance plan - *In this section we identify a wide range of operational risks facing the Council, the related management assurances received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the 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.*

Funding future improvement

The Council has significant concerns about its funding position and the Efficient Government initiative has incorporated some efficiency savings into annual financial settlements, presenting an immediate challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised.

Risk	Management assurances	Planned audit action
<p>The budget process has largely been on an incremental basis and has not included an overall policy led budgeting approach. There are risks, therefore, that:</p> <ul style="list-style-type: none"> the corporate objectives set are unrealistic, with insufficient resources to meet all of the Council's aims; the allocation of resources is not targeted at corporate objectives, with the funding of services not matching agreed priorities. Funding gaps may occur in relation to change projects; the prioritisation of services is not undertaken to evaluate the options for reduction or cessation of certain activities, with the result that the performance of other services are detrimentally affected. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Track management assurances. Follow up 2004/05 financial strategy report. Review progress in relation to the Best Value Improvement Plan.

Risk	Management assurances	Planned audit action
<p>The Efficient Government initiative has incorporated some assumed efficiency savings into annual financial settlements, presenting an immediate challenge as efficiency gains through service redesign are likely to take longer than one year to be fully realised. There are risks that failure to achieve the level of savings anticipated may:</p> <ul style="list-style-type: none"> • increase financial pressures; • impact on the quality of services provided; • lead to loss of credibility with the Scottish Executive and the public. 	<ul style="list-style-type: none"> • A bid has been made for funding assistance to take forward procurement-related proposals under the Efficient Government initiative. • Investigations being carried out to extend joint working with other local authorities and public sector agencies to maximise buying power. • Annual review of corporate procurement policy to be incorporated as part of the overall annual review of Council Plan performance. • The Council has identified specific savings for 2006/07 which have been fully costed and incorporated into the approved Revenue Budget for 2006/07. 	<ul style="list-style-type: none"> • Track management assurances. • Complete the Efficient Government Management Arrangements Diagnostic. • Examine key strategic financial planning arrangements, including the identification and delivery of efficiencies over the medium term.
<p>Uncommitted Council reserves stood at £3.159 million at 31 March 2005. There are a number of competing pressures on the Council to use these reserves, with risks that:</p> <ul style="list-style-type: none"> • the use of reserves does not comply with the Council's protocol; • the Council is left with insufficient reserves to meet unforeseen events; • the long-term sustainability of the organisation and services are in question. 	<ul style="list-style-type: none"> • A protocol for the operation of the Council's reserves is in place. • Annual review of reserves levels. 	<ul style="list-style-type: none"> • Track management assurances. • Follow up of 2004/05 financial strategy report.
<p>There is limited long term financial planning (over 10-15 years) which restricts the Council's ability to prioritise expenditure to meet longer term objectives. There are risks that:</p> <ul style="list-style-type: none"> • the Council fails to project the longer-term implications of previous spending decisions thus restricting the achievement of objectives beyond the three-year budgeting horizon; • ring fenced or specific initiatives fail as they are not supported by exit strategies should funding be withdrawn. 	<ul style="list-style-type: none"> • There are plans to model the financial implications of population decline beyond the current three year horizon in order to better inform financial planning processes. • The Council mitigates its risk exposure by time-limiting its financial commitment. • A grant floor mechanism exists to protect councils from significant reductions in grants between years. 	<ul style="list-style-type: none"> • Track management assurances, including review of financial model and specific examples of time-limited financial commitments. • Follow up of 2004/05 financial strategy report.

Risk	Management assurances	Planned audit action
<p>Budgetary pressures place greater demand on the Council loans fund to perform better and generate efficiencies. There is a risk, therefore, that inappropriate Treasury Management decisions are made.</p>	<ul style="list-style-type: none"> • A Treasury Management Policy and Strategy is in place. • The Council complies with the CIPFA Code of Practice on Treasury Management. • 6 monthly reports submitted to Finance Committee on Treasury Management activity. 	<ul style="list-style-type: none"> • Track management assurances.
<p>The previous system of centrally based controls over local authority capital expenditure was replaced from April 2004 by a prudential regime based largely on self-regulation. There are risks that:</p> <ul style="list-style-type: none"> • the Council does not demonstrate meaningful consideration of the affordability, prudence and sustainability of capital expenditure on a continuing basis; • in the absence of a robust asset management planning process, capital investment decisions may not consider all options and do not represent the best fit to corporate objectives. Best value may not be achieved in the use of assets. 	<ul style="list-style-type: none"> • Performance indicators demonstrating affordability, prudence and sustainability are approved by Committee. • Development of asset management plans in a standardised format to allow priorities to be set (schools estate strategy already in place) and to facilitate clearer linkages with the capital budget. • Property surveys are underway. • Preparation, approval and implementation of an Asset Management Plan by July 2007. 	<ul style="list-style-type: none"> • Track management assurances. • Follow up of previous audit reports.

Risk	Management assurances	Planned audit action
<p>There is a risk that additional resources will be required to meet new developments in social work services:</p> <ul style="list-style-type: none"> • a review of social work provision has been undertaken and a report has now been published. One outcome of the review is that social work service provision may need to focus more on early intervention requirements; • nationally there are pressures on social services due to the increased survival rates of severely disabled children with complex care needs. As well as the move to care for these children in the community, there are additional costs for social services to continue ongoing respite care for these children at age 16, when respite care is no longer an NHS cost. 	<ul style="list-style-type: none"> • Main findings from the <i>Changing Lives</i> report were presented to the Social Work Committee in March 2006 and further developments or actions will be reported to members during the implementation phase of the report. • Meeting held with Scottish Executive implementation team to discuss taking forward the national recommendations. • The Council's EFQM approach and development of performance management puts it in a strong position to meet some of the organisational development expectations within the report. • Transitional planning in place to ensure that SW department does not bear costs that are the responsibility of the NHS – this will be reviewed over the next year to ensure the process is still fit for purpose. • An analysis of service demand will be undertaken over the next year to prepare a projection of likely future demand and cost. 	<ul style="list-style-type: none"> • Track management assurances. • Review of strategic planning in social services.

Delivering improved performance

Although the Council delivers services that are generally good, evidence of deterioration in a number of statutory performance indicators suggests the need for greater focus on continuous improvement. The Council has a corporate system for managing and reporting performance but this is not consistently applied. In order to claim efficiencies under the Efficient Government initiative the Council needs to demonstrate that services have been maintained or improved, presenting a challenge to evidence the links between resources and performance.

Risk	Management assurances	Planned audit action
<p>The best value audit identified that whilst a corporate performance management system was in place, it was not being consistently applied. There are risks that:</p> <ul style="list-style-type: none"> • performance is not systematically monitored and followed up by services to ensure that corrective action is taken. As a result, the effectiveness of strategies and policies cannot be demonstrated and service provision may be ineffective or inefficient; • performance measures and monitoring are focused on processes rather than outcomes for service users; • performance indicators used to measure performance are not appropriate or are unreliable and distort the perception of underlying performance or customer satisfaction; • measured performance does not demonstrate continuous improvement. 	<ul style="list-style-type: none"> • Under the Council's BV Improvement Plan the following actions will be undertaken: <ul style="list-style-type: none"> ➢ review the service planning process and produce new comprehensive guidance and training on producing service plans and involving elected members in the process; ➢ all service plan performance targets and strategic projects milestones to be reviewed to make them as SMART as practicable; ➢ public consultation and communication strategies to be prepared and approved for all services; ➢ feedback reported via service plan reports to Committees; ➢ monitoring and reviewing effectiveness of consultation and communication via new CMT roles and service plan reports to Committees. • Best Value Sub-Committee will review a performance monitoring report at least twice per year. • Statutory Performance Indicators (SPIs) compiled and published. • The Council is undertaking a programme of Best Value Reviews to improve performance in major service areas. 	<ul style="list-style-type: none"> • Track management assurances. • Review progress in relation to the BV Improvement Plan, with particular focus on performance management arrangements. • Assess the reliability of SPIs and arrangements in place to publish in accordance with statutory requirements. • Assess action taken to address areas of performance where these are below comparator authorities, for example, sickness absence, social work indicators.

Risk	Management assurances	Planned audit action
<p>SPIs are a statutory requirement and a public measure of a Council's performance. Previous audit reports have highlighted where improvements could be made to the procedures and controls operated by the Council for compiling SPIs. There are risks that:</p> <ul style="list-style-type: none"> • inaccurate SPIs are published; • monitoring of performance is ineffective. 	<ul style="list-style-type: none"> • Procedures and processes for preparing the SPIs are to be reviewed on a cyclical basis by Finance Department staff in the current and future financial years. • Internal Audit will review systems for recording new and changing SPIs. 	<ul style="list-style-type: none"> • Track management assurances. • Follow up previous audit reports. • Assess the reliability of SPIs and arrangements in place to publish in accordance with statutory requirements. • Assess action taken to address areas of performance where these are below comparator authorities, for example sickness absence, social work indicators.
<p>In order to claim efficiencies under the Efficient Government initiative, the Council needs to demonstrate that service outcomes have been maintained or improved. The best value audit also identified scope for the benefits of service review and option appraisal to be applied more widely. There are risks that:</p> <ul style="list-style-type: none"> • the performance management system cannot transparently evidence the link between resources and performance to demonstrate that outputs and outcomes have been maintained or improved; • efficiency programmes are not appropriately targeted at those activities with the most scope for efficiency gains and service improvements in both the short and long term. 	<ul style="list-style-type: none"> • The remit of the Best Value Sub-Committee has been expanded to explicitly include matters relating to Efficient Government. • Efficient Government Board established to identify and monitor projects to deliver efficient government savings in line with the strategic themes. • A system will be developed to capture efficiency savings. • Best Value Review programme gives priority to services which need to improve, e.g. Council Tax, Benefits Processing and school attainment. 	<ul style="list-style-type: none"> • Track management assurances. • Complete the Efficient Government Management Arrangements Diagnostic.
<p>Social Work require sufficient information about service users and carers to allow effective planning of service developments, including preparations for expected changes in demography and whether detailed information about expected growth in direct payments uptake is collected to enable the impact of this to be accounted for in future service planning. There is a risk that this information is not available in sufficient detail to enable accurate planning to take place.</p>	<ul style="list-style-type: none"> • Considerable information is already available on service users and carers. • Service Information Technology Group (SITG) reports to Departmental Information Technology Group (DITG) on changes that are needed to information gathering systems. • DITG maintains an overview of SW IT systems and prioritises improvements. 	<ul style="list-style-type: none"> • Track management assurances. • Review of strategic planning in social services. • Follow up 2004/05 report on social work debtors.

Risk	Management assurances	Planned audit action
<p>A sound framework of corporate governance underpins credibility and confidence in public services. Significant weaknesses in the framework of control operated or in the processes in place to review its operation and to report on this publicly will lead to risks to the effectiveness of the Council, either directly or by undermining confidence. A key issue in the coming year is the need to embed effective risk management processes throughout the Council.</p>	<ul style="list-style-type: none"> • Annual departmental internal assurance statements supporting the Council's <i>Statement on the System of Internal Financial Controls</i>. • The annual work programme of internal audit. • The implementation of action plans arising from previous external and internal audit reports, including those covering corporate governance and performance management arrangements. • Embedding of risk management within the culture will be developed by the establishment of a Corporate Risk Register linked to departmental risk registers. 	<ul style="list-style-type: none"> • Track management assurances. • Follow-up of previous audit reports on governance arrangements.

Political and management structures

While the Council is politically stable and leaders share a common vision for the city, there is a risk that the decision-making process of committees is not transparent and that scrutiny processes are not seen as fully effective. The Council's management structure has evolved as opportunities for change have presented themselves, rather than as a result of a systematic review, and to date there has been limited reconfiguration of services.

Risk	Management assurances	Planned audit action
<p>There is a lack of openness and transparency in the Council's decision making, with a number of decisions appearing to be made in private session. There is, therefore, a risk that the Council is not compliant with sound corporate governance principles of openness and transparency.</p>	<ul style="list-style-type: none"> • Under the Council's BV Improvement Plan, the openness, transparency and scrutiny of political decision making is to be reviewed. • Website used to provide additional information. 	<ul style="list-style-type: none"> • Track management assurances. • Review progress in relation to implementation of the Council's BV Improvement Plan.
<p>Performance against service plans is reported to Council Committees annually. These reports provide updates on major projects, but few include trend information and none include comparative information, details of staff absence, complaints information, budget variance or improvement plans. There is a risk that this level of reporting makes it difficult for elected members (and the public) to form judgements about how well services are performing and the potential for improvement.</p>	<ul style="list-style-type: none"> • Under the Council's BV Improvement Plan, the service planning process will be reviewed and guidance and training provided on producing service plans and involving members in the process. • Annual Service planning report guidance requires departments to include trend and comparative statistics in service plan performance reports. • The Best Value Sub-Committee will address the performance of departments through reports, using monitoring information from the Strategic Monitoring Database, covering key objectives from departmental service plans and comparable SPIs. • The Council will review the information included in the Annual Performance Plan. 	<ul style="list-style-type: none"> • Track management assurances. • Review progress in relation to implementation of the Council's BV Improvement Plan.

Risk	Management assurances	Planned audit action
<p>Effective member scrutiny of financial performance is fundamental to sound corporate governance arrangements. There are risks that:</p> <ul style="list-style-type: none"> financial information is not at a sufficient level of detail to demonstrate effective scrutiny; members do not have the right financial training to discharge their responsibilities. 	<ul style="list-style-type: none"> Format of the capital expenditure monitoring report to be reviewed in light of comments made in the external audit report on Prudential Code. Members' views on revenue monitoring reports to be canvassed. Members state they have adequate access to training. 	<ul style="list-style-type: none"> Track management assurances. Follow up of 2004/05 financial strategy report.
<p>Current political structures may no longer be appropriate in the changing local government environment since the introduction of statutory duties of best value, community planning and well being and the introduction of proportional representation in 2007.</p>	<ul style="list-style-type: none"> Under the Council's BV Improvement Plan, the openness, transparency and scrutiny of political decision making is to be reviewed. Proportional representation is a lower risk in Dundee City as the current structure is for all members to sit on all committees. 	<ul style="list-style-type: none"> Track management assurances. Attend Committee/Audit & Risk Sub-Committee meetings.
<p>To date, there has been limited reconfiguration of services within the Council and the best value audit identified scope for the benefits of service review and option appraisal to be applied more widely. The Efficient Government initiative expects savings to be generated through service redesign, streamlined bureaucracy and shared service support. Failure to deliver such savings could increase pressure on existing resources.</p>	<ul style="list-style-type: none"> The Council has identified specific savings for 2006/07 which have been fully costed and incorporated into the approved Revenue Budget for 2006/07. 	<ul style="list-style-type: none"> Track management assurances. Complete the Efficient Government Management Arrangements Diagnostic.

Workforce management

People play the key role in delivery of high performing services and the Council may not have the right skills, in the right place, at the right time. Implementation of the single status agreement also exposes the Council to risks in relation to staff morale, potential industrial relations difficulties and the financial impact of any revised pay and grading structures.

Risk	Management assurances	Planned audit action
<p>In the absence of a corporate approach to workforce planning, there are risks that:</p> <ul style="list-style-type: none"> • the Council is failing to maximise the use of the staffing resources available; • staff resources are not deployed as effectively as they could be to deliver best value services. 	<ul style="list-style-type: none"> • Corporate Human Resource Strategy to be developed and agreed by Committee by April 2006. 	<ul style="list-style-type: none"> • Track management assurances. • Review progress in relation to the BV Improvement Plan.
<p>Although an absence management policy and procedures are in place, absence levels remain high. SPIs show that absence is on the increase and levels do not compare well with other Scottish councils. There is a risk that sickness absence will adversely impact on budgets and staff morale. This is a particular issue in the Social Work Department.</p>	<ul style="list-style-type: none"> • On-going monitoring by Council Management Team. • Report on absence management was approved by Committee in August 2005. • Social Work Management Team working on identification of absence hotspots. • Progress report will be submitted to Committee in April 2006. • Training on the new Absence Management Procedures to be provided by end April 2006. 	<ul style="list-style-type: none"> • Track management assurances.

Risk	Management assurances	Planned audit action
<p>Equal pay legislation requires equitable wages for equivalent jobs. There are risks that:</p> <ul style="list-style-type: none"> existing pay and rewards structures are not realigned to reflect the requirements of the single status agenda, with the associated risk that the Council is unable to meet equal pay requirements; the financial implications of single status adversely affect service delivery; potential industrial relations disputes lead to failure in service delivery. 	<ul style="list-style-type: none"> Job evaluation exercise to provide a basis for a fairer pay scheme (single status) and develop new pay and grading structures. On-going discussions with Trade Unions regarding Single Status implementation and resolution of Equal Pay liabilities. 	<ul style="list-style-type: none"> Track management assurances.
<p>As the elderly population increases there will be more demand for social care staff. There is a potential staffing and finance risk associated with this. There was an overspend in the Social Work Department's budget in 2005/06 as at November 2005 due to increased care home placement costs.</p>	<ul style="list-style-type: none"> Additional resources have been allocated in 2006/07. 	<ul style="list-style-type: none"> Track management assurances.
<p>A new payroll/personnel system, Resourcelink, is in the process of being implemented. Departments are transferring over to the new system on a phased basis. Until all departments have transferred the Council is operating both payroll systems in parallel. There are risks that:</p> <ul style="list-style-type: none"> data is not correctly transferred across the systems; payroll updates are omitted from a live system (this may be particularly relevant in relation to single status/equal pay claims if both payroll systems are still active at that time). 	<ul style="list-style-type: none"> Implementation timetable in place. Reconciliations carried out on both Resourcelink and ISIS. 	<ul style="list-style-type: none"> Track management assurances. Confirm accuracy of data transfers.

Effective partnership working

Increasingly the Council is dependent on partnership working to deliver service improvements. There is a risk that partners are unable or unwilling to work effectively in a joined-up manner and do not achieve best value in the use of public resources as a result.

Risk	Management assurances	Planned audit action
<p>The Dundee Partnership structure has evolved over time. This is complex and there is a potential risk that members do not fully understand how their part of the structure fits in overall. There is a risk that the Partnership is fragmented and not operating at the optimum level.</p>	<ul style="list-style-type: none"> • New Community Plan 2005 - 2010 in place. • Annual monitoring of plan. • Annual Action Plan will be in place from 2006 onwards which will include measures aimed at communication, co-ordination etc. 	<ul style="list-style-type: none"> • Track management assurances. • Audit Scotland national review of community planning partnerships.
<p>Community planning is well established in Dundee but joint governance arrangements with partners are under-developed, with the potential risk that financial plans do not support effective joint working and restrict the achievement of corporate objectives in relation to community planning.</p>	<ul style="list-style-type: none"> • Joint governance will be prompted via Annual Action Plans and specific large scale joint initiatives (e.g. Employability Framework; Healthy Dundee; Community Safety Partnership etc.). 	<ul style="list-style-type: none"> • Track management assurances. • Audit Scotland national review of community planning partnerships.

Risk	Management assurances	Planned audit action
<p>New partnership structures are being developed, with risks that differences in governance and resourcing arrangements hinder the development of an agreed and integrated agenda. New structures include:</p> <ul style="list-style-type: none"> • Community Health Partnerships – 2005/06 is a shadow year, with the arrangement ‘going live’ in April 2006; • Regional Transport Partnerships – the Central and Tay Transport Partnership was established in December 2005 but it is already clear that the body is anticipating a need for an extension to the March 2007 statutory deadline for producing a regional transport strategy; • Community Justice Authorities – shadow authorities will be in place in 2006/07 and fully operational the following year. 	<ul style="list-style-type: none"> • CHPs – a new 3 year joint improvement plan is in place. • Regional Transport Partnership now known as Tayside and Central (Scotland) Transport Partnership (TACTRAN) is not currently proposing requesting an extension to the 2007 deadline. • First meeting of Criminal Justice Authority (CJA) in April 2006 to determine key appointments and adopt Standing Orders. Financial regulations to be agreed in June 2006. 	<ul style="list-style-type: none"> • Track management assurances.
<p>In some instances funding for community planning projects from the Scottish Executive (SE) is temporary and results in schemes closing when funding stops. There is a risk of a piecemeal short term approach to spending rather than developing self-sustaining schemes.</p> <p>There can be additional burdens on the Partnership to meet SE requirements or to qualify for new initiatives. There is, therefore, a further risk of resources being redirected to meet administrative rather than community needs.</p>	<ul style="list-style-type: none"> • Sustainable funding criteria is being introduced into funding allocations (e.g. Community Regeneration Funding). • The Partnership attempts to strike a balance between resources allocated to attracting funding and meeting community needs. 	<ul style="list-style-type: none"> • Track management assurances.

Delivering improved infrastructure

The Council needs facilities and infrastructure that are suitable and sufficient to meet the requirements placed on them in the provision of services and the delivery of Council objectives both now and in the future. A requirement for significant investment has been identified in a wide range of areas.

Risk	Management assurances	Planned audit action
<p>The Corporate Asset Management Plan is being developed for implementation by July 2007. At that stage, the Council will know the condition, suitability and sustainability of its total asset base. Until the plan is in place the Council cannot evidence that it is making maximum use of all of its assets.</p>	<ul style="list-style-type: none"> • Schools Estate Plan in place. • Asset management now under the remit of the Council's Efficient Government Board. • Condition surveys being completed. 	<ul style="list-style-type: none"> • Track management assurances. • Follow up of 2004/05 asset management report.
<p>The Council has a £85 million PPP programme of investment in Dundee schools which will see the building of six primary schools, one secondary school and an Academy. The first school is due to open in 2007 and the last one by 2008. This timetable has slipped considerably from the original timetable, which would have seen the schools open a year earlier. There is a risk that the timetable will slip further and the Council will incur further delays to opening the new schools and incur ongoing costs of maintaining the existing schools to be replaced by the PPP buildings.</p>	<ul style="list-style-type: none"> • Targets in place with Discovery Education, the preferred bidder, to meet the 2007 target date. • Project Board and Management Group in place to monitor. • The key risks are largely outwith the Council's control, namely due diligence from preferred bidders and lenders, and Scottish Executive response to the proposed derogations to the Scottish Standard Contract. 	<ul style="list-style-type: none"> • Track management assurances.

Risk	Management assurances	Planned audit action
<p>The Council has submitted its standard delivery plan to Communities Scotland to ensure that its houses meet the requirements of the Scottish Housing Quality Standard by the target of 2015. The plan provides for stock improvement, demolition programmes and other investment costed at some £141 million over 10 years. The delivery plan is subject to scrutiny by Communities Scotland. Initial feedback has been received and discussions are on-going.</p> <p>The Council's delivery plan is therefore partly dependent on further external funding but there is a potential risk that this funding will not be forthcoming.</p> <p>Other assumptions and estimates in the 10 year financial projections underpinning the plan, including estimated savings in running costs, are subject to estimating error and risk, but there is no explicit allowance for risk in the delivery plan. Unforeseen increases in costs, inability to achieve savings targets or changes in demand for housing could therefore present further risks to the delivery of the plan.</p>	<ul style="list-style-type: none"> • Standard Delivery Plan submitted. • Modify Plan to meet Communities Scotland requirements (2006/07). • Confirm “milestones” with Communities Scotland. • Annual financial review to confirm targets/progress. • Manual project review to confirm targets/progress. • Modify programme in light of annual review. 	<ul style="list-style-type: none"> • Review comments from Communities Scotland on receipt. • Track management assurances.
<p>Long term capital plans include the complete redevelopment of the central waterfront. This plan has a 30 year timescale. Current elements of the development include the purchase of a new site to replace the Council's existing administration headquarters at Tayside House which is earmarked for demolition and rerouting of access roads around the Waterfront. There is a risk that project management arrangements are not adequate, with the result that target milestones are not met or that project costs are not continually updated resulting in additional costs being incurred by the Council.</p>	<ul style="list-style-type: none"> • Site already purchased for Tayside House replacement. • Development Masterplan 2001-2031. • Prudential indicators evidence affordability, sustainability and prudence of capital investments. • Mainly funded from Scottish Executive, Government Agencies and the Private Sector. 	<ul style="list-style-type: none"> • Track management assurances. • Review project management arrangements.

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. In July 2004 Audit Scotland published a national report on *A job worth doing: raising the standard of internal audit in Scottish Councils*. Overall, the Dundee City Council Internal Audit service was placed within the highest performance band. We therefore plan to place reliance on the work of internal audit work in the following areas:

- Cash Collection and Receipting
- Debtors and Debt Management
- Ordering, Receipting and Creditor Payments
- Stocks Stores and Stock Checks
- Corporate Governance
- External Funding and Specific Grants
- Partnering
- Performance Management and Monitoring
- Council Tax
- Housing and Council Tax Benefits
- Pension Fund Investment and Administration
- Risk Management

We expand on specific aspects of reliance on internal audit within our Financial Statements Strategy which accompanies this document.

Audit Team

Summarised information for each core team member is set out below:

Name	Summary
Fiona Kordiak Assistant Director	CPFA 18 years experience of local government audit. Further experience in NHS and central government audit.
Pearl Tate Senior Audit Manager & lead contact	CPFA 12 years experience of public sector audit covering local government, NHS and central government areas.
Owen Smith Senior Auditor & financial statements lead	CPFA Nine years experience of local government audit.
Sue Shiells ICT Senior Auditor	CISA 8 years experience of local government audit. Further experience in NHS and central government audit.
Ian Craig Auditor & governance & accountability lead	ACMA Ian joined Audit Scotland in 2005 having previously worked in management accounts within central government for 16 years.
Mark Stewart Auditor & grants lead	MAAT 20 years experience of local government audit.