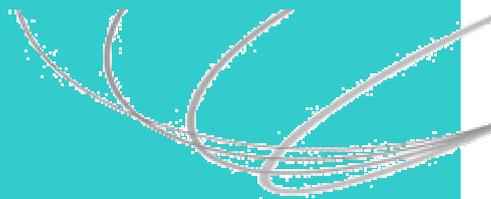


# Dundee City Council

Report to Members on the 2004/05 Audit



October 2005



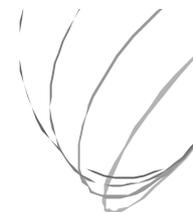
Audit Scotland, on behalf of the Accounts Commission for Scotland, is responsible for:

- providing independent reports to the Commission and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements



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# Executive summary

1. This report summarises the main issues arising from the 2004/05 audit. Overall, financial stewardship within the Council during the year was satisfactory. Our conclusions on key aspects of the Council's performance are highlighted in the table below, based on the audit work undertaken during the year and an assessment range of very good, good, fair and unsatisfactory.

<b>Financial statements</b>	<b>Good</b>
<ul style="list-style-type: none"> <li>• The financial statements present fairly the Council's financial position</li> <li>• The Statement on the System of Internal Financial Control complies with accounting requirements and is consistent with audit findings</li> <li>• Final accounts preparation procedures &amp; working papers were good</li> <li>• The Council has made significant progress to prepare for the introduction of full group accounts in 2005/06</li> </ul>	
<b>Financial position</b>	<b>Good</b>
<ul style="list-style-type: none"> <li>• Balances held at 31 March 2005 were broadly in line with the Council's reserves strategy</li> <li>• Dundee Contract Services, the Council's one significant trading organisation, is on target to meet the three year break-even target</li> <li>• The Council is confident that DERL has stemmed the flow of losses and is now performing at an acceptable level</li> </ul>	
<b>Corporate governance</b>	<b>Good</b>
<ul style="list-style-type: none"> <li>• Many aspects of a sound corporate governance framework are in place</li> <li>• The Council continued to develop risk management arrangements in the year with the introduction of a new Risk Management Information System and establishment of a Risk Management Strategic Plan</li> <li>• Members need to strengthen their role in scrutinising the Council's performance and there needs to be more transparency around the decision-making process of committees</li> <li>• Internal Audit work continued to be of a sufficient standard to allow us to place reliance on it</li> <li>• The Council largely complies with the "Code of Guidance on Funding External Bodies and Following the Public Pound" but recognises there are a number of areas where improvements could be made</li> </ul>	
<b>Financial strategy</b>	<b>Good</b>
<ul style="list-style-type: none"> <li>• The Council has a sound approach to ensuring the sustainability of its spending decisions in the shorter-term, but requires to improve its longer-term financial planning</li> <li>• Sound foundations of budgetary control and treasury management are in place on which to build and develop the financial strategy</li> <li>• The Council needs to do more to clearly demonstrate that its financial strategy is clearly linked to wider corporate strategies and objectives</li> <li>• The Council could do more to assist elected members and managers to be effective financial managers</li> </ul>	
<b>Anti-fraud &amp; corruption arrangements</b>	<b>Good</b>
<ul style="list-style-type: none"> <li>• A corporate anti-fraud &amp; corruption policy is in place, supported by fraud guidelines</li> <li>• The Council is participating in the National Fraud Initiative but progress to date in investigating any potential errors/frauds resulting from the initiative has been slow</li> </ul>	



<b>Internal control</b>	<b>Good</b>
<ul style="list-style-type: none"><li>• The Chief Internal Auditor concluded that <i>'many of the expected controls are in place and operating satisfactorily in the areas examined'</i></li><li>• The complex requirements of the Prudential Code have largely been met</li><li>• Although the Council has started work towards asset management planning, much remains to be done</li><li>• There is scope to improve procedures to prevent unauthorised access to information held on the Dundee Discovery Card</li></ul>	
<b>Performance management</b>	<b>Fair</b>
<ul style="list-style-type: none"><li>• The Council has had considerable success in regenerating its area in the face of complex social and economic challenges</li><li>• There is a strong commitment to engaging with local communities</li><li>• More needs to be done to demonstrate Best Value from the use of resources and there is potential to deliver greater benefits through improved corporate management and more effective integration across the organisation</li><li>• Although no statutory performance indicators were deemed unreliable, two were not produced and more needs to be done to improve quality control procedures</li></ul>	

2. Detailed action plans covering the issues raised during the audit have been discussed with management throughout the year. Key issues for the attention of members are outlined in the Action Plan included in this report.

# Introduction

3. The members and officers of the Council are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
  - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
  - the Council's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of the authority's assets and interests;
  - the Council has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
  - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption;
  - the Council has proper arrangements for securing best value in its use of resources and is complying with its community planning duties;
  - arrangements have been made to collect, record and publish statutory performance information.
4. This report summarises the most significant issues arising from our work during 2004/05. A number of more detailed reports to management, including agreed action plans, have also been submitted to officers throughout the year.

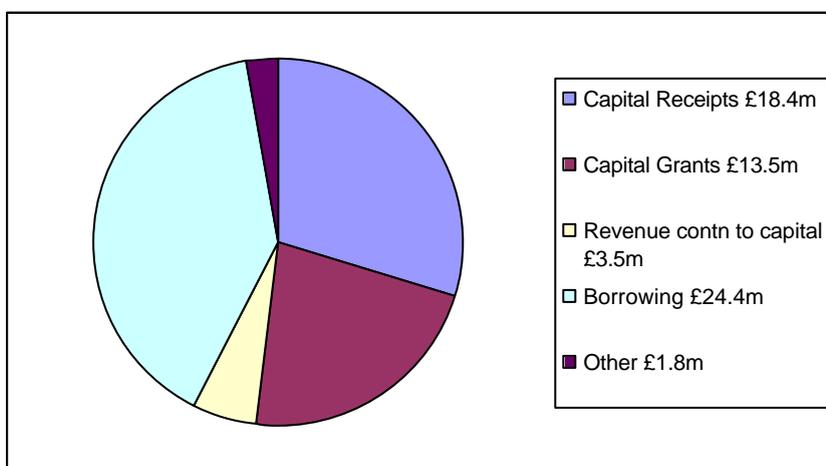
# Financial statements

## Auditor's report

5. The financial statements present fairly the Council's financial position at 31 March 2005 and income and expenditure during the year.
6. Last year the auditor's report drew attention to a failure to comply with a statutory requirement in relation to supporting people grant. This was because no local authorities were able to comply with the requirement to ensure that all providers of housing support services had made an application to register with the Care Commission before 1 October 2003. In July 2004 the Lord Advocate confirmed that he was prepared to grant an amnesty against prosecution to all housing support service providers as long as they applied for registration prior to 30 September 2004. The Council, and its providers, did apply for registration prior to this date.
7. The Smoking, Health and Social Care (Scotland) Act 2005 was approved in August 2005 and provided retrospective approval to treat grant payments made between October 2003 and 30 September 2004 as having been validly made. There has, therefore, been no failure to comply with a statutory requirement in 2004/05.

## Financial position

8. The Council's net revenue expenditure amounted to £269.8 million in 2004/05 and was met by government grants and local taxation of £269.4 million, resulting in a small deficit for the year of £0.4 million. In his Foreword to the financial statements, the Depute Chief Executive (Finance) summarises performance against a budgeted deficit of £4.065 million. The difference of £3.677 million between the budgeted and the actual deficit was largely due to a net underspend of £5 million on General Fund services and an increase of £1.2 million on the contribution to the Renewal & Repair Fund.
9. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations, which are required to break even over a three-year rolling period. The Council's only significant trading operation, Dundee Contract Services, is currently on track to make a surplus by the end of the first three-year period in 2005/06. A surplus of £0.134 million was achieved this year, although this was less than the target of £0.655 million set by the Council due to increases above average inflation on pension costs, interest charges and supplies and services without a corresponding rise in income.
10. Capital expenditure totalled £61.6 million and was funded by:



11. The original capital plan for 2004/05 was revised downwards during the year by £2.6 million. This was due to net slippage on around 20 projects. The final capital spend in the year was £400,000 (0.7%) higher than the revised budget.
12. All Councils hold reserves which consist of both earmarked amounts set aside to support future years' expenditure and contingencies for unexpected events or emergencies. The Controller of Audit's 'Overview of the local authority audits 2004' recognises that the appropriate level of balances is for Councils to determine, taking account of local circumstances, but stresses the need for clear strategies for managing such funds which set out their purpose and intended use. In the absence of clear strategies, there are risks that funds are accumulated unnecessarily or that pressure to restrict rises in council tax or rent levels results in an inadequate cushion held to deal with emergencies.
13. At 31 March 2005 the Council had total cash-backed reserves of £17.4 million:

Reserve	31/03/04 £'000	31/03/05 £'000
General Fund	9,272	8,884
Renewal & Repair Fund	4,627	4,218
Capital Fund	2,840	4,278
<b>Total</b>	<b>16,739</b>	<b>17,380</b>

14. £1.9 million of the general fund reserve at 31 March 2005 was 'earmarked' for specific purposes, £2.2 million related to committed expenditure and £1.6 million was used in setting the 2005/06 Council Tax. This leaves an unallocated balance of £3.2 million which is broadly in line with the council's policy on reserves. The reserves protocol was agreed in February 2004 and an updated position is included in the annual budget report prepared by the Depute Chief Executive (Finance), prior to the setting of the Revenue Budget and Council Tax.

## Issues arising

15. The Council's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were generally good and this enabled the audit to progress smoothly. Some adjustments were made to the figures included in the unaudited accounts made available for public inspection, although none of these had an impact on the deficit achieved in the year.
16. The CIPFA Best Value Accounting Code of Practice 2004 (BVACoP) sets out a standard service expenditure analysis that should be incorporated within the Consolidated Revenue Account unless a Council's internal management structure is fundamentally different from this analysis, in which case the information can be disclosed as a note. In the last two years the Council has applied the option not to fully adopt BVACoP's service expenditure analysis in the Consolidated Revenue Account, but has agreed to adopt the recommended analysis in the 2005/06 financial statements.
17. Further matters arising from the audit of the financial statements also require to be brought to the attention of members and these are summarised below.

## Pension Funds

18. The Council is responsible for the management and administration of two superannuation funds – the Tayside Superannuation Fund and the Tayside Transport Superannuation Fund. The monies belonging to the Superannuation Funds are entirely separate from any of the employing bodies but the Councils' Statement of Accounts includes details of the Tayside Superannuation Fund Accounts and the Tayside Transport Superannuation Fund Accounts, both of which are subject to audit as part of the overall audit of the Council.
19. The investment assets for both funds are under the management of external fund managers and have fluctuated markedly over the last few years, due to changes in equity markets. The position at 31 March 2005 reflects a significant improvement from a low point of two years earlier:

	31/03/02 £m	31/03/03 £m	31/03/04 £m	31/03/05 £m
Tayside Superannuation Fund*	913.0	729.7	942.2	1,101.6
Tayside Transport Superannuation Fund	35.6	29.1	32.9	34.5

\* The Council's share of the assets at 31 March 2005 amounted to 41% of the Fund's assets.

20. Under pension regulations, employer contributions require to be set to meet 100% of the overall liabilities of the fund. Triennial valuations of both funds were completed in 2003. The actuary concluded that at March 2002 the funding level of the Tayside Superannuation Fund was 96.9% and that a period of 12 years should be adopted to assess the level of contribution to fund that deficiency. The next actuarial valuation of both funds is currently underway.

## Pension liabilities

21. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.
22. The Council's estimated pension liabilities at 31 March 2005 exceeded its share of assets in the Tayside Superannuation Fund by £191 million. The increase in the liability from £75.3 million at 31 March 2004 is largely due to a change in the financial assumptions used to calculate scheme liabilities.
23. The full actuarial valuation of the Tayside Superannuation Fund at 31 March 2002 recommended that the overall net liability be recouped through increased employers' contributions. The Council's contributions have increased from 250% of employees' contributions in 2003/04 to 275% in 2005/06. A full valuation of the Fund at 31 March 2005 is expected to be reported in December 2005 and may result in further increases in contributions which Councils will require to fund. The Scottish Executive is currently consulting on major changes to the local government pension scheme, with one of the aims being to provide an affordable, secure and sustainable benefit structure.
24. The Council also has an obligation to meet a proportion of the expenditure of the joint boards/committees of which it is a constituent member. Four of these bodies (Tayside Police Joint Board, Tayside Fire Joint Board, Tayside Valuation Joint Board and Tayside Contracts Joint Committee) had an excess of liabilities over assets at 31 March 2005 due to the accrual of pension liabilities. The Council has estimated that its share of these bodies pension liabilities, based on current funding arrangements, was £286 million as at 31 March 2005.

## Group Accounts - Dundee Energy Recycling Limited (DERL)

25. DERL is a special purpose company, originally formed under a Private Finance Initiative, to develop, own and operate a waste to energy plant. The Council's investment in DERL has caused concerns in previous years as the losses accrued by the company continued to increase year on year. The 2003/04 accounts for the Council were compiled prior to receiving the audited accounts for DERL to 31 December 2003, which were subsequently finalised at an £8 million greater loss than the Council had anticipated from the management information it had received. The comparative figures included in this year's accounts were therefore restated. It should be noted, however, that the additional £8 million loss was due to an asset revaluation rather than an actual trading loss.
26. Financial restructuring of DERL in 2004 resulted in liabilities amounting to almost £18 million being converted to Deferred Shares Equity. This effectively took the Council's share in the joint venture on the balance sheet from a deficit to a surplus position. The Joint Venture revenues account deficit for the year was £2.5 million compared to more than £5 million in each of the preceding two financial years. Whilst the company has yet to make a profit, the Council is confident that DERL has stemmed the flow of losses and is now performing at an acceptable level throughout most of the year.

## Legality

27. Each year we request written confirmation from the Depute Chief Executive (Finance) that the Council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Depute Chief Executive (Finance) has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Chief Executive and Council Management Team, the financial transactions of the Council were in accordance with the relevant legislation and regulations governing its activities. There are no legality issues arising from our audit which require to be brought to members' attention.

## Statement on the system of internal financial control

28. The 2004/05 financial statements include a Statement on the System of Internal Financial Control which highlights the Depute Chief Executive (Finance)'s view that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control system. It also highlights the on-going work in relation to developing an asset management strategy and plan by 2007.
29. We have concluded that the statement complies with accounting requirements and is not inconsistent with the findings of our audit.

## Looking ahead

30. The 2004 *Code of Practice on Local Authority Accounting in the United Kingdom* introduced modified arrangements for the preparation of group accounts. Councils were encouraged to adopt the new arrangements in 2004/05, but they are mandatory from 2005/06 (with the publication of comparative figures for the previous year). In view of the significant challenge presented by the new requirements, the Council decided not to adopt them this year but to work towards compliance in 2005/06. This approach is in line with that adopted by the vast majority of Councils.
31. We reviewed the Council's preparations for the new requirements and found that a robust and structured approach to determine the Council's interests in subsidiaries, associated companies and joint ventures has been applied. Significant progress has already been made in determining the group account boundary and the Council is well on target to meet the 2005/06 deadline for full implementation.

32. HM Treasury is in the process of introducing Whole of Government Accounts (WGA) covering the whole of the public sector and treating government as if it were a single entity by eliminating all significant transactions between public sector bodies. Local government is being included in this process in a phased manner:
- an initial 'dry run' this year, focusing on establishing the systems required for full participation;
  - a second dry run in 2005/06, involving fuller data collection and a requirement for the data to be subject to audit;
  - production of audited WGA accounts in 2006/07, including prior year comparative figures.
33. Involvement in the WGA process, particularly when viewed in conjunction with the new arrangements for group accounts, will place an additional burden on the Council's finance department and preparations for the WGA process should begin as soon as possible.

***Action Plan no 1***

# Corporate governance

## Overview

34. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Last year we reported that the Council had many aspects of a sound corporate governance framework in place.
35. Progress on the ongoing development of risk management continued during 2004/05 with a new Risk Management Information system being purchased in April 2004. A Cross Departmental Risk Management Group was also established, a Risk Management Strategic Plan is in place and a draft Strategic Risk Register is to be completed by the end of summer 2005.
36. The Council has an Audit and Risk Management Sub-Committee in place which reports to the Finance Committee. This Sub-Committee effectively operates a number of audit committee principles and other scrutiny arrangements. To date, however, the Sub-Committee has not monitored whether audit plans have been achieved or whether audit recommendations have been implemented. We understand that a system to monitor progress on recommendations will be in place for 2005/06.
37. The Council has recently been subject to a Best Value audit, with the main findings summarised on page 13. The audit concluded that members needed to strengthen their role in scrutinising the Council's performance, and highlighted the need for more transparency around the decision-making process of committees. Improving scrutiny arrangements will be a key task for the Council to take forward in the run up to the 2007 elections.
38. Internal audit plays a key role in the Council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. 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 Council was placed within the highest performance band.
39. During 2003/04 the Internal Audit Section experienced recruitment and long term sickness difficulties which resulted in a failure to complete elements of the audit plan. These problems have been largely resolved in 2004/05 with only a 15% shortfall in resources in the year. During 2004/05 we concluded that Internal Audit work continued to be of a sufficient standard to allow us to place reliance on it in order to reduce our own work.

## Financial strategy

40. Local authorities administer large sums of public expenditure within a complex financial and policy environment, often as key partners in delivering central government policy objectives. Difficult decisions must be made in balancing demands for improvements in both the volume of services delivered and in the performance of those services within constraints on financial resources. A Council's financial strategy is critical to help ensure that national priorities, local corporate objectives and service improvements are delivered.
41. We undertook a review of financial strategy across a number of Councils and found, overall, that most Councils had strong financial stewardship arrangements in place with an emphasis on the traditional areas of control, probity, accountability and compliance. We found little evidence, however, that financial strategy was a significant driver in the improvement agenda.
42. Overall conclusions are that this Council:
  - has a sound approach to ensuring the sustainability of its spending decisions in the shorter-term, but requires to improve its longer-term financial planning;

- has sound foundations of budgetary control and treasury management on which to build and develop the financial strategy;
  - needs to do more to clearly demonstrate that its financial strategy is clearly linked to wider corporate strategies and objectives;
  - could do more to assist elected members and managers to be effective financial managers.
43. Examples of particularly good practice already in place within the Council include:
- an effective system of budgetary control, with no significant overspends by any department since 2001, and treasury management arrangements that fully comply with the CIPFA Code of Practice;
  - monthly monitoring by members of the Council's revenue and capital budgets;
  - an annual review of income generation activities;
  - usable reserves and balances which are held for a clear purpose in support of the overall financial strategy.
44. Areas where we consider that arrangements could be further improved include the need for:
- an effective approach to ensure the Council's financial strategy is clearly linked to wider corporate strategies and objectives, full costing of the impact of service initiatives and service plans which are aligned with budgets;
  - longer term planning/modelling (over 10 to 15 years) for the financial impact of relevant issues or initiatives;
  - reporting of regular and detailed financial information to individual service committees to ensure members have sufficient information to enable them to fulfil their scrutiny role, and to clearly link financial performance with wider performance management;
  - a corporate approach to controlling and monitoring the delivery of partnership services including financial planning and corporate governance arrangements.

## Anti-fraud and corruption arrangements

45. At the corporate level, the Council has appropriate arrangements in place to prevent and detect fraud and corruption. These arrangements include a code of conduct for elected members and for staff, an anti-fraud and corruption policy, fraud guidelines, a whistle blowing policy and defined remits for relevant regulatory committees.
46. During 2004/05 the National Fraud Initiative, which has operated for a number of years in England and Wales, was introduced in Scotland. This initiative aims to identify and reduce fraud by bringing together data from councils and other public agencies to help to detect a wide range of frauds against the public sector. If the exercise is approached appropriately and little or no fraud identified, assurances can be taken about internal arrangements for prevention and detection.
47. Information on a range of data matches which may indicate anomalies was supplied to the Council in January 2005. The first return outlining the action taken and any identified savings was submitted in May 2005, with subsequent returns required at the end of September and December 2005. The Council has set up a working group to investigate the potential error or fraud cases but, to date, progress has been slow mainly due to the high number of benefit cases involved. It is unlikely that all cases will have been investigated and reported in time for the submission of the September return, but they should be concluded in time for the final return.

## Systems of internal control

48. Reliance was placed on the work of Internal Audit in 2004/05 to evaluate a number of key systems in place within the Council. The Chief Internal Auditor concluded that *'many of the expected controls are in place and operating satisfactorily in the areas examined'*.

49. In addition to placing reliance on Internal Audit work, the 2004/05 audit involved a review of a number of the Council's systems and follow up of progress on actions agreed in previous years. The main findings from the more significant areas examined are summarised in the following paragraphs.

### **Prudential Code & Asset Management**

50. The previous system of centrally based controls over local authority capital expenditure was replaced from 1 April 2004 by a prudential regime based largely on self-regulation. The basic principle of the new system is that local authorities are free to incur capital expenditure so long as their capital spending plans are affordable, prudent and sustainable. A code of practice (the Prudential Code) has been prepared that sets out the prudential indicators that authorities must use, and the factors that they must take into account, to demonstrate that they have fulfilled this objective.
51. The Council has taken steps to ensure that members and officers are aware of the new requirements and additional responsibilities placed on them by the Prudential Code. Overall, the complex requirements of the Code have been met, although we did make some recommendations for improvement. For example, some of the required indicators were not explicitly reported for 2004/05.
52. Robust asset management planning processes, linked to capital expenditure strategies and plans, are critical to ensure best value in the use of assets and demonstrate that spending decisions are affordable, prudent and sustainable. The Council has established two groups, an Asset Management Group and an Asset Management Plan Project Team, to drive forward the development of an asset management plan. However, neither of these groups met regularly during 2005, resulting in a lack of strategic impetus for the process and no action taken to address identified slippages.
53. Whilst a target has been set to produce a draft asset management plan by April 2006, this will only result in the creation of a partial database covering operational assets. We also found that the key target date for concluding surveys on the suitability and sufficiency of operational properties is unlikely to be met within the existing level of resources allocated to the exercise.
54. Although the Council has started to work towards asset management planning, much remains to be done to:
- develop a clear and comprehensive corporate policy for asset management, including procedures for maintaining asset management plans, prioritising capital expenditure needs in line with the corporate strategy and linking with the financial planning process;
  - integrate the corporate vision, aims and objectives into asset management planning;
  - document procedures linking the output from asset management planning into the existing Prudential Code framework and budget setting process.

### **Social Work Debtors**

55. The Social Work Department delivers a wide range of services for which clients are billed and as part of our 2004/05 audit we reviewed the effectiveness of the Council's systems for invoicing and collecting Social Work income.
56. We identified a number of areas for improvement to ensure that bills are raised timeously for all work done. In particular:
- there were no controls reconciling inputs to the Social Work management information system with outputs from the system, for example, to ensure that the chargeable hours worked agreed to the actual hours charged to clients;
  - there was no control total to reconcile the number and value of invoices exported from the Social Work system to the financial ledger;
  - the Social Work billing system normally runs on a four week cycle in arrears but at the time of our audit this had slipped to nine weeks.

## ICT Arrangements

57. Our review of the Council's information and communications technology (ICT) arrangements during the year covered the Dundee Discovery Card and the Council's website. We found that:
- the **Dundee Discovery Card** was introduced in 2003 for cash less kitchens and has subsequently been expanded to library and leisure use. Whilst the project has become a core business process, no service plan or similar document has been prepared and many of the processes and procedures have not been documented. Upgrades are applied directly to the 'live' system as there is no test environment to ensure the upgrade is fit for purpose before application. We also found scope to improve procedures to prevent unauthorised access to information held on the card;
  - management of the **website** could be improved through the production of performance reports to ascertain whether the objectives set for the site have been achieved. Ease of use for the public could be enhanced through the use of generic e-mail addresses for contacts and there is a need to include data protection statements where interactive forms held on the website collect personal or sensitive information.

## Following the public pound

58. Councils fund arms-length and external organisations for a range of purposes and these arrangements are often more complex than standard purchase contracts for goods and services, involving the transfer of public funds from the direct control of a Council to another body. In practice these can range from relatively small grants to voluntary organisations to payments to trusts set up by Councils to manage all their leisure facilities.
59. In response to concerns about the need to maintain control and accountability over public funds, COSLA and the Accounts Commission jointly published the '*Code of Guidance on Funding External Bodies and Following the Public Pound*' in 1996. In 2003 Audit Scotland reviewed Councils' compliance with the Code and found that the quality of information available was mixed. A follow up review was undertaken this year to:
- map how much Councils spend on arms-length and external organisations (ALEOs), and why;
  - establish the extent to which Councils comply with the Code;
  - facilitate the sharing of identified good practice.
60. A national report covering all Councils will be published at the end of the year. The local report for Dundee City Council concluded that whilst the Council largely complied with the Code there were a number of areas for improvement. In 2003/04 the Council spent £2.97 million in financial support to 165 ALEOs. Around 85% of the individual revenue awards made were for less than £10,000. In contrast 10 awards were for amounts over £100,000, totalling £2 million in value.
61. The Council has effective arrangements in place to:
- properly document agreements with ALEOs. All such agreements are drawn up with reference to the Council's local guidelines 'Guidance on Funding External Bodies and Following the Public Pound';
  - maintain and review a central database of departments' funding arrangements with ALEOs;
  - monitor its relationship with ALEOs. Departmental Monitoring Officers are in place and monitoring arrangements are established at the outset of the funding arrangement through service level agreements;
  - ensure that when it enters into a new arrangement to fund an ALEO, the Council's liability is clearly stated within the service level agreement.
62. We also noted areas for improvement which would benefit from renewed management attention:

- in relation to large investments, whilst we noted that officers carry out informal discussions and assessments in determining how a new organisation will be set up, there was little evidence to show that this has been subject to a formal decision making and assessment process;
- many aspects of a sound risk assessment framework in relation to ALEOs are in place, but this process has not been formalised ;
- due to the volume and diversity of organisations the Council funds there is no consistent format for collecting performance information across all areas of Council activity. In some instances, only financial activity is measured therefore it is not clear whether these ALEOs have actually achieved the Council's non-financial objectives. Monitoring reports tend to be submitted to Committee on an annual basis rather than on a level and frequency consistent with the risks to the Council.

## Looking ahead

63. In the coming years the Council faces significant challenges which include:
- responding to cost pressures and the need to resource sustainable performance improvements while meeting new demands for services. Significant efficiencies are required to meet additional costs in demand led services and the challenge of funding settlements, against the back drop of the Efficient Government agenda. Specific cost pressures may arise from the consequences of the single status pay agreement and the need to fund increased pension costs;
  - development of a robust asset management planning process, linked to capital expenditure strategies and plans, to ensure best value in the use of the Council's assets and that spending plans are affordable, prudent and sustainable;
  - implementation of a number of new information systems, for example the Contact Centre Customer Relationship Management system, which may limit the ability of individuals to manage 'business as usual';
  - the introduction of proportional representation for the 2007 elections and potential changes to the remuneration of members. There is a risk that current political governance structures may not be the most appropriate in the future and there is a need to ensure effective succession planning in relation to both members and senior officers;
  - working with partners to ensure sound governance and accountability arrangements for the new Community Health Partnership;
  - a new package of performance standards for housing and council tax benefits introduced by the Department of Work and Pensions from April 2005. The Benefits Fraud Inspectorate will inspect all Councils against the new performance standards and this, in turn, will feed into the Best Value audit process;
  - achieving the Scottish Housing Quality Standard across the Council's housing stock by 2015.
64. These areas, and the controls put in place by management to address the issues, are likely to be subject to ongoing review during the 2005/06 audit.

# Performance management

## Best Value

65. The Local Government in Scotland Act 2003 established Best Value and community planning as statutory duties for local authorities. In response, the Accounts Commission introduced new arrangements for the audit of Best Value based on a cyclical approach involving a full review by a specialist team once every three years. In the intervening years, short follow-up reviews are carried out by the local auditor.
66. The Council received a full Best Value audit this year, with the report published in October 2005. The audit concluded overall that:

Dundee City Council has had considerable success in regenerating its area in the face of complex social and economic challenges. It demonstrates a strong commitment to engaging with its local communities. Council services generally perform well, but some have been deteriorating. The Council considers that pressure on its funds is a critical issue, but it needs to do more to demonstrate that it is achieving Best Value from its use of resources. There is potential for the Council to deliver greater benefits for Dundee through improved corporate management and more effective integration across the organisation.

67. Other findings are that the Council:
  - has a clear vision for the future, a strong track record of working with local communities and has taken a systematic approach to defining needs with them and with its planning partners. It has ambitious plans, but its financial position will require new ways of working if these are to be delivered;
  - is ambitious and politically stable. Improvements are needed in the openness and transparency of decision-making, and political management arrangements do not provide elected members with adequate opportunities to monitor performance;
  - management structure has evolved as opportunities for change have presented themselves. There is little evidence that a review of the Corporate Management Team in 2003 brought about any significant change in its functioning. Its focus remains largely operational, but there is a need for greater corporate leadership on performance management and improvement;
  - delivers services that are generally good, but evidence of deterioration in some areas suggests the need for greater focus on continuous improvement. The benefits of service review and option appraisal need to be applied more widely, and good practice should be shared more systematically;
  - needs to make more use of service planning in its drive for continuous improvement, including integrating service planning with a revised budget process that ensures resources are accurately directed towards policy priorities and the needs of the community;
  - has a corporate system for managing and reporting performance, but this is not applied consistently. This makes it difficult for elected members and the public to form a judgement on the Council's performance;
  - has a high staffing complement, and high absence levels, compared to other Scottish councils. In the absence of any corporate workforce planning, it is difficult to see how the Council can ensure its staffing levels reflect the needs of the city and demonstrate good value for money;
  - has good examples of joint working, but these are not shared systematically across the Council;
  - has made a high-level commitment to equal opportunities, with steady progress made, although there remains scope for further mainstreaming across services;

- has a number of good examples in the delivery of economic, environmental and social well being, but has yet to develop a systematic approach to sustainable development in its broadest sense;
  - demonstrates a strong commitment to Best Value principles across much of its activities, but needs to revise key corporate processes if improvements already made are to be consolidated and built upon.
68. The Council has been requested to develop an Improvement Plan in response to the issues raised by the audit. Progress against this plan will be monitored through the normal audit process in the coming years.

## Performance indicators

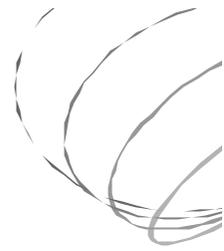
69. The Council has a statutory duty to publish specified performance indicators as directed each year by the Accounts Commission. We review the Council's arrangements and return details of the indicators, including an opinion on their reliability, to Audit Scotland headquarters to enable compilation of national reports on performance.
70. All of the Council's indicators were assessed as reliable in 2004/05, although two indicators were not produced in relation to recoverable benefits overpayments and traffic light repairs. However, there are weaknesses in the Council's arrangements to ensure the accuracy of the indicators:
- despite assurance sheets completed to confirm that quality control checks have been carried out, seven indicators had to be amended after audit, casting doubt on the thoroughness of checks undertaken;
  - no work was undertaken by Internal Audit to provide an independent check outwith the service generating the indicator.

### ***Action Plan no 2***

71. Audit Scotland produces a number of pamphlets containing comparative information and all authorities are encouraged to use this information to identify scope for improvement and to contribute to their programme of service reviews. Each year the Council analyses its own performance against other City Councils. Some of the results of this exercise are included in the published Performance Report for the year.
72. The Best Value audit highlighted that Council services are generally performing well. Some areas, including housing repairs and community care assessments, are improving, while there is deterioration in other areas, such as benefits administration and staff absence.

## Looking ahead

73. In 2001 the McCrone Committee made recommendations about terms and conditions for teachers in Scotland, with the aim of revitalising the profession, making it a more attractive career option and addressing recruitment difficulties. These recommendations are being implemented over a number of years and are underpinned by an investment of £2.15 billion. The 2004/05 audit included a review of how this investment has been utilised across Scotland and the results of this work will be outlined in a national report to be published in the autumn. Phase 2 of the study will take place during 2005/06, concentrating on the more qualitative aspects of the agreement, and will be reported in autumn 2006.
74. Particular challenges facing the Council in the coming years include:
- responding to the Efficient Government agenda;
  - developing and implementing an Improvement Plan to address the issues raised by the Best Value audit;
  - developing community planning and other partnerships to achieve further demonstrable improvements in outcomes and services to the community.
75. These areas are likely to be subject to ongoing review during the 2005/06 audit.



# Action plan

No.	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
<p>1. (para 33)</p>	<p><b>Whole of Government Accounts (WGA)</b></p> <p>HM Treasury is in the process of introducing WGA covering the whole of the public sector and treating government as if it were a single entity by eliminating all significant transactions between public sector bodies. Local government is being included in this process in a phased manner, with the first 'dry run' this year.</p> <p><i>Risk: compliance with this high profile initiative places a significant burden on the Council's finance staff.</i></p> <p><b>Recommendation: preparations for the WGA process should begin as soon as possible.</b></p>	<p><b>Depute Chief Executive (Finance)</b></p>	<p>The Council has made good progress on WGA, with the initial "dry run" submission for 2004/05 being returned to the Scottish Executive by the required date. It is acknowledged that WGA will be an evolutionary process and that systems and procedures will require to be fine-tuned as the deadline for full participation approaches. The Council's on-going preparations will be co-ordinated through the Final Accounts Working Group.</p>	<p><b>Ongoing</b></p>
<p>2. (para 70)</p>	<p><b>Performance Indicators</b></p> <p>There are weaknesses in the Council's arrangements to ensure the accuracy of statutory performance indicators. Despite assurance sheets completed to confirm that quality control checks have been carried out, 7 indicators had to be amended after audit, casting doubt on the thoroughness of checks undertaken.</p> <p><i>Risk: inaccurate or incomplete PI information is submitted and published.</i></p> <p><b>Recommendation: PI information submitted to audit should be accurate, complete and compiled in line with current guidance.</b></p>	<p><b>Depute Chief Executive (Finance)</b></p>	<p>The procedures and processes for preparing the Council's statutory performance indicators will be reviewed by Finance department staff in the current and future financial years. This review will be undertaken on a cyclical basis, using a risk-based approach. The actual performance information will also be reviewed by Finance department staff for accuracy, completeness and compliance with guidance, prior to being submitted for audit.</p>	<p><b>Ongoing</b></p>