

**REPORT TO: POLICY & RESOURCES COMMITTEE - 13 DECEMBER 2010**

**REPORT ON: RESPONSE TO EXTERNAL AUDITOR'S REPORT TO MEMBERS ON THE  
AUDIT OF DUNDEE CITY COUNCIL FOR THE YEAR TO 31 MARCH 2010**

**REPORT BY: DIRECTOR OF FINANCE**

**REPORT NO: 700-2010**

## **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 2010. A copy of the External Auditor's report (Report No 699-2010) and the 2009/2010 Audited Statement of Accounts for the City Council (Report No 698-2010) 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 2009/2010 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 2009/2010 marked the fourth year of Audit Scotland's current appointment at the City Council.

### **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 2009/2010 and the issues arising from that work. The report is divided into the following four key areas:

- Financial Statements
- Use of Resources
- Governance & Accountability
- Performance Management & Improvement

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 ten key issues arising from his 2009/2010 audit that he considers require further action by the Council. These relate to:

- 1 International Financial Reporting Standards (IFRS)
- 2 Pension Funds Audit
- 3 Actuarial Assumptions
- 4 Asset Management
- 5 Managing People
- 6 Procurement
- 7 Public Performance Reporting
- 8 Best Value Improvement Plan
- 9 Strategic Outcome Agreement Delivery Plan
- 10 Delivering Savings

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 2009/2010, 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
- final accounts preparation procedures and working papers were good and enabled the audit to progress smoothly
- progress has been made in the transition to IFRS accounting
- a favourable underspend against budget was achieved and the Council has managed its overall financial position tightly over the past five years
- the Council has acted in response to the financial challenges it faces and has made early progress in addressing these
- staff are generally well motivated and committed, with high levels of morale and good relationships between the Council and the trade unions
- the Council shows evidence of good partnership working at the operational level with strong relationships between the partners and many examples of effective joint working on individual projects
- the Single Outcome Agreement (SOA) has brought more purpose to community planning and the process will result in a new Community Plan in 2011
- the Council has a strong track record of working with local communities and taking a systematic approach to defining their needs
- the Council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption
- services are generally improving and there is evidence that citizens are more satisfied with the Council's overall performance
- the Council and its partners have established a clear vision for Dundee

#### 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 - Report to Members and the Controller of Audit on the 2009/2010 Audit.

**MARJORY M STEWART  
DIRECTOR OF FINANCE**

**06 DECEMBER 2010**

# 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.	<a href="#">34 &amp; 35</a>	<p><b>IFRS</b></p> <p>Overall the council has made progress toward readiness for the introduction of IFRS. However, much work remains to be done..</p> <p><b>Risk: Insufficient attention is paid to the introduction of IFRS, meaning that the council is unable to prepare compliant accounts in time.</b></p>	<p><i>The Council has established a working group to oversee the introduction of IFRS, in line with an agreed implementation plan. The first phase of this major project was recently completed, with the preparation of an opening IFRS Balance Sheet as at 1 April 2009. The second phase of the project, involving the restatement of the 2009/10 accounts on an IFRS basis, is now underway and is due to be completed by 31 December 2010. The third and final phase of the project will involve the preparation of the Council's 2010/11 accounts on an IFRS basis, by 30 June 2011.</i></p>	<i>Director of Finance</i>	<i>30 June 2011</i>
2.	<a href="#">36</a>	<p><b>Pension funds audit</b></p> <p>The Scottish Government may decide, following consultation to introduce a separate audit requirement for the Pension Funds.</p> <p><b>Risk: The arrangements to support this change may not be in place.</b></p>	<p><i>The Council already prepare and publish a separate Annual Report and Accounts for Pension Fund. Whilst some changes to the timetable may be required, these processes are already in place.</i></p>	<i>Director of Finance</i>	<i>30 Sept 2011</i>
3.	<a href="#">61</a>	<p><b>Actuarial assumptions</b></p> <p>The council does not</p>	<p><i>The Council does review actuarial assumptions used both in FRS17 reports and the triennial</i></p>	<i>Head of Financial Services</i>	<i>Not applicable</i>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>consider and confirm whether actuarial assumptions are appropriate to local circumstances.</p> <p><b>Risk: Future contribution rates are not based on the local experience and circumstances of the council.</b></p>	<p><i>valuation. It should be noted that the triennial valuation (which sets future contribution rates) is not advisory but is a regulatory requirement. The assumptions in this do consider the specific mortality experience of the Tayside Fund. The investment returns are related to the asset allocation of the Tayside Fund although the returns per asset class are based on standard assumptions. The price and salary increases should not be particularly affected by local circumstances.</i></p>		
4.	<a href="#">69 - 71</a>	<p><b>Asset management</b></p> <p>The council needs to improve its approach to asset management to help ensure that its assets are necessary and fit for purpose and that property management is clearly linked to financial planning.</p> <p><b>Risk: The council's asset base may not be fit for future purposes and the council will not achieve best value.</b></p>	<p><i>The Council is currently producing a Strategic Asset Management Plan (AMP) whereby the management of all assets will be rigorously scrutinised through a formal structure of asset management governance. It is the intention that the Strategic AMP will be considered by Committee by 31 January 2010 and then reviewed on an ongoing basis thereafter.</i></p>	Director of City Development	31 Jan 2011
5.	<a href="#">72 - 74</a>	<p><b>Managing people</b></p> <p>The council develop its approach to workforce management to help ensure that its workforce is of appropriate size and includes the necessary skills to meet its future needs.</p> <p><b>Risk: The council's workforce and skills base may not be fit for future purposes and the council will not achieve best value.</b></p>	<p><i>Rationalise the Council's departmental structure to produce fewer, larger departments with a consequent reduction in posts.</i></p> <p><i>Assess workforce required to fulfil future needs by workgroups, numbers and skills base. Put in place measures to ensure that employees with necessary skills are available and employed where and when needed.</i></p>	<p>Chief Executive</p> <p>Head of Personnel</p>	<p>30 June 2011</p> <p>31 Dec 2011</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6.	<a href="#">75 - 80</a>	<p><b>Procurement</b></p> <p>The council was assessed as “non-conformant” in the annual procurement capability assessment. The council is taking steps to improve this however there is scope to do more to deliver savings in this area.</p> <p><b>Risk: Procurement approaches do not deliver best value for money.</b></p>	<p><i>The Council will continue to implement the Corporate Procurement Strategy to deliver best value for money:</i></p> <ul style="list-style-type: none"> <li><i>implement improvements to improve PCA performance.</i></li> <li><i>develop Purchase to Payment procedures and systems to improve control and efficiency.</i></li> <li><i>review organisation of the Procurement Function to ensure effective impact across the Council.</i></li> </ul>	<i>Director of Finance</i>	<p><i>Complete</i></p> <p><i>July 2011</i></p> <p><i>March 2011</i></p>
7.	<a href="#">91</a>	<p><b>Public performance reporting</b></p> <p>The council's annual report accentuates the positive and could increase its scope.</p> <p><b>Risk: The council does not provide citizens with a full and balanced picture of how the council is performing.</b></p>	<i>Officers will review 'Best Practice' models in designing the 2010/11 Performance Report.</i>	<i>Director of Finance</i>	<i>30 Sept 2011</i>
8.	<a href="#">104 - 108</a>	<p><b>BV improvement plan</b></p> <p>The council has developed an improvement plan to address the areas for improvement highlighted in the recent BV2 report.</p> <p><b>Risk: Planned improvements are not completed when planned or are ineffective.</b></p>	<i>The BV 2 improvement plan progress is on the online monitoring database and progress will be reported twice per year to elected members.</i>	<i>Performance &amp; Improvement Manager</i>	<i>31 January 2011</i>
9.	<a href="#">110</a>	<p><b>SOA delivery plan</b></p> <p>The SOA delivery plan lacks details of performance indicators and targets for a number of outcomes meaning that progress against outcomes</p>	<i>The SOA Delivery Plan is on the online plan and performance monitoring database and is being reviewed quarterly by theme by the Dundee Partnership Management group and subject to an annual report to the City</i>	<i>Community Planning Manager</i>	<i>30 Sept 2011</i>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		cannot be nmeasured.. <b>Risk: Desired outcomes may not be delivered.</b>	<i>Council and Scottish Government.</i>		
10.	124	<p><b>Delivering savings</b></p> <p>Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate.</p> <p>Effectively managing performance will remain a key challenge as budgets are reduced. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions.</p> <p>A new monitoring process has been implemented to monitor delivery of planned savings. The value of savings required is extremely challenging.</p> <p><b>Risk: the council is unable to meet expenditure commitments from available income.</b></p> <p><b>Available funding is not effectively directed to priorities.</b></p>	<p><i>The Council is acutely aware of the severe financial constraints facing it over the 2011-2014 Spending Review period and beyond. The Council's strategy for delivering the level of savings required is set out in the approved Changing for the Future work programme. Spending priorities will continue to be identified and reviewed through the key corporate planning processes, including: the Council Plan, Community Plan, BV Improvement Plan, SOA Delivery Plan, Capital &amp; Revenue Budgets etc. The Council is also acutely aware of the potential impact of significantly reduced resources on service performance. This will be closely monitored through the established systems and corrective action taken, where appropriate.</i></p>	<i>Chief Executive / Director of Finance</i>	<i>Feb 2011</i>