

REPORT TO: POLICY & RESOURCES COMMITTEE - 12 DECEMBER 2011

**REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S REPORT TO MEMBERS ON THE
AUDIT OF DUNDEE CITY COUNCIL FOR THE YEAR TO 31 MARCH 2011**

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 552-2011

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 2011. A copy of the External Auditor's report (Report No 551-2011) and the 2010/2011 Audited Statement of Accounts for the City Council (Report No 550-2011) are included on the agenda as separate items.

2 RECOMMENDATIONS

It is recommended that the Committee:

- i endorses this report as the Council's formal response to the External Auditor's report.
- ii notes the completed Action Plan appended to this report.

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 2010/2011 was carried out by Mr Mark Taylor CPFA, Assistant Director - Audit Services, Audit Scotland. Local authority external auditors are appointed for a five year period and the financial year 2010/2011 marked the final year of Audit Scotland's current appointment at the City Council. From next financial year 2011/12, the new audit firm appointed for the Council will be KPMG LLP.

4.2 External Auditor's Report

The External Auditor's report outlines his main responsibilities as auditor and describes the scope of audit work undertaken during 2010/2011 and the issues arising from that work. The report is divided into the following four key areas:

- Financial Statements
- Financial Position
- Governance & Accountability
- Best Value, Use of Resources and Performance

4.3 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, his 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, the External Auditor's 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.

4.4 Action Plan

The External Auditor has identified eight key issues arising from his 2010/2011 audit that he considers require further action by the Council. These relate to:

- 1 Group Assurances
- 2 Whole of Government Accounts
- 3 Borrowing
- 4 Corporate Asset Management Strategy
- 5 Procurement
- 6 Financial Forecasting
- 7 Roles and Relationships
- 8 Changing for the Future

These matters have been considered carefully by the Chief Executive and Director of Finance and the completed action plan, incorporating the "planned management action", is appended to this report and to the External Auditor's report. The progress on implementing these agreed action points will be monitored through the Council's established procedures for dealing with external audit reports and reviewing previously agreed action plans.

4.5 Conclusions

During 2010/2011, the External Auditor examined a number of areas covering a wide range of the City Council's activities. Whilst some areas for improvement have been identified, it is pleasing to note that the auditor's overall findings and conclusions are satisfactory. In particular, the Council can take encouragement from the following findings:

- the accounts were submitted on time and there was no qualification to the auditor's opinion
- the Council has built on the progress made in previous years in delivering savings
- the Changing for the Future Strategy is beginning to deliver further savings as the outcomes of work streams are identified and implemented
- in 2010, the Council achieved a marked improvement in its procurement capability assessment with the overall score now being above the Scottish average.
- no material weaknesses in the accounting and internal control systems were identified during the audit process
- the Council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption
- the performance indicators monitored by the corporate scorecard indicate that performance is improving in a number of key areas
- the Council has now introduced the Public Sector Improvement Framework as its primary self assessment tool and this is now achieving widespread use throughout services

As this is the last year of Audit Scotland's current audit appointment, the Director of Finance would take this opportunity to acknowledge the good working relationship that existed over this period and thank all external audit staff for their work during the last five years.

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 Depute Chief Executive (Support Services) have been consulted on the content of this report.

7 BACKGROUND PAPERS

Audit Scotland: Dundee City Council - Annual Report on the 2010/2011 Audit (October 2011).

**MARJORY M STEWART
DIRECTOR OF FINANCE**

05 DECEMBER 2011

Appendix B: action plan

Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---|---|--|---------------------|---------------|
| 1 | Error! Reference source not found. | <p>Group assurances</p> <p>As the council seeks to expand it's group activities through the creation of Leisure and Culture Dundee it would be appropriate to give consideration to extending the assurances received from group entities to cover their wider governance arrangements.</p> <p><i>Risk. The council is exposed to reputational risk or financial loss arising from inadequate governance arrangements in group entities.</i></p> | Consideration will be given, where appropriate, to extending the assurances received from group entities to cover their wider governance arrangements. | Director of Finance | 30 June 2012 |
| 2 | 24. | <p>Whole of Government Accounts</p> <p>The council should review its arrangements to ensure that the L-pack is submitted in line with Scottish Government Guidance.</p> <p><i>Risk - The delay in submission of the L-pack impacts on the delivery of the national Whole of Government Account.</i></p> | The delays in submitting the L-pack were largely due to the complexity of the form arising from requirement to prepare IFRS transition information. This will not be an issue in future years and the L-pack is submitted in line with Scottish Government Guidance. | Director of Finance | End July 2012 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|---|------------------------------|------------------|
| 3. | 46. | <p>Borrowing</p> <p>The council has more than 90% of its debt at fixed rates on loans which will require to be repaid or replaced in future years. As interest rates recover the cost of borrowing is likely to rise and the council will need to monitor future borrowing levels closely to ensure that they remain prudent and affordable in the face of stringent budget cuts.</p> <p><i>Risk: The rising debt burden impacts on the provision of frontline services.</i></p> | <p>The Treasury Management Strategy for the Council sets limits on fixed and variable interest rate exposure and on the maturity structure of fixed rate borrowing to mitigate against interest rate risk and refinancing risk. Any future borrowing for capital requirements is evaluated for its revenue consequences as part of the annual and longer term budget planning process.</p> | Director of Finance | N/a |
| 4. | 50. | <p>Corporate Asset Management Strategy</p> <p>The Corporate Asset Management Strategy is a key component in the delivery of the Changing For The Future Programme and the council should seek to ensure that it is fully in place by the October 2011 target.</p> <p><i>Risk: The council incurs unnecessary costs through the inefficient use or holding of assets.</i></p> | <p>The Council's ownership of assets can be categorised into six keys areas :</p> <p>Buildings and Property (Lead Officer Colin Craig)</p> <p>Roads Infrastructure (Lead Officer Fergus Wilson),</p> <p>Council Housing (Lead Officer Elaine Zwirlein),</p> <p>Open Space (Lead Officer Ken Laing),</p> <p>Vehicle Fleet (Lead Officer Ken Laing),</p> <p>Information and Communications Technology (Lead Officer Ged Bell)..</p> | Director of City Development | 31 December 2012 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|--|---------------------|--|
| | | | The asset plans for Council Housing and ICT have been finalised. The other asset plans are targeted to be completed by 31 December 2012. | | |
| 5. | 53. | <p>Procurement</p> <p>Good progress has been made in improving procurement practices but there is still scope for further improvement.</p> <p><i>Risk: The council suffers from reputational or financial loss if it fails to achieve best practice in procurement.</i></p> | <p>A corporate approach to procurement improvement has been adopted, with the procurement project forming part of the Changing for the Future programme and project management arrangements. TPC Strategy 2011-2014 approved. Cascade of strategy and objectives to be made via Procurement Implementation Team. Procurement Organisation proposals to be submitted to CTF following detailed evaluation. Regular tracking report to be developed to monitor both planned and actual procurement savings achieved by each department. It is envisaged this new system will be deployed early 2012.</p> | Director of Finance | <p>Director of Finance</p> <p>May 2012</p> <p>March 2012</p> |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|---|---------------------------------------|-----------------------------------|
| 6. | 66. | <p>Financial forecasting</p> <p>The council will need to look ahead to 2013/14 onwards with the focus on an outcome based approach to service delivery. Continuing to deliver public services with a reducing budget will be a significant challenge for the council.</p> <p><i>Risk: The council fails to identify opportunities for savings or threats from increasing costs.</i></p> | <p>The Council will continue to develop and refine its long-term Revenue Budget model in light of latest assumptions on funding levels, inflation, service costs etc. Performance management will continue to be driven by outcome considerations.</p> | Chief Executive / Director of Finance | On-going |
| 7. | 91. | <p>Roles and relationships</p> <p>The council should ensure that the existing Code of Conduct has been appropriately amended and members briefed as to the impact of the changes on their responsibilities.</p> <p><i>Risk: The council and/or members suffer reputational loss if they fail to understand fully their responsibilities under the code.</i></p> | <p>Draft revised Code of Practice issued to elected members. The Council is awaiting guidance from the Standards Commission, which will be incorporated into the Code of Conduct. This guidance is currently subject to consultation. The updated Code of Conduct will be issued to elected members once it becomes available, and will be included in new Standing Orders.</p> | Depute Chief Executive | Dependant on Standards Commission |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|---|---------------------------------------|-------------|
| 8. | 102. | <p>Changing For The Future</p> <p>Elected members should take a keen interest in the progress of this programme, monitoring it on a regular basis to ensure that all work streams remain on target and that the desired outcomes are realised.</p> <p><i>Risk: The benefits of the Changing For The Future programme are not realised in full.</i></p> | <p>Procedures are being put in place to track project through to full implementation and ensure benefits are fully realised.</p> <p>Revenue Budgets will be reduced accordingly to reflect the efficiencies identified. Regular progress reports are submitted to the CFTF Board.</p> | Chief Executive / Director of Finance | On-going |