

# Dundee City Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Dundee City Council  
April 2020

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

## Adding value

3. We aim to add value to Dundee City Council (the council) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the council promote improved standards of governance, better management and decision making and more effective use of resources.


## Audit risks


4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for the council. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).


5. The UK have recently initiated the 'delay' stage for management of COVID-19. As such all bodies are continuing to monitor ongoing medical advice and are taking action where appropriate. This represents a significant business risk to the council and its ongoing services. While we have not highlighted this as an audit risk in Exhibit 1 we will monitor the changes made to the council's governance arrangements in response to the changing environment. This issue could have a significant impact on the timing and scope of the audit. We will keep in touch with the council to assess the ongoing impact of COVID-19 on the council and the audit.


## Exhibit 1

### 2019/20 Significant audit risks

 Audit Risk	Management assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards (ISA 240) require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This</p>	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are</li> </ul>


 <b>Audit Risk</b>	<b>Management assurance</b>	<b>Planned audit work</b>
<p>includes the risk of management override of controls that results in fraudulent financial statements.</p>		<p>outside the normal course of business.</p>
<p><b>2 Risk of material misstatement caused by fraud in income recognition</b></p> <p>ISA 240 The auditor's responsibilities relating to fraud in an audit of financial statements includes certain requirements relating to the auditor's consideration of fraud. ISA 240 requires auditors to presume a risk of fraud where income streams are significant. The council receives a significant amount of funding from the Scottish Government, however income is also received from other sources, including council tax, housing rents etc.</p>	<ul style="list-style-type: none"> <li>• Regular budget monitoring and reporting.</li> <li>• Local code of corporate governance outlining the governance framework.</li> <li>• Completion of annual governance statement checklists.</li> <li>• Internal controls in financial systems to mitigate risks of error or manipulation.</li> <li>• Internal audit reviewing internal financial controls.</li> </ul>	<ul style="list-style-type: none"> <li>• Analytical procedures on income.</li> <li>• Testing of key internal financial controls.</li> <li>• Detailed testing of transactions focusing on the areas of greatest risk.</li> </ul>
<p><b>3 Risk of material misstatement caused by fraud in expenditure</b></p> <p>Additionally, the Code of Audit Practice requires consideration of the risk of fraud over expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Regular budget monitoring and reporting.</li> <li>• Local code of corporate governance outlining the governance framework.</li> <li>• Completion of annual governance statement checklists.</li> <li>• Internal controls in financial systems to mitigate risks of error or manipulation.</li> <li>• Participation in the National Fraud Initiative.</li> <li>• Internal audit reviewing internal financial controls.</li> <li>• There is an ongoing investigation and members' briefing on contract award issues identified during the year.</li> </ul>	<ul style="list-style-type: none"> <li>• Analytical procedures on expenditure.</li> <li>• Testing of key internal financial controls.</li> <li>• Detailed testing of transactions focusing on the areas of greatest risk.</li> <li>• Review the council's involvement in the National Fraud Initiative.</li> <li>• Review the outcome from the council's ongoing investigation of contract award issues.</li> </ul>
<p><b>4 Risk of material misstatement caused by estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Valuations and impairment review of non-current assets by professional valuer in line with 5 year rolling programme.</li> <li>• Actuarial valuation to provide pension figures for the financial statements and officer review of actuary information to ensure data and assumptions used are reasonable.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the work of an expert in accordance with ISA 620. This will apply to the work of the actuary and the property valuer.</li> <li>• Focused testing of non-current assets, pensions and provisions.</li> </ul>

	Audit Risk	Management assurance	Planned audit work
		<ul style="list-style-type: none"> <li>Confirmation from legal services of all potential legal cases, together with an assessment of potential liability and likelihood of settlement.</li> </ul>	
5	<p><b>Risk of material misstatement caused by accounting for group entities</b></p> <p>The council's group accounts bring together the council's interests in entities which would be regarded as subsidiaries, associates and joint ventures. The council's relationships with organisations need to be reviewed annually to identify the group boundary for the accounts. Officers recognise that it will need to reconsider its treatment of various group entities including: Tay Cities Region Joint Committee; Michelin Scotland Innovation Parc, Waterfront Joint Venture.</p>	<ul style="list-style-type: none"> <li>Review of group entities relationships with the council to ensure the accounting treatment is appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the council's consideration of related parties to ensure all group entities are appropriately recognised.</li> <li>Review of accounting basis for preparation of the group accounts.</li> </ul>
6	<p><b>Risk of material misstatement caused by accounting adjustments arising from loan debt reprofiling</b></p> <p>The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The regulations have changed the basis on which the loans fund is accounted. The change moves from a prescriptive basis on how repayment values are to be calculated to a prudent one, with each local authority now provided with the ability to determine what is prudent. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>An independent review of the council's loans portfolio by Link Asset Services was undertaken.</li> <li>The Policy &amp; Resources Committee agreed in September 2019 to amend the loans fund repayment policy from 2019/20 onwards.</li> </ul>	<ul style="list-style-type: none"> <li>Review debt reprofiling to ensure compliance with regulations, financial sustainability and compliance with the council's treasury management strategy.</li> <li>Focused testing of loans fund accounting undertaken in 2019/20.</li> </ul>
7	<p><b>Risk of material misstatement caused by accounting for service concession assets</b></p> <p>A service concession arrangement is an arrangement whereby the council contracts with a private operator to develop, operate and maintain an asset. A significant service concession arrangement exists in relation to the new waste plant at Baldovie, which is currently under</p>	<ul style="list-style-type: none"> <li>Treatment of asset/liability agreed.</li> <li>Valuation of asset to be established through discussions with contractor.</li> </ul>	<ul style="list-style-type: none"> <li>Review of service concession model and disclosures in the accounts including asset valuation and liability.</li> </ul>

 <b>Audit Risk</b>	<b>Management assurance</b>	<b>Planned audit work</b>
<p>construction. There is a risk that this arrangement is not appropriately recognised in the financial statements.</p>		
<p><b>8 Risk of material misstatement of trust accounts caused by inaccurate accounting for tangible non-current assets</b></p> <p>Our 2018/19 Annual Audit Report highlighted that depreciation was not calculated on non-current assets in Dundee City Council Charitable Trust's accounts. This omission represents a risk of misstatement in the trust's financial statements.</p>	<ul style="list-style-type: none"> <li>The 2019/20 trust accounts are to include depreciation on non-current assets where relevant.</li> </ul>	<ul style="list-style-type: none"> <li>Focused testing of non-current assets within trust accounts.</li> </ul>
<b>Wider dimension risks</b>		
<p><b>9 Financial sustainability and management</b></p> <p>As reported in the council's long term strategy in June 2019, savings and efficiencies of £17.3 million may be required for 2020/21, with a cumulative 10 year funding gap of £78.1 million to 2030.</p> <p>The council is facing the prospect of having to make significant budget savings. The council has a relatively low level of usable reserves in comparison with other authorities and continues to face increasing demands. There is a risk that the council is unable to deliver the efficiencies required to balance its budget whilst meeting its strategic priorities.</p>	<ul style="list-style-type: none"> <li>Members considered the long-term financial outlook and financial strategy for 2020-2030 with annual update planned for Autumn 2020.</li> <li>3 year provisional budget and reserves policy agreed as part of the budget setting process.</li> <li>Regular financial monitoring reports presented to Members.</li> <li>Using CIPFA's Financial Management Code to assist the council in demonstrating financial sustainability.</li> <li>Changing for the future programme – C2022 approved and progress regularly monitored.</li> <li>Internal audit reviewing transformational change in 2019/20.</li> <li>Ongoing preparation for the impact of Brexit.</li> </ul>	<ul style="list-style-type: none"> <li>Review the council's process for monitoring the transformation programme progress.</li> <li>Review financial monitoring reports and the financial position.</li> <li>To be considered as part of the Best Value Assurance Report.</li> </ul>
<p><b>10 Local government settlement</b></p> <p>The Local Government settlement was announced on 6 February 2020 but the UK budget was not announced until 11 March 2020. The council was required to agree its budget in advance of the UK budget announcement.</p>	<ul style="list-style-type: none"> <li>Scottish Government provisional settlement announced on 6 February 2020.</li> <li>Council's budget set on 5 March 2020.</li> <li>Westminster budget set 11 March 2020.</li> <li>Officers will provide members with further</li> </ul>	<ul style="list-style-type: none"> <li>Review of the council's 2020/21 budget setting arrangements.</li> </ul>

 <b>Audit Risk</b>	<b>Management assurance</b>	<b>Planned audit work</b>
<p>The timing of budget setting for the UK has led to increased uncertainty for councils in setting their 2020/21 budgets and council tax.</p> <p>There is a risk that the council's budget did not reflect the final settlement, and further in-year savings may need to be made.</p>	<p>updates on the budget settlement as required.</p> <ul style="list-style-type: none"> <li>Regular financial monitoring reports presented to Members.</li> </ul>	
<p><b>11 Leadership and governance – Drugs Commission findings and mental health services</b></p> <p>A Drugs Commission investigation in to the causes and consequences of drug deaths and a recent independent inquiry into mental health services in Tayside, both identified significant failings in leadership and governance arrangements. These included organisational and cultural barriers that must be addressed to deliver the co-ordinated multi-agency approach required to make a meaningful difference to the people of Dundee. The council is committed to working on a partnership solution to improve services.</p>	<ul style="list-style-type: none"> <li>In January 2020, the council endorsed a 'Dundee Alcohol and Drug Partnership Action Plan for Change' to address the issues identified in the Drugs Commission investigation.</li> <li>A collective statement of intent has been made by Tayside Executive Partners on the mental health enquiry.</li> </ul>	<ul style="list-style-type: none"> <li>Review progress on improvement actions.</li> <li>To be considered as part of the Best Value Assurance Report.</li> </ul>
<p><b>12 Performance management</b></p> <p>Our 2018/19 Annual Audit Report highlighted that improvements are still being made to the council's performance management framework and it is too early to assess the impact of the new framework on the outcome for customers and citizens.</p> <p>Until the framework and system are fully operational there is a risk that the elected members cannot effectively scrutinise and take informed decisions on the allocation of resources and the prioritisation of improvement actions in services.</p>	<ul style="list-style-type: none"> <li>Developing the service planning arrangements to link to the risk management and performance management frameworks.</li> <li>Review framework to ensure it is prioritising improvement in key areas.</li> <li>Six monthly reporting on performance introduced from November 2019 to allow member scrutiny.</li> <li>Internal audit are carrying out a follow up review of the Pentana system.</li> </ul>	<ul style="list-style-type: none"> <li>Review progress with performance reporting.</li> <li>To be considered as part of the Best Value Assurance Report.</li> </ul>
<p><b>13 Members' training records</b></p> <p>Our 2018/19 Annual Audit Report highlighted that elected members' training records are not comprehensive. Comprehensive records of elected members' attendance at training events</p>	<ul style="list-style-type: none"> <li>Record attendance by members at training / briefings, and the implementation of Personal Development Plans for members.</li> </ul>	<ul style="list-style-type: none"> <li>To be considered as part of the Best Value Assurance Report.</li> </ul>



 <b>Audit Risk</b>	<b>Management assurance</b>	<b>Planned audit work</b>
<p>would help the council to assess the effectiveness of their member development programme and would help to ensure scrutiny is carried out to the highest standard.</p>		
<p><b>14 Internal Audit</b></p> <p>The internal audit progress report to Scrutiny Committee in February 2020 highlighted slippage in the internal audit programme for 2019/20. The internal audit plans are to be reviewed and reconsidered by members at the next scrutiny committee.</p> <p>Where planned assurances are not obtained during the year this presents a risk to providing the necessary assurances management and members require for the Annual Governance Statement.</p>	<ul style="list-style-type: none"> <li>Review of the 2019/20 internal audit plan, to confirm ongoing relevance of the individual assignments.</li> <li>Regular progress reports against plans provided to the Scrutiny Committee.</li> <li>Internal audit's annual report to provide assurance on the council's governance arrangements, including risk management and internal controls.</li> </ul>	<ul style="list-style-type: none"> <li>Review progress against plans to ensure this is appropriately reflected in the assurances provided in the Annual Governance Statement.</li> </ul>
<p><b>15 Unsupported software</b></p> <p>Several IT systems operated by the council are now unsupported by the supplier. If any vulnerabilities are found in the unsupported software, no patches will be provided by the software manufacture. There is a risk to the security and sustainability of these systems.</p>	<ul style="list-style-type: none"> <li>Currently in the process of replacing these systems.</li> </ul>	<ul style="list-style-type: none"> <li>Review progress in replacing the current unsupported systems.</li> </ul>
<p><b>16 IT – business continuity</b></p> <p>Some IT systems are currently held solely on one of the two data centres. Parts of the key financial systems are replicated across both centres, and we acknowledge that the council is actively working to replicate other areas. However, until resolution, there remains a risk of service disruption should one of the data centres become unavailable.</p>	<ul style="list-style-type: none"> <li>Move to new data centre planned for May 2020.</li> <li>Replication of systems on the two data centres.</li> </ul>	<ul style="list-style-type: none"> <li>Review progress in replication of systems on both data centres.</li> </ul>

Source: Audit Scotland

## Grant claims and returns

**6.** The council is required to make various grant claims and returns to UK or Scottish Government departments. Such claims and returns require to be audited prior to submission. We will perform testing and provide audit certificates in accordance with guidance issued by Audit Scotland. We have planned for the following claims and returns for 2019/20:

- housing benefit subsidy claim
- non-domestic rates income return
- education maintenance allowances return
- whole of government accounts return.

7. Where unexpected claims or returns are received, or supporting working papers are not adequate, a supplementary fee may be requested.

## Reporting arrangements

8. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk). As noted at paragraph 5 the UK response to COVID-19 could change the scope and timing of all audit outputs.

9. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

10. We will provide an independent auditor's report to the council and Accounts Commission setting out our opinions on the annual accounts. We will provide the council and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	14 April 2020	To be determined
Management Report	4 June 2020	24 June 2020
Proposed Annual Audit Report including ISA 260 requirements*	16 September 2020	23 September 2020
Signed Independent Auditor's Report	23 September 2020	23 September 2020
Best Value Assurance Report	24 September 2020	9 December 2020

\* This date is the date the proposed Annual Audit Report will be presented for those charged with governance. To allow for potential subsequent post balance sheet events, the formal Annual Audit Report cannot be presented until after the date of certification of the annual accounts on 23 September 2020..

Source: Audit Scotland

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## The audit of trusts registered as Scottish charities

11. Members of the council are sole trustees for a number of trusts, registered as Scottish charities, with total assets of some £5.9 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

**12.** The Charities Accounts (Scotland) Regulations 2006 require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for the three sets of charity accounts.

**13.** Based on our discussions with staff and initial planning work we have identified a risk relating to the depreciation of assets held by the charities. Management are undertaking a review of this area in 2019/20 with a view to ensuring the correct accounting treatment is followed. We will review the charities accounting treatment for depreciation.

## Audit fee

**14.** The proposed audit fee for the 2019/20 audit of the council is £355,710 (2018/19: £349,000). In determining the audit fee we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 24 June 2020.

**15.** We have also agreed a fee for the audit of the three registered charities of £4,780 (£4,690 in 2018/19).

**16.** The combined fee of £360,490 represents a small increase of £6,800 (1.9%) over the £353,690 fee charged in 2018/19.

**17.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Scrutiny Committee and Executive Director of Corporate Services

**18.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**19.** The audit of the annual accounts does not relieve management or the Scrutiny Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**20.** Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**21.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

**22.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**23.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting (the accounting Code) of the state of affairs of the council and its group and of the income and expenditure of the council and its group for the year
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the accounting Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual accounts

**24.** We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the annual remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**25.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**26.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

27. We calculate materiality at different levels as described below. The calculated materiality values for the council are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the latest audited accounts.	£7.6 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£4.6 million
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.25 million

Source: Audit Scotland

28. We set separate materiality levels for the audits of the charities accounts, as detailed in [Exhibit 4](#) below. Materiality has not been set for the Dundee Trust due to the low level of transactions and the expectation that all trust funds are to be used in 2019/20.

### Exhibit 4 Trust materiality levels

Trust	Planning materiality *	Performance materiality **	Lower performance materiality ***	Reporting threshold
Dundee City Council Charitable Trusts	£116,000	£87,000	£700	£6,000
Lord Provost Charity Fund	£1,000	£700	£100	£100

\* planning materiality based on 2% of the 2018/19 audited net asset value

\*\* higher performance materiality based on 2018/19 audited net asset value.

\*\*\* lower performance materiality based on 2018/19 gross revenue expenditure



Source: Audit Scotland

### Timetable

29. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included a timetable agreed with the council at Exhibit 5. However as noted at paragraph 5, this will need to be revisited with the council to reflect any impact of COVID-19 on the accounts production and subsequent audit.

## Exhibit 5

### Annual accounts timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	24 June 2020
Latest submission date of unaudited annual accounts with complete working papers package	24 June 2020
Latest date for final clearance meeting with officers	4 September 2020
Issue of letter of representation and proposed independent auditor's report	10 September 2020
Agreement of audited unsigned annual accounts	11 September 2020
Issue of proposed Annual Audit Report including ISA 260 report to those charged with governance	16 September 2020
Independent auditor's report signed	23 September 2020
Latest date for signing of whole of government accounts return	30 September 2020

### Internal audit

**30.** Internal audit is delivered utilising a mix of in-house and external resources, overseen by the council's Senior Manager - Internal Audit. The external resources are provided by KPMG who were approved as the council's co-sourcing partner for the delivery of internal audit services with effect from November 2017. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**31.** Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place.

**32.** In line with the requirements of PSIAS, internal audit has a Quality Assurance and Improvement Programme (QA&IP) in place. An update on progress with the QA&IP Action Plan was presented to the Scrutiny Committee in June 2019 and included a small number of improvement actions that were ongoing, including:

- developing the internal audit performance management and monitoring framework for the service to feed into the Corporate Finance Service Scorecard

- developing the use of assurance mapping.

**33.** Subject to the completion of the improvement actions, we have concluded that internal audit complies with the requirements of the PSIAS.

### Using the work of internal audit

**34.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

**35.** We do not plan to place reliance on the work of internal audit for our financial statements work, however we plan to consider internal audit's reports to support our wider dimension audit responsibilities.

### Audit dimensions

**36.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#).

## Exhibit 6 Audit dimensions



Source: Code of Audit Practice

**37.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

### Financial sustainability

**38.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions
- monitoring the arrangements put in place by the council to minimise any disruption occasioned by the UK's withdrawal from the European Union.

### **Financial management**

**39.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment is operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance information
- how the council has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

### **Governance and transparency**

**40.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as Arms' Length External Organisations (ALEOs))
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### **Value for money**

**41.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the council can demonstrate :

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

### **Best Value**

**42.** The audit of the council's Best Value arrangements is integrated into the wider scope annual audit, which will influence audit planning and reporting. Best Value is being assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value are being reported through:

- the Annual Audit Report for each council that will provide a rounded picture of the council overall



- an annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five-year period.

**43.** Work to produce a Best Value Assurance Report on the council is ongoing as part of this year's audit. The report will comment on the council's strategic direction, how it is performing and using its resources, and how well it works with its partners. It will also report an overall judgement on the pace, depth and continuity of improvement at the council since the previous Best Value report which was published in 2010. The report will focus on:

- how effectively the council's self assessment framework drives continuous improvement in service priorities
- how the council plans its use of resources to support the delivery of its priorities, including service planning, financial planning, asset management and workforce planning
- how the council delivers services through partnership and collaborative working, including progress in tackling specific challenges such as poverty, drug misuse and fairness
- public engagement and responsiveness and how this impacts on the council's priorities and activities
- how well the council has responded to the requirements of the Community Empowerment Act and the arrangements put in place to encourage and support community participation
- a review of the council's assessment of its outcomes/performance, as reported to elected members and through public performance reporting.

**44.** Throughout our work we will consider the extent to which the cross cutting Best Value principles of Fairness & Equality, and Sustainability are embedded within the operation of the organisation. The results of this work will be reported in the Best Value Assurance Report, currently scheduled to be published on 24 September 2020.

**45.** The seven councils on which a BVAR is currently scheduled to be published during 2020 are listed in [Exhibit 7](#).

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## Exhibit 7

### 2019/20 Best Value Assurance Reports



Aberdeenshire Council

Argyle and Bute Council

City of Edinburgh Council

North Ayrshire Council

Dundee City Council

Falkirk Council

Moray Council

## Independence and objectivity

**46.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**47.** The engagement lead (i.e. appointed auditor) for the council is Fiona Mitchell-Knight, Audit Director. The engagement lead for the charitable trusts is Bruce Crosbie, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the council or the charitable trusts.

## Quality control

**48.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**49.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**50.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Dundee City Council

## Annual Audit Plan 2019/20

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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