

# Dundee City Council

## 2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Dundee City Council and the Controller of Audit

26 October 2023

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# Contents

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Key messages	3
Introduction	4
1. Audit of 2022/23 annual accounts	5
2. Financial management	18
3. Financial sustainability	26
4. Other wider scope audit work	31
Appendix 1. Action plan 2022/23	36
Appendix 2. Summary of uncorrected misstatements	41

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# Key messages

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## Audit of 2022/23 annual accounts

- 1 Audit opinions on Dundee City Council's 2022/23 Annual Accounts and the statement of accounts of the four section 106 charities administered by the Council, are unmodified.
- 2 The audit of the annual accounts was completed in line with the agreed timetable.

## Financial management and sustainability

- 3 The Council reported a £5.4 million overspend on general fund services during 2022/23, funded from reserves.
- 4 The Council has high levels of slippage on its capital plan over the last three years: 2022/23 (46 per cent), 2021/22 (51 per cent) and 2020/21 (56 per cent).
- 5 The 2023/24 general fund revenue budget gap of £8.4 million, is being funded from reserves, savings plans, increased charges and a 4.75 per cent increase in council tax levels.
- 6 Future financial plans are challenging, and the Council's long-term financial strategy needs to be updated.

## Other wider scope audit work

- 7 The Chief Executive and leadership team has worked together with elected members to provide effective leadership for the Council over the last 3 years. The overall vision of the Council remains clear. The Council Plan has been revised and sets out the Council's priorities.
- 8 The Council has an established performance framework which aligns with the Council Plan. In June 2023, the Council reported mixed progress on performance. Performance compared to other councils has improved overall, but, despite relative improvements, educational attainment measures have remained in the bottom quartile.
- 9 There are high levels of child poverty across the city. Inequality is a clear focus of the City Plan. Local Fairness Initiatives have been developed and the Council is working with the DWP and Scottish Government on a child poverty pathfinder project.
- 10 Dundee City Council has completed all the recommendations from its September 2020 Best Value Report.

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# Introduction

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1. This report summarises the findings from the 2022/23 annual audit of Dundee City Council and will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
2. The scope of the audit was set out in an annual audit plan presented to the April meeting of the Scrutiny Committee. This annual audit report comprises significant matters arising from the audit of Dundee City Council's 2022/23 Annual Accounts and conclusions on the wider scope areas, as set out in the [Code of Audit Practice 2021](#).
3. We would like to thank elected members, management and staff, particularly those in finance, for their cooperation and assistance and we look forward to continuing to work together constructively over the course of the five-year appointment.

## Responsibilities and reporting

4. Dundee City Council has responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. Dundee City Council is also responsible for compliance with legislation and establishing appropriate arrangements for governance and propriety.
5. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.
6. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of its responsibility to address the issues we raise and from maintaining adequate systems of control.

## Auditor Independence

7. We confirm that we comply with the Financial Reporting Council's Ethical Standard and that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity or our independence.

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# 1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

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**Audit opinions on Dundee City Council's 2022/23 Annual Accounts, and the statement of accounts of the four section 106 charities, administered by the Council, are unmodified.**

**The audit of the annual accounts was completed in line with the agreed timetable.**

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## **Audit opinions on the annual accounts are unmodified**

8. The independent auditor's report included the following audit opinions on the annual accounts:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with the financial reporting framework
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## **The 2022/23 annual accounts were certified on 25 October, in line with the agreed audit timetable**

9. We received the unaudited annual report and accounts on 28 June 2023, in line with the agreed audit timetable. The accounts and working papers presented for audit were of a good standard. This enabled the final accounts audit to be completed in line with the agreed audit timetable and the 2022/23 annual accounts were certified on 25 October 2023.

## **Our audit approach and testing was informed by the overall materiality level of £19 million**

10. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and impact the opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be

considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**11.** Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the group financial results reported in the audited 2021/22 annual accounts. These materiality levels were reported in our annual audit plan to the April 2023 meeting of the Scrutiny Committee.

**12.** On receipt of the unaudited 2022/23 annual accounts we reconsidered our materiality levels based on the financial results for the year ended 31 March 2023, and decided to amend our planned amounts to reflect the increase in gross expenditure. Materiality amounts are detailed in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Per Annual Audit Plan	Actual Used
Overall materiality	£18.0 million	£19.0 million
Performance materiality	£9.0 million	£9.5 million
Reporting threshold	£0.250 million	£0.250 million

Source: Audit Scotland

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**13.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 50 per cent of overall materiality, reflecting the scale of previous year's adjustments, the extent of estimation in the accounts and the planned testing in proportion to the scale of the organisation.

### Our audit identified and addressed the risks of material misstatement

**14.** [Exhibit 2](#) sets out the significant and non-significant risks of material misstatement to the financial statements. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

**Exhibit 2****Significant and non-significant risks of material misstatement**

Nature of risk	Audit response	Conclusion
<b>Significant risks of material misstatement</b>		
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Assess the design and implementation of controls over journal entry processing.</li> <li>• Make enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments during the period.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Test accounting accruals and prepayments focusing on significant risk areas.</li> </ul>	<p>The completion of the assurance procedures did not identify any evidence of management override of controls.</p>
<p><b>2. Estimation in the valuation of Other Land and Buildings (OLB)</b></p> <p>The valuations of OLB assets are significant estimates. Valuations are based on</p>	<ul style="list-style-type: none"> <li>• Review the information provided to the external valuer to assess for completeness.</li> </ul>	<p>The school estate was subject to a full valuation process in 2022/23. We reviewed and tested this and did not identify any material issues.</p>

Nature of risk	Audit response	Conclusion
<p>specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>All OLB assets are revalued on a five-year rolling basis. Values may also change year on year, and it is important that the Council ensures the financial statements accurately reflect the value of OLB.</p>	<ul style="list-style-type: none"> <li>• Evaluate the competence, capabilities, and objectivity of the professional valuer.</li> <li>• Complete a walkthrough of the valuation process for OLB to obtain an understanding of the process, including the methodologies and assumptions applied.</li> <li>• Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred.</li> <li>• Test the asset register records against the annual valuation report to ensure asset valuations and useful lives are accurately reflected.</li> <li>• Sample testing of valuations and lives of individual assets revalued during 2021/22, and agreement of related accounting entries.</li> <li>• Examine management's assessment of fair value of assets not subject to full revaluation in 2022/23. We will critically assess if this is based on expert valuer's opinion/ and assess the appropriateness of any assumptions.</li> </ul>	<p>Other Land and Buildings (excluding schools) were not subject to a current value assessment. This was completed during the audit. This resulted in one significant impairment and a general increase of £21 million in the carrying value of other land and building assets in the audited financial statements.</p> <p>Refer to issue 1 in <a href="#">Exhibit 3</a>.</p>
<p><b>3. Estimation in the valuation of Dwellings</b></p> <p>The valuations of dwellings are significant estimates. Valuations are based on a specialist beacon approach and management assumptions, changes in which can result in material changes to valuations.</p> <p>Dwellings were last revalued in 2018/19 as part of the</p>	<ul style="list-style-type: none"> <li>• Review the information provided to the external valuer to assess for completeness.</li> <li>• Evaluate the competence, capabilities, and objectivity of the professional valuer.</li> <li>• Complete a walkthrough of the valuation process for OLB to obtain an understanding of the process, including the</li> </ul>	<p>Council housing has not been fully valued for 4 years and initially the Council did not prepare an assessment of current value. This was completed during the audit and an increase of £75 million is reflected in the audited financial statements.</p> <p>Refer to issue 2 in <a href="#">Exhibit 3</a>.</p>



Nature of risk	Audit response	Conclusion
<p>Council's 5 year rolling programme. However, the value may also change year on year, and it is important that the Council ensures the financial statements accurately reflect any material movements in the value of dwellings.</p>	<p>methodologies and assumptions applied.</p> <ul style="list-style-type: none"> <li>• Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred.</li> <li>• Examine management's assessment of fair value of assets not subject to full revaluation in 2022/23. We will critically assess if this is based on expert valuer's opinion/ and assess the appropriateness of any assumptions.</li> </ul>	

#### Other risks of material misstatement

#### 4. Estimation in the valuation of pension assets and liabilities

Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy, CPI growth and discounting (based on corporate bond rates).

Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.

There is a risk that small changes in the assumptions used can lead to large changes in the resulting valuations resulting in material misstatement in the annual accounts.

- Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions.
- Review the appropriateness of actuarial assumptions and results including comparison with other councils and the pension fund as a whole.
- Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by the Council.

A review of other council actuarial reports identified that Tayside Pension Fund had an unusually high assessment of pension assets under IFRIC14.

The inferred value of the asset was 15 times the Council's annual employer contribution.

The method used to determine this value was considered and we identified that the valuation of costs and contributions were assessed over very different timeframes.

A revised IAS19 actuarial report was obtained, and the annual accounts were amended to reflect the revised valuation.

[Refer to issues 3 and 4 in Exhibit 3.](#)

Nature of risk	Audit response	Conclusion
<p><b>5. Estimation in PPP/DBFM/SCA assets</b></p> <p>The Council has acquired assets under PPP and DBFM contracts, and service concessionary arrangements, with a fair value of £187 million at 31 March 2022. The accounts also include amounts due to contractors under these contracts totalling £129 million.</p> <p>Unitary charge payments to contractors require to be divided into the service and construction elements using estimation techniques.</p> <p>There is a risk of misstatement in the associated liability if inappropriate assumptions have been made, particularly given recent changes to RPI/CPI and associated indices.</p>	<ul style="list-style-type: none"> <li>• Obtain financial models and assess them for reasonableness, based on whether they have been updated to reflect current unitary charges.</li> <li>• Determine management's processes for updating the models to reflect the future impact of recent changes in RPI/CPI, based on the requirements of the original contract indexation terms.</li> </ul>	<p>We did not identify any errors in the liability attributable to PPP/DBFM/SCA assets.</p>

Source: Audit Scotland

## We report significant findings from the audit

**15.** Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit including our view about the qualitative aspects of the body's accounting practices.

**16.** The significant findings are summarised in [Exhibit 3](#). Our audit also identified other presentation and disclosure issues which were discussed with management. These were all adjusted in the audited annual accounts and none were significant enough to require to be separately reported under ISA260.

## Exhibit 3

### Significant findings and key matters from the audit of the annual accounts

Issue	Resolution
<p><b>1. Valuation of other land and buildings</b></p> <p>The carrying amount of an item of property, plant and equipment should reflect its current value. However, the Code of Practice on Local Authority Accounting (the Code) does not explicitly require an annual revaluation. Instead, revaluations are required to be made with sufficient regularity to ensure that the carrying amount does not differ materially from the current value. The Code permits a maximum interval of five years between valuations but that is only appropriate where the change in value in the intervening period is not significant. Therefore, more frequent valuations are required for assets that experience significant annual changes in value.</p> <p>The unaudited annual accounts reported an overall carrying value for Other Land and Buildings of £945 million, which included £563 million of schools estate assets revalued fully during 2022/23. Some elements of Other Land and Buildings had not been valued for up to 4 years, in accordance with the accounting policy of the Council.</p> <p>In the 2021/22 Annual Audit Report, the auditor highlighted the need for the council to monitor land and property asset valuation movements to identify whether revisions are required to the planned rolling revaluation programme, to undertake additional revaluations of any asset categories.</p> <p>We discussed this with the council throughout the year. Despite this the review of current value at 31 March 2023 was not undertaken or evidence provided until very late in the audit process in September/ October 2023.</p> <p>The Valuer assessed a sample of 3 significant other land and building assets, which resulted in an increase in the value of these assets of £10 million.</p> <p>This review also identified impairment to a further asset, Baldovie Waste Plant, of £7 million to reflect the reduced remaining asset life of the asset.</p> <p>A further review of 12 other assets was carried out using standard BCIS Building Cost indices. This found that these assets had also increased in value by £22 million.</p> <p>Overall, this has resulted in a net increase in the value of Other Land and Buildings of £25 million.</p>	<p>The audited financial statements have been adjusted to reflect current valuations of land and buildings.</p> <p><b>Recommendation 1</b> (<a href="#">Appendix 1</a>, action plan)</p>

Issue	Resolution
<p><b>2. Valuation of dwellings</b></p> <p>The Code requires that dwellings assets (council houses) be measured at current value on the basis of existing use value less a social housing discount factor (EUV-SH). Although the Code allows for revaluation of assets once every five years, this is only applicable: <i>‘provided that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period’</i>.</p> <p>Dwellings were last revalued in 2018/19 and therefore we requested that the Council engage its Valuer to provide an assessment of the current value.</p> <p>A desktop valuation based on a sample of properties was completed in September 2023.</p> <p>The Valuer’s assessment identified a significant movement of £75 million in the carrying value of dwellings since the previous valuation. Key assumptions in the valuation method had changed. This included the average house value and the social discount factor.</p>	<p>The audited financial statements have been adjusted to reflect current valuations of dwellings.</p> <p><b>Recommendation 1</b> (<a href="#">Appendix 1</a>, action plan)</p>
<p><b>3. Valuation of pension asset</b></p> <p>The 2022/23 unaudited annual accounts included a pension asset of £306 million.</p> <p>The pension accounting standard (IAS 19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the pension fund or reductions in future contributions to the fund.</p> <p>Further guidance on calculating the asset ceiling is provided in IFRIC 14. It refers to the impact of a ‘minimum funding requirement’ which stipulates a minimum amount of contributions that must be paid over a given period. The existence of a minimum funding requirement limits the ability of a body to reduce future contributions.</p> <p>Where there is a minimum funding requirement for contributions relating to future service, IFRIC 14 explains that the asset ceiling is the present value of the future service cost less the present value of the minimum funding requirement contributions.</p> <p>Where the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised.</p> <p>Our review of the methodology used by the council’s actuary identified that the calculation of asset ceiling had only considered the minimum funding requirement contributions up to the date of the next triennial valuation, rather than all future service costs and</p>	<p>The actuary provided a revised IFRIC14 calculation that reflected a pension asset ceiling calculation based on an assessment of all future service costs and contributions.</p> <p>The audited financial statements have been adjusted to reflect the revised pension valuation.</p> <p>The annual accounts now reflect a pension asset of zero for the Council’s funded obligations, and a pension liability of £31 million for its unfunded obligations, for which the IFRIC 14 calculation does not apply.</p>

Issue	Resolution
<p>contributions. As a result the pension asset was overstated in the unaudited annual accounts.</p>	
<p><b>4. Group bodies pension assets</b></p> <p>As explained at issue 3 above, the Council's pension asset was overstated in the unaudited annual accounts due to the calculation methodology used by the actuary.</p> <p>As the same methodology was used to calculate the pension assets for Leisure and Culture Dundee (LACD) and Tayside Contracts Joint Committee (TCJC) then these would also be overstated in their unaudited annual accounts.</p> <p>LACD is consolidated within the Council's group financial statements as a subsidiary. The Code requires: 'the accounting policies of subsidiaries to be aligned with the policies of the parent council, for the purposes of the group financial statements, if they are materially different.'</p> <p>The LACD 2022/23 unaudited accounts included a pension asset valued at £16 million. If this was recalculated by the actuary using the revised methodology described at issue 3 above, then we would expect the asset for the funded element to reduce to zero. Therefore, there was a £16 million error in the pension asset figure in the group balance sheet in the Council's unaudited annual accounts.</p> <p>TCJC is consolidated within the Council's group financial statements as an associate with Dundee City Council consolidating a 33 per cent share of TCJC's year-end reserves balances. The TCJC unaudited accounts included a pension asset valued at £55 million, with the Council consolidating an £18 million share within the group balance sheet. A recalculation by the actuary using the revised methodology described at issue 3 also reduced this pension asset to zero. The revised TCJC accounts reflect a pension liability for unfunded benefits of £2m, of which £0.6m to be consolidated by the Council. Therefore, there was an £19 million error in the pension asset figure in the group balance sheet in the Council's unaudited annual accounts.</p>	<p>Management adjusted the LACD and TCJC pension assets in the group financial statements to align LACD's accounting treatment with the accounting policies of the Council, and reflect its share of the TCJC reserves.</p>
<p><b>5. Expenditure and Funding Analysis</b></p> <p>The Expenditure and Funding Analysis (EFA) reconciles financial performance on a funding basis with the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement.</p> <p>Our review found that the financial performance information included in the management commentary in the unaudited annual accounts was shown on an accounting basis. This made it difficult to reconcile to the regular budget monitoring reports prepared by the Council, which are on a funding basis, and with the figures shown in the EFA.</p>	<p>Management revised the financial performance information included in the management commentary in the audited annual accounts to better reflect the format of the regular budget monitoring reports.</p>

Source: Audit Scotland

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## **Total misstatements identified during the audit were £473 million, including unadjusted misstatements of £0.6 million**

**17.** It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

**18.** Total misstatements identified were £473 million which exceeds our performance materiality threshold. We considered whether further audit procedures were required and reviewed the nature and causes of these misstatements, which mainly related to non-current asset valuation adjustments and the reassessment of the IAS19 pension asset (£472 million relates to issues 1-4 in [Exhibit 3](#)). We have concluded that most arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. We considered whether other misstatements presented material risks of misstatement in the relevant account area and concluded they did not.

**19.** We also identified two misstatements which were not corrected by management in the audited accounts. Further details of the uncorrected misstatements are included in [Appendix 2](#). The net impact of these would have been to increase net expenditure in the comprehensive income and expenditure statement for the year ended 31 March 2023 by £0.6 million, with a corresponding decrease in net assets at 31 March 2023 of £0.6 million in the balance sheet.

## **Good progress was made on prior year recommendations**

**20.** The Council has made good progress in implementing the audit recommendations identified by the previous external auditor, [Appendix 1](#), although further management action is required to improve the process for reviewing land and property valuations in the years between formal valuations.

## **Audit opinions on the statement of accounts of the four section 106 charities administered by the Council are unmodified**

**21.** Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity administered by the Council, irrespective of the size of the charity.

**22.** The Council administers seven charities registered under section 106 but is only required to produce four sets of accounts covering these. The Dundee City Council Charitable Trusts (incorporating four trust funds), the Dundee Trust and the Lord Provost of Dundee Charity Fund accounts were all prepared on a receipts and payment basis. The Fleming Trust accounts were required to be prepared on an accruals basis due to the size and asset base of the trust. The movement in the funds held by these charities during the year is shown in [Exhibit 4](#).



**Exhibit 4****Movement in funds held by charities administered by Dundee City Council**

<b>Charitable Trust Fund</b>	<b>Scottish Charity Number</b>	<b>Opening balance at 1 April 2022</b>	<b>Closing balance at 31 March 2023</b>
		<b>£</b>	<b>£</b>
Belmont Trust Estate	SC018900	185,495	185,495
Camperdown Estate	SC018899	2,534	2,534
William Dawson Estate Trust	SC018920	6,541	6,645
Hospital Fund	SC018896	743,948	766,741
<b>Total funds of Dundee City Council Charitable Trusts</b>		<b>938,518</b>	<b>961,415</b>
<b>The Dundee Trust</b>	<b>SC046260</b>	<b>Nil</b>	<b>Nil</b>
<b>Lord Provost of Dundee Charity Fund</b>	<b>SC027022</b>	<b>43,806</b>	<b>41,836</b>
<b>Fleming Trust</b>	<b>SC052182</b>	<b>8,542,882</b>	<b>8,489,587</b>

Source: Trustees report and accounts for the year ended 31 March 2023

**23.** Our duties as auditors of the charities administered by Dundee City Council are to:

- express an opinion on whether the charity's financial statements properly present the charity's financial position and are prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

**24.** [Exhibit 5](#) sets out the significant risks of material misstatement to the financial statements of the charitable trusts. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

**Exhibit 5****Significant risks of material misstatement for the 2022/23 charitable trust annual accounts**

Nature of risk	Audit response	Conclusion
<b>Significant risk of material misstatement for all charitable trusts annual accounts</b>		
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments during the period.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> </ul> <p>Test accounting accruals and prepayments focusing on significant risk areas. (<i>Fleming Trust only as other trust accounts prepared on a receipts and payments basis</i>)</p>	<p>The completion of the assurance procedures did not identify any evidence of management override of controls.</p>

**Additional significant risks of material misstatement for the Fleming Trust annual accounts****2. First time preparation of Fleming Trust annual accounts on an accruals basis**

There is a risk that the information required to prepare annual accounts to on an accruals basis in accordance with the Charities Statement Of Recommended Practice (SORP) 31 March 2023, including the opening balances figures, will be incomplete or unavailable.

- Review accounts presented for audit against the requirements of the Charities Accounts regulations to identify any areas of non-compliance.
- Review and test opening balances with a focus on significant risk areas.

Audit of Fleming Trust 2022/23 annual accounts confirmed that they were prepared in accordance with the Charities SORP and did not identify any issues with the opening balances.



Nature of risk	Audit response	Conclusion
<p><b>3. Valuation of dwelling assets</b></p> <p>Management has still to determine its accounting policy for valuing the dwelling assets as at 31 March 2022. There is a risk that appropriate valuations can not be obtained and reflected in the annual accounts.</p>	<ul style="list-style-type: none"> <li>Review the valuation methodology adopted for dwellings to ensure this complies with the requirements of Financial Reporting Standard 102.</li> <li>Review and test dwellings balances to confirm these accurately reflect the valuation method adopted.</li> </ul>	<p>Audit testing confirmed that valuation methodology adopted complied with the requirements of FRS102 and had been applied correctly.</p>

Source: Audit Scotland

**25.** We have given unqualified audit opinions on the financial statements of the Section 106 charities administered by the Council and the significant findings from the audits are summarised in [Exhibit 6](#).

## Exhibit 6

### Significant findings from the audit of the section 106 Charitable Trusts accounts

Issue	Resolution
<p><b>1. Dundee City Council Charitable Trusts – Camperdown Estate Trust – valuation of tangible fixed assets</b></p> <p>The unaudited 2022/22 DCCCT annual accounts showed a value of tangible fixed assets for the Camperdown Estate of £2.420 million, but per the Valuer's report this should have been valued at £2.463 million.</p>	<p>Management has made the necessary adjustment in the audited 2022/23 DCCCT annual accounts.</p>

Source: Audit Scotland

### The trustees of the Dundee Trust should consider the future use of the trust as it no longer holds any funds or assets

**26.** As the appointed auditors of the Section 106 charities administered by the Council, we are required to consider whether the funds held within the trusts are being used for the purposes intended. This includes reporting any inappropriate use of funds or prolonged lack of activity.

**27.** During 2019/20 the funds held in the Dundee Trust were donated to the Lord Provost of Dundee Charity Fund leaving it with a nil balance since 31 March 2020, as shown in [Exhibit 4](#) above. The trust also holds no assets so is effectively dormant. The previous auditors recommended, in their 2020/21 annual audit report, that the trustees of the Dundee Trust should consider the future of the trust and make a decision as to how this will be used going forward. This would include consideration of whether steps should now be taken, in coordination with the Office of the Scottish Charity Regulator, to wind it up. As there has still been no activity to progress this, we reiterate this recommendation.

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## 2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

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**The Council reported a £5.4 million overspend on general fund services during 2022/23, funded from reserves.**

**An underspend of £1.5 million was reported against the 2022/23 HRA revenue budget.**

**The Council reported slippage of 46 per cent against its 2022/23 capital plan. The Council also reported high levels of slippage against its capital programme in 2021/22 (51 per cent) and 2020/21 (56 per cent).**

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### **The Council's budget setting and financial management arrangements operated effectively during 2022/23**

**28.** The Council has a well-established budget setting process that supports councillors to develop and scrutinise savings plans and understand the impact of proposed service changes. The annual budget setting process is informed by a public consultation exercise and is focussed on the Council's priorities.

**29.** In February 2022 the Council approved a general fund revenue budget for 2022/23 of £392 million. This was based on raising council tax by 2.9 per cent, the achievement of budget savings of £8.9 million (£7.3 million of base budget savings and £1.6 million of additional targeted savings) and the utilisation of £0.3 million of the general fund balance.

**30.** The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to a level which will at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. In February 2022 the Council approved a 1.5 per cent increase in the average weekly rent levels for tenants for 2022/23. The rent level set reflected the income required to fund the annual HRA budget of £56.5 million.

**31.** The Council operates a rolling five-year capital programme. The 2022-2027 Capital Plan was approved in January 2022. The plan detailed a £382 million programme of work, split between £265 million of general fund projects and £117 million of housing revenue account projects, with expenditure of £99 million (£75 million for general fund projects and £24 million for HRA projects) scheduled for 2022/23.

**32.** Revenue and capital monitoring reports were taken to each meeting of the Policy and Resources Committee during 2022/23.

## The Council reported a £5.4 million overspend on general fund services during 2022/23, funded from reserves

**33.** The Council reported a £5.4 million overspend on general fund services during 2022/23. This was funded by the use of earmarked reserves of £9.2 million. Offset against this was staff costs savings of £6.0 million due to reduced activity and delays in filling vacancies across all services. The most significant underspends and overspends on general fund services are detailed in [Exhibit 7](#).

### Exhibit 7

#### Summary of most significant underspends and overspends against budget

Service area	Main reasons for underspend / overspend
<b>Underspends</b>	
<b>Neighbourhood Services</b>	<b>£3.7 million underspend</b> Mainly attributable to higher than expected revenue from the new waste plant in Baldovie.
<b>Chief Executive Services</b>	<b>£2.1 million underspend</b> Due to various underspends in supplies and services and third party payments mainly due to drugs, food, and health and well-being project-related underspends.
<b>Corporate Services</b>	<b>£1.6 million underspend</b> Underspends in transfer payments such as rent rebates and rent allowances, and additional funding allocations, for example Self Isolation Support Grants.
<b>Overspends</b>	
<b>Miscellaneous service budgets and use of earmarked reserves</b>	<b>£3.9 million overspend</b> This reflects the use of earmarked reserves, partially offset by the release of corporate contingencies for pay pressures that were not required.
<b>Children and Families Services</b>	<b>£2.1 million overspend</b> This was attributable to a significant overspend on third party payments (£6.0 million) due to a higher than anticipated number of children being placed in secure care. This extra expenditure was partially offset by additional income for a range of services including special education needs, refugees services, asylum seekers and children experiencing domestic abuse income.
<b>Construction services</b>	<b>£1.7 million overspend</b> Due to a shortfall in income generation.

Source: Dundee City Council 2022/23 Annual Accounts and revenue monitoring reports to Policy and Resources Committee

## **An underspend of £1.5 million was reported against the annual HRA revenue budget**

**34.** The Council reported a £1.5 million underspend against the annual HRA budget for 2022/23. This was attributable to additional income received through a legal settlement payment from an external contractor. This was offset by higher than budgeted expenditure on relets and void losses.

## **The Council reported slippage of 46 per cent against its 2022/23 capital plan**

**35.** As detailed at paragraph [31.](#), the Council approved a capital programme of £99 million (£75 million for general fund projects and £24 million for HRA projects) for 2022/23.

**36.** Capital works costing £53 million were completed during 2022/23 which included expenditure of £5.2 million on the property development and improvement programme; £4.3 million on the Broughty Ferry to Monifieth active travel improvements project and £2.9 million on roads construction and recycling works. However, the final outturn represented slippage of 46 per cent against the approved programme for the year. The main areas of project slippage are detailed in [Exhibit 8](#) on page [21](#).

**37.** The Council also reported high levels of slippage against its capital programme in 2021/22 (51 per cent) and 2020/21 (56 per cent). While some of the slippage in prior years was attributable to the impact of Covid-19 on the scoping, commencement and progress with these projects; the overall level of year-on-year slippage in the capital programme needs to be managed.

**38.** The previous auditor recommended in the 2021/22 Annual Audit Report that management should review the plans for all capital projects to ensure they provide a realistic timetable for the actual completion of each project. This exercise was completed in November 2022 and the outcome of this is reflected in the Council's Capital Plan 2023-28, [paragraphs 68.](#) and [69.](#)

**Exhibit 8****Main areas of slippage in the 2022/23 capital programme**

Project	Slippage		Main reasons for slippage
	£m	%	
<b>Sustainable transport</b>	9.5	100	Following extensive discussion with project partners, funders and national agencies, the project Board have taken the decision to end the original Dundee Hydrogen Bus Deployment programme. Discussions are under way with regards formal closure of the project and return of the original grants to the funders.
<b>Energy efficient</b>	6.3	91	Revised installation standards which changed from 1 July 2021 affected the programme as approved projects had to be redesigned and retendered before installations could progress. Following the redesign, the affected projects were retendered and the successful tender was approved at the August meeting of the Neighbourhood Regeneration Housing and Estate Management Committee.
<b>Increased supply of council housing</b>	4.1	75	For 2022/23 the Council planned to complete 70 council houses but actual completions for the year were 11. The slippage in the new build programme was mainly due a legacy from the Covid19 pandemic, and the application of revisions to building standards regulations. Management has advised that these projects have progressed during 2023/24 and 82 new build units are expected to complete during the year. In addition to this, the Council are also anticipating that they will conclude the purchase of a number of units via open market acquisition during 2023/24.
<b>Depot rationalisation programme</b>	3.7	97	The development of operational client requirements has resulted in changes in design development and the revised timeline for full design, tender and construction.
<b>Site 6 south development</b>	3.3	77	The planning application is approved, detailed design stage of the project has been finalised with tender costs being finalised. The project plan has now been reprofiled to reflect the current timescales for delivery.

Source: Dundee City Council 2022/23 Annual Accounts and capital expenditure monitoring reports to Policy and Resources Committee

**Recommendation 2**

**Management should monitor the affordability and deliverability of the 5-year capital plan and clearly report to members on emerging overspends, or slippage against key milestones and completion dates.**

## The Council has been addressing issues with the Olympia pool, roofing repairs and the central heating system in Dundee House

**39.** During 2021/22 the Council set aside money to meet additional revenue costs of around £4.4 million on roofing repairs work on council houses, and capital costs of £6.1 million on remedial repairs and maintenance at the Olympia pool in Dundee, and £1.5 million on the central heating system in Dundee House. These works were progressed during 2022/23 as detailed below:

- **Roofing repairs works on council houses:** Management has advised that this work is on target to meet an anticipated end date of 31 March 2025, at a total estimated cost of £4.4 million.
- **Olympia remedial works:** Capital works totalling £2.9 million were undertaken during the year with additional remedial works costing £3.2 million to be completed during 2023/24. It is expected these will be completed by October 2023.
- **Central heating system in Dundee House:** Management has advised that this work was completed within budget.

## The Council's external debt levels reduced by £31 million over the last 12 months

**40.** During 2022/23 the Council's external debt levels reduced by £31 million, from £711 million at 31 March 2022 to £680 million at 31 March 2023. This decrease was due to loan repayments during the year and lower than anticipated capital project activity (paragraphs [35.](#) to [38.](#)).

## Key financial controls generally operated effectively during 2022/23, but we identified a control that could be strengthened

**41.** As required by Audit Scotland's Code of Audit Practice, as part of our audit we identified and evaluated the key internal controls in the accounting systems. Our objective was to gain assurance that it has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**42.** We concluded that the key controls in the main financial systems were generally operating as specified. However, we did identify one control that could be strengthened, shown in [Exhibit 9](#). We adapted our approach to auditing the PPP accounting entries to reflect the control weaknesses identified. The management response to this recommendation is included at [Appendix 1](#).



## Exhibit 9

### We identified one control that could be strengthened

Audit finding	Additional audit procedures and recommendation
<p><b>1. Procedures for updating PPP/DBFM/SCA financial models</b></p> <p>The council has acquired assets under PPP and DBFM contracts, and service concessionary arrangements. Contract officers are responsible for ensuring unitary charges are revised annually in accordance with contracts. Finance staff are responsible for updating the financial models for these schemes each year to reflect the actual unitary charges and the future impact of changes in RPI/CPI, based on the requirements of the original contract indexation terms. However, there are no written procedures setting out how each model requires to be updated annually or evidence of the control check on annual unitary charge increases.</p>	<p>We checked the unitary charges shown in each financial model back to the payments made for 2022/23. This confirmed that the amount shown in the models accurately reflected the payments.</p> <p><b>Management should evidence the control check on annual unitary charge increases, to ensure these are in line with the contract terms and prepare procedural instructions for updating each financial model annually to reflect actual payments and interest rate assumptions.</b></p> <p><b>Recommendation 3</b> at <a href="#">Appendix 1</a></p>

Source: Audit Scotland

## Internal audit provided reasonable assurance on the Council's framework of governance, risk management and control

**43.** We considered internal audit's annual report, presented to the June 2023 Scrutiny Committee, as part of our review of the Annual Governance Statement included within the 2022/23 annual accounts. This disclosed internal audit's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31 March 2023.

## The partnership arrangement with Angus Council to share its Chief Internal Auditor has been extended to September 2024

**44.** Due to issues recruiting a new Senior Manager, the Council agreed a partnership arrangement with Angus Council to share its Chief Internal Auditor on a part-time basis. This 12 month pilot arrangement commenced in October 2022 and has proved effective and the Councils now intend to enter into a long term arrangement.

**45.** KPMG's contract to provide internal audit services to the council as part of a co-sourcing arrangement ended on 30 June 2022, following the conclusion of the 2021/22 internal audit plan work. No support contract was in place for

2022/23 but in May 2023 the Policy and Resources Committee agreed to the procurement of a new support contract for 2023/24 to 2026/27. This will provide internal audit with additional resource to deliver its annual workplan over the next 4 years.

### **Services were slow to respond to internal audit reports during 2022/23**

**46.** We noted that services were often slow to respond to draft internal audit reports during 2022/23. This led to delays in actions to address recommendations for improvement being agreed, and the reports being issued for consideration by elected members. These delays were in part due to competing pressures on staff across services during the year. However, this presents a risk to the adequacy and effectiveness of the Council's framework of governance, risk management and control.

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## **Recommendation 4**

**Management should ensure that draft internal reports are cleared and reported in a timely manner so that recommendations for improvement can also be actioned within an appropriate timescale.**

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### **Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate**

**47.** The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy, anti-bribery policy and codes of conduct for councillors and officers.

**48.** The Council's Corporate Fraud Team provide reports on its activity to the Scrutiny Committee and the Council also has a Corporate Integrity Group which was set up to improve the Council's resilience to crime, fraud and corruption.

**49.** We assessed these arrangements to ensure that they were appropriate and that documents are readily available to staff and regularly reviewed to ensure they remain relevant and current. Overall, we concluded that the Council's arrangements are appropriate.

### **The Council has well-established arrangements for investigating and reporting data matches identified by the NFI**

**50.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland which aims to prevent and detect fraud. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

**51.** The current NFI exercise runs over 2022/23 and 2023/24 and participating bodies began to receive matches for investigation in January 2023. These matches are categorised by risk and all recommended matches, plus any further matches based on findings, should be investigated.



**52.** The Council has participated in the initiative for a number of years and has well-established processes in place for investigating the data matches identified by the NFI and reporting the results to the Scrutiny Committee. Good progress has been made by the Council in investigating the matches from the current NFI exercise and the results of this will be reported to the Scrutiny Committee during 2023/24.

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## 3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

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**The 2023/24 general fund revenue budget gap of £8.4 million, is being funded from reserves, savings plans, increased charges and a 4.75 per cent increase in council tax levels.**

**Future financial plans show a cumulative funding gap of £38 million for the period 2024-2027. The Council's long-term financial strategy needs to be updated to show how resources will be targeted towards priority areas.**

**The 2023-2028 Capital Plan sets out a £381 million programme of expenditure to help deliver the key priorities in the Council Plan 2022-27.**

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**The Council's general fund balance decreased to £57 million at 31 March 2023, with £47 million earmarked for future spending**

**53.** As shown in [Exhibit 10](#) on page [27](#), the level of usable reserves held by Dundee City Council decreased by £5 million during 2022/23, from £81 million at 31 March 2022 to £76 million at 31 March 2023.

**54.** [Exhibit 10](#) also shows that the general fund balance decreased by £5 million during 2022/23, from £61 million at 31 March 2022 to £56 million at 31 March 2023. £47 million (84 per cent) of this balance has been earmarked by the Council for specific areas of future spending including: £15 million for Covid cost related pressures, £5 million for service change initiatives, £4 million for Children Services costs pressures, and £4 million for energy pressures. The unallocated general fund balance at 31 March 2023 was £9 million and is in line with the reserves strategy.

## Exhibit 10

### Dundee City Council usable reserves

Reserve	31 March 2021 (£m)	31 March 2022 (£m)	31 March 2023 (£m)
General fund – uncommitted	8.1	9.3	9.2
General fund – committed	42.5	52.0	47.4
<b>Total General fund balance</b>	<b>50.6</b>	<b>61.3</b>	<b>56.6</b>
Repairs and renewal fund	11.5	13.2	14.8
Insurance fund	2.2	1.5	0.7
Capital grants and receipts unapplied account	5.0	1.7	1.4
Capital fund	0.6	3.6	2.7
<b>Total usable reserves</b>	<b>69.9</b>	<b>81.3</b>	<b>76.1</b>

Source: Dundee City Council Annual Accounts

### The 2023/24 general fund revenue budget gap of £8.4 million, is being funded from reserves, savings plans, increased charges and a 4.75 per cent increase in council tax levels

**55.** On 23 February 2023, the Council approved a general fund revenue budget for 2023/24. The budget setting process identified a budget gap of £8.4 million. The Council agreed the following measures to close the identified budget gap and fund additional spending commitments during 2023/24:

- release of existing inflationary pressure reserves of £3.8 million
- savings plans of £4.9 million
- extra income generated from a review of charges of £0.6 million
- increase in council tax levels of 4.75 per cent.

**56.** The approved budget reflected the results of a budget consultation survey, where residents identified Education as the key spending priority. It also included new areas of spend to support the Council's other strategic priorities. For example, to support food networks, provide community support and diversionary activities, tackle social inequality, provide community environmental improvements and investment in economic development to support city events.

## **The Council approved a 3 per cent increase in rent levels for 2023/24 to fund the annual HRA budget of £59 million**

**57.** In January 2023 the Council approved a 3 per cent increase in the average weekly rent levels for tenants for 2023/24. The rent level set reflected the income required to fund the annual HRA budget of £58.9 million.

**58.** The approved budget included an allowance for public sector pay increases of 3.5 per cent for 2023/24 and a further 3 per cent for the shortfall from 2022/23. The prior year HRA budget was set based on an assumed pay uplift of 2 per cent rather than the eventual pay award agreed of 5 per cent.

**59.** As the approved 2023/24 rent levels cannot be revised during the year, if the actual pay award is greater than 3.5 per cent then these additional costs will need to be funded from savings and underspends within the approved annual budget, or the difference will be reflected in 2024/25 budget.

**60.** Although rent levels have been raised by 3 per cent for 2023/24, the average weekly rent levels across the Council's housing stock remain lower than the Scottish average for social housing.

## **Future financial plans are challenging with a cumulative funding gap of £38 million projected for the period 2024-2027**

**61.** The Council has a medium-term financial outlook which was prepared for the Policy and Resources Committee in September 2022. This included an indicative 2023/24 budget plus two further years: 2024/25 and 2025/26 at a service level.

**62.** The September 2022 iteration of the medium-term financial outlook included scenario projections of the cumulative 3-year budget gap to 2026 of between £7 million and £74 million but the best estimate, based on the current assumptions, amounted to a gap of £45 million. The indicative 2023/24 budget did not include a range of scenarios, but did indicate sensitivity analysis for key assumptions including pay awards; price inflation; interest rates; government grant income and chargeable income levels. The costed impact of percentage changes in assumptions were also identified.

**63.** The papers produced for the 2023/24 budget setting process in February 2023 included provisional budgets for future years up to 2026/27. This projected a lower cumulative funding gap of £34 million for the period 2024-2027 (£14 million for 2024/25, £12 million for 2025/26 and £8 million for 2026/27) based on the information available at that time.

**64.** A Budget Strategy 2024/25 paper was presented to the City Governance Committee on 4 September 2023. This provided members with updated medium-term financial projections and set out a strategy to address the projected budget shortfall for 2024/25. This showed that the estimated budget gap for 2024/25 had increased to £19.5 million with the cumulative budget gap over the three years 2024-27 increasing to £38 million.

**65.** Actions to address the 2024/25 budget gap, and longer-term budget challenges, will be considered as part of the annual budget setting process with the intention to approve the 2024/25 general fund budget and council tax levels in February 2024.

### **The Council's long-term financial strategy needs to be updated to show how resources will be targeted towards priority areas**

**66.** The Council produces a long-term financial outlook that sets out the high-level implications of different levels of income, spending and activity over the next ten years. This includes a sensitivity analysis which shows the potential financial impact of variations against the Council's current key budget assumptions (income and expenditure) which underpin the Council's ten-year revenue budget projections.

**67.** The Council recognises that its long-term financial strategy still needs to be updated to reflect the new Council Plan. However, management has highlighted that this will need to reflect the current uncertainty associated with single year budget settlements and the financial challenges set out by the Scottish Government in its Medium-Term Financial Strategy.

### **The Capital Plan sets out a £381 million programme of expenditure to help deliver the key priorities in the Council Plan**

**68.** As detailed at [paragraphs 35. -38.](#), the Council reported slippage of 46 per cent against its 2022/23 capital plan. The Council's Capital Plan 2023-28 was reviewed in November 2022 in response to inflationary pressures. As part of this review the Council had to find an additional £23.6 million to balance the overall plan. Budget reductions were identified through discussions with senior officers (Capital Governance Group) to enable the reprioritisation of the existing budget in line with the strategic priorities included in the Council Plan 2022-27.

**69.** The approved capital programme for 2023/24 to 2027/28 totals £381 million, split between £259 million of general fund projects and £122 million of housing revenue account projects, with expenditure of £133 million (£103 million general fund projects and £30 million HRA projects) scheduled for 2023/24. It identifies projects that contribute to the 5 key priorities in the Council Plan 2022-27 as shown below:

- £110 million on general fund projects to “Reduce child poverty and inequalities in income, education and health”, with £84 million of this spend on the East End Community Campus.
- £107 million on projects to “Build resilient and empowered communities”, split between £34 million on general fund projects and £73 million on HRA projects.
- £74 million on projects to “Tackle climate change and reach Net Zero carbon emissions by 2045”, split between £24 million on general fund projects and £49 million on HRA projects.
- £62 million on general fund projects to “Design a modern council”.
- £27 million on general fund projects to “Deliver inclusive economic growth (including Community Wealth Building)”.

## **The Council approved its Corporate Asset Management Plan 2023-28 in June 2023**

**70.** The Council approved the Corporate Asset Management Plan 2023-28 at the Policy and Resources Committee in June 2023. The plan is intended as a framework to identify assets, their value, their use and how they support the Council's overall aims and objectives; and therefore, plays a key role in the planning of capital and revenue expenditure. It is underpinned by more detailed plans for the 6 main subgroups of assets (Property, Housing, Roads, Open spaces, Fleet, and ICT) which are maintained by the relevant Asset Manager within that business area.

## **The Council has introduced a six-monthly inspection regime for two schools which have roof structures that contain RAAC**

**71.** Reinforced autoclaved aerated concrete (RAAC) is a lightweight construction material that was used in the construction of some public buildings like schools and hospitals between the 1950s and 1990s. It was used mostly in flat roofing, but also in some pitched roofs, floors and walls.

**72.** RAAC was used in part of the roof structure at two of the Council's school buildings – St Fergus Primary School and Ardler Primary School. These roofs have been, and continue to be, inspected regularly by experts. The RAAC at each school is described as being in good condition currently with no structural issues apparent. Specialist inspectors are therefore satisfied that both schools can safely operate as normal. Detailed inspections of the roof areas will continue to be carried out at least every six months in line with national guidelines.

**73.** The Council is presently undertaking a review of housing stock to determine whether RAAC was used in the construction of any properties.

## **The Council is still evaluating a collective equal pay claim received in February 2021**

**74.** In February 2021, the trade unions submitted a collective equal pay claim on behalf of their members under the Equality Act 2010. The claim is for the full 5 year back-pay period and / or from their date of employment, if such a date is less than 5 years ago. The claimants are employed in predominantly female jobs groups (and / or groups of which the proportion of female workers is far greater than that in the comparator groups). Around 400 claims are presently being considered by the Employment Tribunal and the timescale for concluding these cases is uncertain. At this stage, it is not possible to quantify the Council's financial liability, if any.

**75.** While it is not possible to establish at this stage whether any cash outflow will result from the equal pay claim, this presents a potential liability to the Council for future years. A contingent liability has therefore been disclosed in the 2022/23 annual accounts to reflect this.

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## 4. Other wider scope audit work

During 2022/23 our other wider scope audit work included a Best Value thematic review of leadership and priorities, and consideration of the Council's performance management and reporting arrangements, governance, and its use of resources to improve outcomes.

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**The Chief Executive and leadership team has worked together with elected members to provide effective leadership for the Council over the last 3 years. The overall vision of the Council remains clear. The Council Plan has been revised and sets out the Council's priorities.**

**The Council has an established performance framework which aligns with the Council Plan. In June 2023, the Council reported mixed progress on performance. Performance compared to other councils has improved overall, but, despite relative improvements, educational attainment measures have remained in the bottom quartile.**

**Inequality is a clear focus of the City Plan. Local Fairness Initiatives exist to address persistent and enduring issues with inequality, and the Council is working with the DWP and Scottish Government on a child poverty pathfinder project. Dundee is making good progress, with further activity planned to the end of 2024/25.**

**Dundee City Council has completed all the recommendations from its September 2020 Best Value Report.**

**In June 2023 the Council revised its committee structure to better reflect the needs and priorities of the city.**

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### **Best Value audit work is now fully integrated within our annual audit work**

**76.** Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions. Expectations are laid out in the [Best Value Revised Statutory Guidance 2020](#).

**77.** Over the previous external audit appointment period (2016/17-2021/22), each of the 32 councils in Scotland were the subject of a separate Best Value Assurance Report (BVAR) published by the Accounts Commission. The [Dundee City Council BVAR](#) was published in September 2020.

**78.** Under the [Code of Audit Practice 2021](#), the audit of Best Value in councils is now fully integrated within our annual audit work. Best Value at the Council will



be assessed comprehensively over the period of the audit appointment and will include an annual evaluation of the Council's approach to demonstrating improvement in its services and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement.

**79.** For 2022/23 the Accounts Commission directed auditors to report on the effectiveness of the Council's leadership and the development of the Council's strategic priorities. In carrying out the thematic work auditors considered the following questions:

- How clear is the new Council vision and its priorities?
- How effectively have the views of citizens and communities been reflected in the priorities and decisions taken by the Council?
- How effectively do the Council priorities reflect the need to reduce inequalities and climate change?
- How good are the delivery plans and is there alignment of financial, workforce, asset and digital plans with the Council's priorities?

### **The Council's 2022/23 Annual Audit Report will be considered by the Accounts Commission at its November 2023 meeting**

**80.** As part of the new reporting arrangements, the Controller of Audit will report to the Accounts Commission on the Council's performance in meeting its Best Value duties at least once every five years. The first year of the programme will be from October 2023 to August 2024 and will cover the councils listed in [Exhibit 11](#).

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#### **Exhibit 11**

#### **Schedule of Controller of Audit reports to the Accounts Commission for 2023 and 2024**

<b>South Ayrshire Council</b> (October 2023)	<b>Dundee City Council</b> (November 2023)
<b>Dumfries &amp; Galloway Council</b> (December 2023)	<b>Orkney Islands Council</b> (January 2024)
<b>West Dunbartonshire Council</b> (February 2024)	<b>Clackmannanshire Council</b> (May 2024)
<b>Moray Council</b> (June 2024)	<b>Falkirk Council</b> (August 2024)

Source: Audit Scotland

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**81.** As shown in [Exhibit 11](#), Dundee City Council has been selected for a Controller of Audit Report to the Accounts Commission in November 2023. At that meeting the Commission will be provided with a copy of this report, accompanied by the Controller of Audit's covering report. The external audit team will attend the meeting with the Controller of Audit to answer the Commission's questions on our findings and conclusions, and management and elected members from the Council will be able to observe the meeting.



## Our review identifies that Best Value is being delivered

**82.** We issued our report on the [Best Value Thematic Review 2022/23](#) to the Council in August 2023, and it was considered by the City Governance Committee at the meeting on 25 September 2023. The report also included the findings from our review of performance reporting arrangements and analysis of recent performance data and an update on the areas covered by the recommendations in the BVAR. The key messages in the report highlighted the following:

- (1)** The Chief Executive and leadership team has worked together with elected members to provide effective leadership for the Council over the last 3 years. The overall vision of the Council remains clear. The Council Plan has been revised and sets out the Council's priorities.
- (2)** The Council has an established performance framework which aligns with the Council Plan. In June 2023, the Council reported mixed progress on performance. Performance compared to other councils has improved overall, but, despite relative improvements, educational attainment measures have remained in the bottom quartile.
- (3)** Council Plans are based on community engagement. The Council has a strong focus on community engagement, but participatory budgeting is not yet achieving its 1 per cent target. The Council is working with community groups to support residents struggling with rising living costs and has some good examples of this work.
- (4)** The Council and its partners know that they need to do more to tackle the high levels of child poverty across the city. Inequality is a clear focus of the City Plan. Local Fairness Initiatives exist to address persistent and enduring issues with inequality, and the Council is working with the DWP and Scottish Government on a child poverty pathfinder project. Dundee is making good progress, with further activity planned to the end of 2024/25.
- (5)** The Council is due to publish a Net Zero Transition plan in 2023. The Capital Plan includes £96 million of projects to help tackle climate change and reach Net Zero.
- (6)** The Council's strategic services are currently preparing new service plans based on the priorities in the new Council Plan 2022-2027. The long-term financial strategy also needs updating.
- (7)** A Strategic Workforce Plan 2023-2028, which sets out the workforce transformation and planning required at a corporate level, was approved in July 2023. A Strategic Asset Management Plan and Digital Strategy are also in place.
- (8)** The Dundee Partnership continues to work to address drug deaths. Recent data demonstrate some improvements.
- (9)** The previous auditor concluded that "good progress had been made on BVAR recommendations" and Dundee City Council has now completed all the outstanding recommendations.

**83.** The report also included three recommendations for improvement which are replicated in [Appendix 1](#) of this report along with the Council's planned response, responsible officers and dates for implementation.

### **The Council had appropriate and effective governance arrangements in place during 2022/23**

**84.** We have reviewed and monitored the operation of the governance arrangements during the course of the year and concluded that they are effective and support good governance and transparency.

**85.** All meetings of the full Council and other committees were held remotely via Microsoft Teams throughout 2022/23. However, we have not noted any adverse impact on the level of scrutiny due to these meetings being held remotely.

### **The Council is open and transparent**

**86.** There is evidence from several sources which demonstrate the Council's commitment to openness and transparency:

- Members of the public can attend the virtual meetings of the full Council and other committees. Recordings of these meetings, and the minutes and supporting papers, are also available on the council's website.
- The Council's website allows the public access to a wide range of information including the register of councillors' interests, current consultations and surveys and service performance data. In addition, the home page provides updates on recent developments and links to useful information, including how to access cost of living support and advice.
- The Council makes its annual accounts available on its website. These include a management commentary which adequately explains the Council's financial performance for the year.

### **In June 2023 the Council revised its committee structure to better reflect the needs and priorities of the city**

**87.** At the meeting of the Policy and Resources committee on 26 June 2023, the Council approved a proposal from the Leader of the Council to introduce a new committee structure to better reflect the needs and priorities of the city. The new structure consists of a City Governance Committee and four strategic service area committees:

- Children, Families and Communities Committee
- Climate, Environment and Biodiversity Committee
- Fair Work, Economic Growth and Infrastructure Committee
- Neighbourhood Regeneration, Housing and Estate Management Committee.

**88.** The powers and responsibilities of the new committees were approved at the meeting of the [Recess Sub-Committee on 10 July](#). No changes were made to the remits of the existing Planning Committee, Scrutiny Committee or Licensing Committee.

**89.** As with the previous committee structure, all 29 councillors sit on all committees, other than the Scrutiny and Licensing committees. The strategic service area and City Governance committee meetings are generally held the same night, and are preceded by a meeting of the full Council, with the conveners and depute conveners switching over between each committee meeting. This arrangement was reviewed as part of the BVAR which concluded that it worked well for a council of this size. Based on our observation of meetings, and discussions with members and officers, we believe these meeting arrangements continue to work well for the Council.

# Appendix 1. Action plan 2022/23

## 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Non-current asset valuations</b></p> <p>Our review identified that as a result of the council's policy to revalue assets every five years there is a risk that the valuation of major asset classes (e.g. council dwellings, and other land and buildings) may have changed materially since their last full valuation.</p> <p>There is a risk that non current asset carrying values are significantly different to the current value.</p>	<p>We recommend that the Council reviews its approach to the rolling programme of asset valuations and embeds a process to consider the current valuation of assets not subject to a full valuation process at each year end.</p>	<p>Officers will review arrangements for asset valuations and those not included in the rolling programme to provide a robust position for the 2023/24 accounts.</p> <p><b>Responsible officer:</b> Head of Corporate Finance</p> <p><b>Agreed date:</b> April 2024</p>
<p><b>2. Delivery of capital plan</b></p> <p>The Council reported slippage of 46 per cent against its 2022/23 capital plan. The Council also reported high levels of slippage against its capital programme in 2021/22 (51 per cent) and 2020/21 (56 per cent).</p> <p>The Council's Capital Plan 2023-28 was reviewed in November 2022 in response to inflationary pressures. Budget reductions were identified to enable the reprioritisation of the existing budget in line with the strategic priorities included in the Council Plan 2022-27.</p> <p><b>Year-on-year slippage in the capital programme will impact on the Council's ability to deliver against its strategic objectives.</b></p>	<p>Management should continue to monitor the affordability and deliverability of the 5-year capital plan and clearly report to members on emerging overspends, or slippage against key milestones and completion dates.</p> <p><a href="#">Paragraphs 35. to 38. and paragraphs 68. and 69.</a></p>	<p>The Capital Governance Group will scrutinise the Capital Plan ahead of the 2024-29 revision, with a focus on deliverability.</p> <p><b>Responsible officer:</b> Executive Director of Corporate Services</p> <p><b>Agreed date:</b> March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>3. Procedures for updating PPP/DBFM/SCA financial models</b></p> <p>Finance staff are responsible for updating the financial models for the Council's PPP/DBFM/SCA schemes each year to reflect the actual unitary charges and the future impact of changes in RPI/CPI, based on the requirements of the original contract indexation terms. However, there are no written procedures setting out how each model requires to be updated annually or evidence of the control check on annual unitary charge increases.</p> <p><b>There is a risk that the financial models are not updated in line with the contractual requirements.</b></p>	<p>Management should evidence the control check on annual unitary charge increases, to ensure these are in line with the contract terms and prepare procedural instructions for updating each financial model annually to reflect actual payments and interest rate assumptions.</p> <p><a href="#">Exhibit 9</a></p>	<p>Appropriate documentation and evidence will be implemented.</p> <p><b>Responsible officer:</b> Head of Corporate Finance</p> <p><b>Agreed date:</b> March 2024</p>
<p><b>4. Clearance of internal audit reports</b></p> <p>Services were often slow to respond to draft internal audit reports during 2022/23. This led to delays in actions to address recommendations for improvement being agreed, and the reports being issued for consideration by elected members.</p> <p><b>This presents a risk to the adequacy and effectiveness of the Council's framework of governance, risk management and control.</b></p>	<p>Management should ensure that draft internal reports are cleared and reported in a timely manner so that recommendations for improvement can also be actioned within an appropriate timescale.</p> <p><a href="#">Paragraph 46.</a></p>	<p>Internal Audit progress will be monitored through the Risk and Assurance Board and if necessary escalated to the Council Leadership Team.</p> <p><b>Responsible officer:</b> Executive Director of Corporate Services</p> <p><b>Agreed date:</b> November 2023</p>

## Recommendations from Best Value Thematic Review 2022/23

Issue/risk	Recommendation	Agreed management action/timing
<p><b>BV1. Community asset transfers</b></p>	<p>The Council should establish what else can be done to encourage and support community groups to manage and own facilities and deliver against its aim to increase community ownership of Council-owned assets.</p>	<p>Replace the current asset transfer scheme with a community land and asset strategy as part of Community Wealth Building – Land and property pillar. This will simplify the process and expand the range of options open to community groups to manage and own facilities.</p> <p><b>Responsible officer:</b> Community Learning and Development Manager</p> <p><b>Agreed date:</b> March 2024</p>
<p><b>BV2. Participatory budgeting</b></p>	<p>The Council should identify further areas where participatory budgeting can be used effectively to allocate resources based on the priorities of local residents.</p>	<p>Council leadership team to review current position by October 2023 and consider further options to embed participatory budgeting in mainstream budgets based on local needs.</p> <p><b>Responsible officer:</b> Executive Director of Corporate Services and Service Manager – Communities</p> <p><b>Agreed date:</b> March 2024</p>
<p><b>BV3. Long-Term Financial Strategy</b></p>	<p>The Council's Long-Term Financial Strategy needs to be updated to show how resources will be targeted towards priority areas over the next 10 years.</p>	<p>The Long-Term Financial Strategy will be updated to reflect new Council Plan priorities.</p> <p><b>Responsible officer:</b> Executive Director of Corporate Services</p> <p><b>Agreed date:</b> March 2024</p>

## Follow-up of prior year recommendations

Issue	Recommendation	Progress during 2022/23
<p><b>PY1. Accounting treatment of unspent grant funding</b></p>	<p>As part of the year-end closedown procedures, management should review the conditions attached to all unspent grant funding to ensure they are accounted for correctly.</p> <p><b>Responsible officer:</b> Accounting Strategy Manager</p> <p><b>Agreed date:</b> 31 March 2023</p>	<p><b>Complete</b></p> <p>No issues were identified with the accounting treatment of unspent grant funding during the 2022/23 financial statements audit.</p>
<p><b>PY2. Assets under construction</b></p>	<p>As part of the year-end closedown procedures, management should review all non-assets classified as assets under construction to ensure that these do not include operational assets.</p> <p><b>Responsible officer:</b> Accounting Strategy Manager</p> <p><b>Agreed date:</b> 31 March 2023</p>	<p><b>Complete</b></p> <p>No issues were identified with the accounting treatment of assets under construction during the 2022/23 financial statements audit.</p>
<p><b>PY3. Land and property valuations</b></p>	<p>Management should continue to monitor land and property asset valuation movements to identify whether revisions are required to the planned rolling revaluation programme, to undertake additional revaluations of any asset categories.</p> <p><b>Responsible officer:</b> Head of Corporate Finance</p> <p><b>Agreed date:</b> 31 March 2023</p>	<p><b>Ongoing</b></p> <p>See <b>Recommendation 1</b> above.</p>
<p><b>PY4. Delivery of capital programme</b></p>	<p>Management should review the plans for all capital projects to ensure they have been updated to reflect the full impact of any delays caused by the Covid-19 pandemic or changes in the construction market. A realistic timetable for the actual completion of each project should then be shared with elected members.</p> <p><b>Responsible officer:</b> Head of Corporate Finance</p> <p><b>Agreed date:</b> 31 March 2023</p>	<p><b>Complete</b></p> <p>The Council's Capital Plan 2023-28 was reviewed in November 2022 in response to inflationary pressures. Budget reductions were identified to enable the reprioritisation of the existing budget in line with the strategic priorities included in the Council Plan 2022-27.</p> <p><a href="#">Paragraphs 68.</a> and <a href="#">69.</a></p>



Issue	Recommendation	Progress during 2022/23
<p><b>PY5. Internal audit recommendations</b></p>	<p>Management should ensure that the outstanding actions identified through internal audit reports are completed as a matter of priority or revised dates are reported to elected members.</p> <p><b>Responsible officer:</b> Executive Director of Corporate Services</p> <p><b>Agreed date:</b> 31 December 2022</p>	<p><b>Ongoing</b></p> <p>A wider issue has been identified during 2022/23 as services were generally slow to respond to internal audit reports.</p> <p><a href="#">Paragraph 46.</a> and <b>Recommendation 4</b> above.</p>
<p><b>PY6. Provision of internal audit function</b></p>	<p>Management should ensure that the internal audit function continues to operate in accordance with the Public Sector Internal Audit Standards and has sufficient resources to complete its 2022/23 workplan.</p> <p><b>Responsible officer:</b> Head of Corporate Finance</p> <p><b>Agreed date:</b> 31 March 2023</p>	<p><b>Complete</b></p> <p>The partnership arrangement with Angus Council to share its Chief Internal Auditor has been extended to October 2024.</p> <p><a href="#">Paragraphs 44.</a> and <a href="#">45.</a></p>

## Follow-up of prior year recommendations for the section 106 Charitable Trusts financial statements

Issue/risk	Recommendation	Progress during 2022/23
<p><b>PY-C1. Dundee City Council Charitable Trusts – Hospital Fund grant approval</b></p>	<p>All payments from the Section 106 charities administered by the council should receive appropriate authorisation prior to the payments being made.</p>	<p><b>Complete</b></p> <p>No similar issues identified during 2022/23 audit of Dundee City Council Charitable Trusts.</p>
<p><b>PY-C2. Future of Dundee Trust (Carried forward from 2020/21)</b></p>	<p>The trustees of the Dundee Trust should consider the future of the trust and make a decision as to how this will be used going forward. This would include consideration of whether steps should now be taken, in coordination with the Office of the Scottish Charity Regulator, to wind it up.</p>	<p><b>Not yet implemented</b></p> <p>This will be reviewed as part of next year's account preparation process.</p> <p><b>Responsible officer:</b> Executive Director of Corporate Services</p> <p><b>Agreed date:</b> March 2024</p>



# Appendix 2. Summary of uncorrected misstatements

**We report all uncorrected misstatements in the annual accounts that are individually greater than our reporting threshold of £250,000.**

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements.

Cumulatively these errors are below our performance materiality level as shown in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Nature of misstatement	Transactions / balances impacted	Comprehensive Income and Expenditure Statement		Balance Sheet	
		Debit £000	Credit £000	Debit £000	Credit £000
1. Duplicate heritage asset	Net Cost of Services	296			
	Heritage Assets				296
2. Depreciation not charged on property, plant and equipment assets	Net Cost of Services	268			
	Property, Plant and Equipment				268

# Dundee City Council

## 2022/23 Annual Audit Report

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