

REPORT TO: FINANCE COMMITTEE - 10 DECEMBER 2001

**REPORT ON: DUNDEE CITY COUNCIL'S ANNUAL ACCOUNTS 2000/2001
EXTERNAL AUDITOR'S REPORT TO MEMBERS**

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 794-2001

1 PURPOSE OF REPORT

This report is a response to the report prepared by the Council's External Auditor, Henderson Loggie, on the audit of the City Council's Accounts for the year ended 31 March 2001. A copy of the External Auditor's report and the Audited Abstract of Accounts for the City Council and its DLO and DSOs are included on the Finance Committee agenda as separate items.

2 RECOMMENDATION

It is recommended that the Committee:-

- i endorses this report as its formal response to the External Auditor's report.
- ii instructs the Director of Finance to arrange for the completion of the Action Plan appended to the External Auditor's report.

3 FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report, or from the External Auditor's report.

4 LOCAL AGENDA 21 IMPLICATIONS

There are no direct Local Agenda 21 implications.

5 EQUAL OPPORTUNITIES IMPLICATIONS

There are no direct equal opportunities implications.

6 BACKGROUND

Dundee City Council's Accounts for the financial year 2000/2001 were audited by Henderson Loggie, Chartered Accountants, Dundee. The External Auditor's report is submitted in terms of Section 102(1) of the Local Government (Scotland) Act 1973. The response to the points raised by the External Auditor are set out below.

7 AUDIT COMPLETION

- 7.1 The External Auditor has noted that the City Council's 2000/2001 draft Accounts were submitted for audit by the statutory deadline of 30 June 2001. Following agreement of a number of adjustments to the draft Accounts, the audit itself was formally concluded on 10 October 2001.
- 7.2 The External Auditor has noted further improvements in the Council's final accounts process.

- 7.3 The 2000/2001 Audited Accounts will now be incorporated within the Council's 2000/2001 Annual Report and this will be issued in early course.

- 7.4 Henderson Loggie have now concluded their five-year appointment as the Council's External Auditor. It is appropriate to place on record the Council's appreciation of the assistance and courtesy that has been extended by the staff of Henderson Loggie during the period of their appointment. The Council's new External Auditors are Audit Scotland.

8 **AUDIT CERTIFICATE**

- 8.1 The External Auditor has again issued a certificate which is unqualified. This means that the Council's 2000/2001 Accounts have effectively been given a "clean bill of health".
- 8.2 The External Auditor has also reported that all of the DLO/DSO defined activities operated by the Council during 2000/2001 had again successfully achieved the financial objectives set by the Scottish Executive.

9 **SIGNIFICANT MATTERS**

The main substance of the External Auditor's report commences in Section 3, page 6 ("Significant Matters") and the following are comments on these matters.

9.1 **Revenue Account Outturns (Section 3.1)**

The net outturn on the Consolidated Revenue Account for 2000/2001 showed an underspend of £0.845m against a break-even budget. It can be concluded that the monitoring and control of revenue expenditure during 2000/2001 was highly effective, with an underspend of £0.845m or 0.4% against a net Revenue Budget of £209.1m.

9.2 **Significant Changes in Accounting Practice (Section 3.2)**

The External Auditor has outlined the three significant changes in Accounting Practice that the Council was required to comply with in the preparation of the 2000/2001 Accounts. Reference is also made to the change in the Council's accounting policy for Deferred Charges. This technical change was necessary so as to comply more closely with the relevant professional guidance.

9.3 **Prior Year Adjustments (Section 3.3)**

The External Auditor has noted that a prior year adjustment (total credit of £400,000) had been made in the 2000/2001 Consolidated Revenue Account. This was a technical accounting adjustment involving two amendments to previous years' accounts which have now been properly reflected in the 2000/2001 Accounts.

9.4 **Transfers to Renewal and Repair Fund (Section 3.4)**

The External Auditor has noted that a transfer totalling £1.018m was made to the Council's Renewal and Repair Fund. This transfer was made possible by underspends in the Consolidated Revenue Account. The balance on the Renewal and Repair Fund (£3.221m at 31 March 2001) is available to fund future expenditure on maintaining and replacing the Council's fixed assets.

9.5 **Community Charge Debtors and Provisions (Section 3.5)**

The External Auditor has noted that, due to the good collection levels in the period April to July 2001, it had been possible to release £300,000 of the community charge bad debt provision to the 2000/2001 revenue account. The net amount of Community Charge outstanding at 31 March 2001 was £1.314m.

9.6 **Insurance Fund Reserves (Section 3.6)**

The External Auditor has noted that, over the past three years, the Council has used some of the surpluses previously built-up in the Insurance Fund to partly offset the insurance costs charged to City Council departments. This is considered to be a prudent application of the Council's available financial resources and it should be noted that a balance (£2.010m) still remained in the Insurance Fund at 31 March 2001. The review recommended by the External Auditor is already carried out as part of the Council's annual budgetary process.

9.7 **Land Valuation and Depreciation of Properties (Section 3.7)**

The External Auditor has outlined the technical accounting requirements of the new Financial Reporting Standard on "Fixed Assets". The accounting adjustments which were required following the fires at Morgan Academy and Harris Annex are also detailed.

9.8 **Statutory Performance Indicators (Section 3.8)**

The External Auditor has noted that the statutory performance indicators had been published in the local press in accordance with the Regulations and within the statutory deadline of 30 September 2001. It was also concluded that the systems in operation for the production and publication of these indicators were reliable for all but four of the sixty-four indicators reported. In addition, there was a failure to report in respect of one further indicator. The Council is already taking appropriate steps to address these matters in line with the External Auditor's recommendations.

9.9 **Follow Up Points from 1999/2000 Report (Section 3.9)**

The External Auditor has outlined the progress made against the four recommendations which were included in the 1999/2000 Report to Members, and these are as follows:

- 1 **Bank Reconciliations**
Following the deployment of additional staff resources and the implementation of new procedures, the systems are now up-to-date and operating properly.
- 2 **Ex-Tayside Regional Council Debtors**
The impact of collection procedures and other accounting adjustments has now effectively reduced the level of ex-Tayside Regional Council debt to nil.
- 3 **Code of Guidance on Funding External Bodies and Following the Public Pound**
The procedural guidance has been finalised and issued and the Finance Department is now monitoring compliance.
- 4 **Dundee Contract Services - Creditor Suspense Account**
A balance on the Creditor Suspense Account at 31 March 2000 was dealt with satisfactorily in the 2000/2001 Accounts.

10 **KEY ISSUES FOR THE FUTURE**

The External Auditor has identified six key issues for the future and brings these to the attention of the Committee:

- 1 **Corporate Governance (Section 4.1)**
The CIPFA/SOLACE framework document has now been finalised and issued, together with a guidance note specific to Scottish Councils. In line with the External Auditor's recommendation, an officer working group will review the Council's corporate governance arrangements and will report to the Policy & Resources

Committee in due course. A key objective of the review is to establish a Local Code of Corporate Governance.

- 2 Verification Framework (Section 4.2)
The implementation of a new computer system (First Software) has caused a delay in the submission of a business case for funding and this has led to slippage in the timetable for bringing verification standards into line with the Verification Framework. In line with the External Auditor's recommendation, a revised timetable has been drawn-up, with an implementation date of 1 July 2003. A report and this timetable will be submitted to the Finance Committee in early course for approval.
- 3 Dundee Energy Recycling Limited (DERL) (Section 4.3)
The External Auditor has noted the complex operational and financial issues which have arisen following the major fire at the plant in September 2000. In line with the External Auditor's recommendation, reports will continue to be submitted to both the Waste to Energy Plant Working Group and the Environmental & Consumer Protection Committee, as appropriate.
- 4 Superannuation Investments (Section 4.4)
The External Auditor has noted the impact of the external economic environment on the value of pension fund investments and the actual/potential knock-on effects on the employer's contribution rate. Any potential impact on the value of the Fund will be addressed as part of the 2002 Actuarial Valuation, the results of which will determine the employer's contribution rate for the period 2003 to 2006.
- 5 Significant Changes in Accounting Practice (Section 4.5)
There are two major changes which will impact on the Council's 2001/2002 Accounts: the Best Value Accounting Code of Practice (BVACoP) and the new Financial Reporting Standard on "Retirement Benefits". The revised accounting and disclosure requirements are being addressed by officers of the Finance Department.
- 6 Statutory Performance Indicators (Section 4.6)
A number of changes and simplifications will take effect in financial year 2001/2002. The revised requirements are being addressed by officers of the Finance Department and the relevant Service Departments.

11 **REGULARITY WORK (SECTION 5)**

- 11.1 The External Auditor undertakes a cyclical review of all the key accounting systems within the Council, including an assessment of their integral internal control mechanisms. During 2000/2001, the External Auditor reviewed the following areas:

Loans Fund
Superannuation Investments
Housing Income Collection
Payroll
Members Allowances
Computer Audit
DLO - Review of Major Contracts greater than £50,000

A summary of the main findings in each area is included in Section 5.3 of the External Auditor's report.

- 11.2 The External Auditor's overall conclusion for the above reviews is that there were no material problems discovered which would warrant a reference in the Council's audit certificate. There were some areas identified where improvements could be made and these are being positively addressed by the relevant Chief Officer(s).

12 LEGALITY, FRAUD AND CORRUPTION (SECTION 6)

12.1 Legality

The External Auditor has a duty to independently assess the Council's arrangements for ensuring the legality of financial transactions and must report any problems discovered to the Controller of Audit. The External Auditor has confirmed that there are no issues which require to be reported for the financial year 2000/2001.

12.2 Fraud and Corruption

The External Auditor has a duty to assess the adequacy of the Council's systems and arrangements for preventing and detecting fraud and corruption. The External Auditor makes returns to the Accounts Commission regarding fraud and irregularities detected during the year, including an annual return for Housing Benefit claimant fraud. The External Auditor has concluded that the Council's general arrangements in this area appear to be satisfactory. The incidences of reported fraud in 2000/2001 are summarised thus:

	<u>No</u>	<u>Value (£)</u>
First Tier Fraud (>£500)	2	12,500
Second Tier Fraud (<£500)	1	478
Housing Benefit Claimant Fraud	867	401,856

13 OVERALL ARRANGEMENTS (SECTION 7)

13.1 The Council has a statutory duty to make proper arrangements for securing economy, efficiency and effectiveness in the use of its resources and the External Auditor is required to review these arrangements and confirm that they are satisfactory.

The areas reviewed by the External Auditor in 2000/2001 are as follows:

13.2 Management Arrangements

The External Auditor was satisfied that the Council had implemented and continued to develop appropriate systems, policies and procedures in this area.

13.3 National Studies

The External Auditor worked in conjunction with Audit Scotland to obtain information from the Council to facilitate the publication of national value for money reports in the following areas:

Internal Audit
School Property Risk Management

A summary of the main findings from these studies within Dundee City Council is outlined in Section 7.3 of the External Auditor's report.

13.4 Performance Management and Planning (PMP) Audit

Each Council is required to develop a Performance Management and Planning (PMP) framework under its arrangements for Best Value. Dundee City Council's approach to PMP is incorporated within the Council Plan and individual Departmental Service Plans.

During 2000/2001, the External Auditor's review of the Council's PMP arrangements comprised three elements:

- 1 Corporate Level Audit
This involved reviewing the overall co-ordinating arrangements for key elements of the Best Value Regime.
- 2 Service Level Audit
This involved reviewing the detailed PMP arrangements for three Council services: Housing, Planning & Transportation and Architectural Services.
- 3 Follow-up Audit
This involved reviewing the progress which had been made in implementing the improvement actions identified during last year's PMP audit of three Council services: Libraries & Community Information, Social Work and Dundee Contract Services.

A summary of the main findings from these reviews is outlined in Section 7.4.5 - 7.4.12 of the External Auditor's report. The overall conclusion from these reviews is that the Council is making satisfactory progress in implementing a PMP framework, both at Corporate and Departmental level.

14 **ACTION PLAN**

Following on from the six recommendations included in the External Auditor's report, an Action Plan now requires to be completed by the Council outlining how and by whom these issues will be taken forward within a specified completion date. The Director of Finance will take forward the External Auditor's recommendations.

15 **CONCLUSIONS**

The External Auditor's report on the 2000/2001 financial year is both fulsome and extensive. The External Auditor has examined a number of areas, covering a wide range of the City Council's activities, and it is gratifying to note that the findings and conclusions have been satisfactory. This has culminated in the issuing of an unqualified (or "clean") audit certificate.

DAVID K DORWARD
DIRECTOR OF FINANCE

BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

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