

**REPORT TO:** SCRUTINY COMMITTEE – 24 SEPTEMBER 2012

**REPORT ON:** DUNDEE CITY COUNCIL 2011/2012 ACCOUNTS AND AUDIT

**REPORT BY:** DIRECTOR OF CORPORATE SERVICES

**REPORT NO:** 382-2012

## 1 PURPOSE OF REPORT

To report on the outcome of the external audit of Dundee City Council for the year to 31 March 2012. A copy of the External Auditor's Report To Those Charged With Governance (Report No 383-2012) and the draft 2011/2012 Audited Statement of Accounts for the City Council (Report No 384-2012) are also to be considered by the Scrutiny Committee.

## 2 RECOMMENDATIONS

It is recommended that the Committee:

- i notes the contents of External Auditor's Report to Those Charged With Governance, in particular that KPMG LLP anticipate issuing an unqualified audit opinion
- ii notes the completed Action Plan at Appendix 3 to the External Auditor's Report To Those Charged With Governance
- iii instructs the Director of Corporate Services to arrange for the Audited Statement of Accounts to be signed as necessary
- iv notes that the External Auditor's Report to Members will be considered by the Policy & Resources Committee in due course, together with the Audited Statement of Accounts

## 3 FINANCIAL IMPLICATIONS

None.

## 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 2011/2012 was carried out by Mr Stephen Reid CPFA, Director, KPMG LLP. Local authority external auditors are appointed for a five year period and the financial year 2011/2012 marked the first year of KPMG's appointment at the City Council.

The 2011/2012 Unaudited Statement of Accounts was circulated to elected members and to KPMG on 29 June 2012, in line with the statutory deadline. The Accounts have been subject to a three week statutory public inspection period and no objections were received

### 4.2 External Auditor's Report To Those Charged With Governance

KPMG have now completed their audit work and, in accordance with auditing standards (ISA 260), they are now required to report the outcome of their work in relation to the financial statements. This requirement is addressed via their Report To Those Charged With Governance. The report is divided into the following five key areas:

- Executive Summary – Headlines
- Accounting
- Financial Statements
- Key Financial Controls
- Appendices

#### 4.3 Action Plan

The External Auditor has identified eight key issues arising from his audit of the financial statements, mostly relating to technical accounting matters, that he considers require further action by the Council. These relate to:

- 1 Technical Analysis and Ownership
- 2 Impairment of Assets
- 3 Recognition of Capital Grants
- 4 Quality of Supporting Working Papers
- 5 Bank Reconciliation
- 6 Reconciliation of Financial Ledger to Financial Statements
- 7 Bad Debt Provisioning
- 8 Pension Data

These matters have been considered carefully by the Director of Corporate Services and the completed action plan, incorporating the "planned management action", is incorporated within the External Auditor's report. The progress on implementing these agreed action points will be monitored through the Council's established procedures for dealing with external audit reports and reviewing previously agreed action plans. It should be noted that only one of the above items above (5) has been identified as Grade One ie "significant". Further, the technical accounting matters have had no impact on the Council's General Fund balance or on future budgetary requirements.

#### 4.4 Conclusions

The External Auditor has undertaken a thorough and wide-ranging review of the financial statements and the processes and procedures around their preparation. Whilst some areas for improvement have been identified, it is pleasing to note that it is anticipated that an unqualified audit opinion will be issued. It should also be noted that 2011/2012 marked only the second year of accounting under International Financial Reporting Standards (IFRS) and the significant changes arising from IFRS are, to some extent, still bedding-in. Further, a change of External Auditor, as was experienced in 2011/2012, will always bring fresh challenges for the Council as inevitably a new audit focus and emphasis emerges.

#### 4.5 The Way Ahead

The audit of the 2011/2012 financial statements can now be concluded by the signing of Audited Statement of Accounts. In due course the External Auditor will issue his Report to Members, covering the key aspects of the full range of audit work undertaken in 2011/2012 (ie not just that work in relation to the financial statements). This report will be considered by the Policy & Resources Committee, together with the Audited Statement of Accounts.

### 5 **POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

**6 CONSULTATIONS**

The Chief Executive and Head of Democratic and Legal Services has been consulted on the content of this report.

**7 BACKGROUND PAPERS**

KPMG LLP: Report To Those Charged With Governance (September 2012).

**MARJORY M STEWART  
DIRECTOR OF CORPORATE SERVICES**

**21 SEPTEMBER 2012**