

# Dundee City Council

2019/20 Annual Audit Report

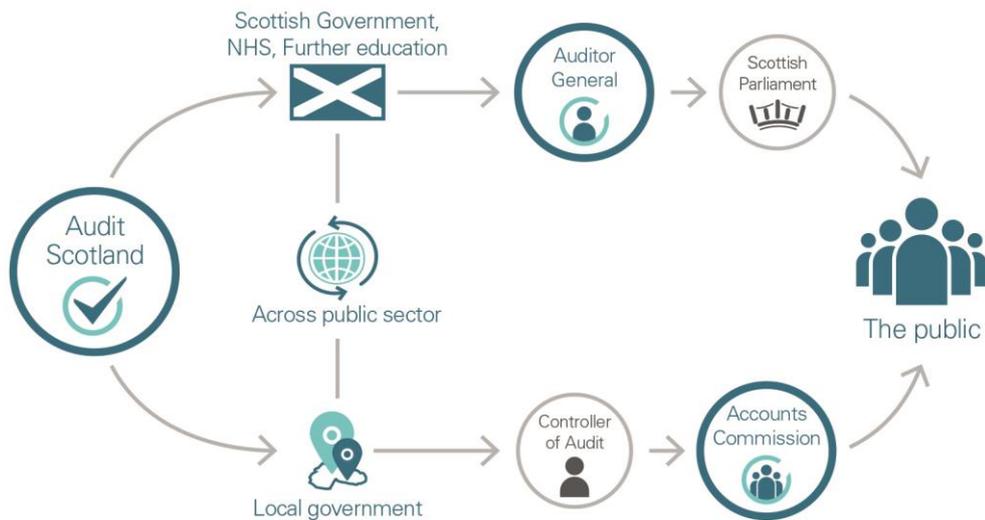


Prepared for the Members of Dundee City Council and the Controller of Audit  
20 November 2020

## 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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# Key messages

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## Best Value

- 1 The [Best Value Assurance Report](#) (BVAR) on Dundee City Council was published in September 2020. The BVAR concludes that the council has demonstrated a steady pace of improvement since the last Best Value Audit in 2010.
- 2 The council demonstrates improving services, effective leadership, an ambitious vision and a clear focus on continuous improvement. Despite progress, Dundee continues to face severe challenges and the council recognises the pace of improvement needs to accelerate if some priorities are to be delivered.
- 3 The council needs to ensure that it has the capacity and skills to deliver its aspirations, and its improvements may need to be prioritised.
- 4 The BVAR was considered by the Council on 16 November 2020, together with an action plan in response to the improvement recommendations. Next year's Annual Audit Report will include an update on the progress made by the Council in response to the BVAR.
- 5 The global coronavirus pandemic, Covid-19, impacted on the final month of the 2019/20 financial year. The impact on the council's services will be reported as part of the 2020/21 audit.

## 2019/20 annual accounts

- 6 The financial statements of Dundee City Council and its group give a true and fair view of the financial position for the year ended 31 March 2020.
- 7 The council has valued its assets on an appropriate basis. The audit opinion includes an emphasis of matter paragraph to draw attention to the council's disclosure of material uncertainty in the valuation of the council's property assets due to the impact of Covid-19 on global markets.
- 8 The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.
- 9 The statement of accounts of the three section 106 charities administered by the council are free from material misstatement. The audit opinion of the Dundee City Council Charitable Trusts includes a similar emphasis of matter paragraph to that referred to at 7 above.
- 10 Covid-19 led to delays in the auditing timetable for 2019/20 annual accounts. Submission of the audited annual accounts is in line with revised government timescales.

## Financial management

- 11 Financial management is effective with a budget process focussed on the council's priorities.
- 12 Overall, the council delivered services within its annual budget.

**13** Systems of internal control operated effectively in 2019/20.

## Financial sustainability

**14** The council has made good progress in financial planning with the approval of a long-term financial strategy in 2019.

**15** Future financial plans are challenging with a cumulative funding gap of £32 million projected by the end of 2022/23 and a longer-term funding gap of £78 million by 2029/30.

**16** Since March 2020, Covid-19 has had significant implications for the council's services and on the costs of service provision. The council has approved a financial recovery plan to mitigate the effect of Covid-19 but further review of spending levels to more closely align with funding available is to be undertaken by the council. Financial plans will need to be updated to reflect the significant impact of Covid-19.

**17** Delivery of the Changing for the Future transformation programme (C2022) will be critical to bridging the medium and long-term funding gaps and improving the council's services.

## Governance and transparency

**18** The council had appropriate and effective governance arrangements in place during the year. The arrangements changed in March 2020, to reflect the challenges of delivering services during the Covid-19 pandemic.

**19** Committee meetings were reintroduced in August 2020 in a virtual format, with meetings recorded and uploaded to the council's website to provide transparency.

**20** The revised arrangements are described in the annual governance statement.

**21** The council conducts its business in an open and transparent manner.

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# Introduction

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1. This report summarises the findings arising from the 2019/20 audit of Dundee City Council (the council) and its group.
2. The scope of the audit was set out in our 2019/20 Annual Audit Plan which was presented to management on 14 April 2020. The Annual Audit Plan was considered by members, on 5 June 2020, under interim governance arrangements put in place as a result of Covid-19 (and noted at a virtual meeting of the Scrutiny Committee on 23 September 2020).
3. This report comprises the findings from:
  - an audit of the council and its group annual report and accounts and the statement of accounts of the three section 106 charities administered by the council including the issue of independent auditor's reports setting out our opinions
  - a review of the council's key financial systems
  - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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4. In September 2020, the Dundee City Council Best Value Assurance Report (BVAR) was published. We summarise the findings of the BVAR in this report but do not duplicate its findings.

**5.** In common with all public bodies, the council has had to respond to the global coronavirus pandemic, Covid-19. This impacted on the final month of the year and will continue to have significant impact into financial year 2020/21. This has had implications on the services it delivers, sickness absence, and the planned progress of some projects and activities. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit. The audit of the accounts was carried out remotely.

## Adding value through the audit

**6.** We add value to the council through the audit by

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

**7.** In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

**8.** The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

**9.** The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

**10.** Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

**11.** As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements
- the suitability and effectiveness of corporate governance arrangements and financial position
- the arrangements for securing financial sustainability
- Best Value arrangements.

**12.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#). and supplementary guidance.

**13.** This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified 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 from its

responsibility to address the issues we raise and to maintain adequate systems of control.

**14.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them. A number of audit recommendations were also reported in the BVAR. These have not been duplicated here. The council's improvement plan to be agreed in response to the BVAR will be monitored and an update reported in the 2020/21 annual audit report.

## Auditor Independence

**15.** 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £360,490 as set out in our Annual Audit Plan remains unchanged (including £4,780 for the audit of the three registered charities). We are not aware of any relationships that could compromise our objectivity and independence.

**16.** This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

## Extension of Auditor Appointment

**17.** Auditors appointed under statute by the Accounts Commission are engaged for a five-year period. The current audit engagement was due to end after the conclusion of the 2020/21 audit. Normally at the end of each five-year period a new auditor is appointed, either Audit Scotland or a private sector accountancy firm.

**18.** Covid-19 will have implications beyond the immediate challenge of this year's final accounts. As this year's audits will be reported later than normal, planning for and potentially reporting next year's annual audit work will also be affected. In October 2020 the Accounts Commission approved the extension of current audit appointments for a year to include the 2021/22 audit year. This decision reflects the need for stability and continuity given the longer-term impact of Covid-19 on audited bodies and the difficulty of running the necessary audit procurement exercise during the pandemic. Similar extensions are effective for the council's associated bodies, for example Tayside Valuation Joint Board.

# Part 1

## Audit of 2019/20 annual accounts



### Main judgements

The financial statements of Dundee City Council and its group give a true and fair view of the financial position for the year ended 31 March 2020.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

The council has valued its assets on an appropriate basis. The audit opinion includes an emphasis of matter paragraph to draw attention to the council's disclosure of material uncertainty in the valuation of the council's property assets due to the impact of Covid-19 on global markets.

The statement of accounts of the three section 106 charities administered by the council are free from material misstatement. The audit opinion of the Dundee City Council Charitable Trusts includes a similar emphasis of matter paragraph to that referred to above.

The annual accounts were signed off in line with the revised timescales permitted to reflect Covid-19.

The annual accounts are the principal means of accounting for the stewardship of resources and performance.

### Our audit opinions on the annual accounts are unmodified

**19.** The annual accounts for the council and its group for the year ended 31 March 2020 were approved by the Scrutiny Committee at a special meeting on 18 November 2020. We reported within the independent auditor's report that the:

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

**20.** We have nothing to report in respect of misstatements in the 'information other than the financial statements', the adequacy of accounting records and the adequacy of information and explanations we received.

**21.** The council has valued its assets on an appropriate basis and using information provided by professional valuers. The audit opinion includes an emphasis of matter paragraph to draw attention to the council's disclosure of material uncertainty in the valuation of the its property assets due to the impact of Covid-19 on global markets.

## The annual accounts were signed off in line with the revised timescales permitted to reflect Covid-19

**22.** The Scottish Government Local Government Finance Circular 10/2020 confirmed that the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 allow for the completion and audit of the Annual Accounts to be postponed to no later than 30 November 2020.

**23.** We received the unaudited annual accounts on 25 June 2020, in line with the original audit timetable set out in our 2019/20 Annual Audit Plan. The working papers provided with the unaudited accounts were of a good standard.

**24.** Covid-19 had an impact on the availability of audit staff in this period. Remote working meant that audit tasks took longer than usual as the audit team were unable to access staff, records and systems as readily as when physical access was available. The audit team agreed with the council that the completion of the audit would be delayed as a result.

**25.** Although later than first planned, the conclusion of the audit and the approval of the accounts was in line with the revised timetable permitted by the Scottish Government.

## Overall materiality for the accounts is £7.55 million

**26.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

**27.** Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively, in forming our opinions on the financial statements.

**28.** On receipt of the annual report and accounts we reviewed our materiality calculations. Our final materiality levels are summarised at [Exhibit 2](#).

## Exhibit 2 Materiality values

| Materiality level  | Amount        |
|--|---------------|
| <b>Overall materiality</b> – This is the calculated figure used in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2020.  | £7.55 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 overall materiality. | £4.53 million |
| <b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. We consider that an appropriate figure of interest to elected members would be £250,000.  | £250,000      |

**29.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**30.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2019/20 Annual Audit Plan.

### Significant findings from the audit of the accounts are reported in Exhibit 3

**31.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**32.** The qualitative aspects of the council's accounting practices, accounting policies, accounting estimates and financial statements disclosures are satisfactory and appropriate to the council.

**33.** The significant findings are summarised in [Exhibit 3](#).

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## Exhibit 3

### Significant findings from the audit of the financial statements

| Finding  | Resolution   |
|--|--|
| <p><b>1. Use of reserves</b></p> <p>An earmarked portion of the general fund is for second home discounts. Of this balance, £0.45m has been used in year and included in capital grant and receipts in the financial statements. This balance should be disclosed in the Movement In Reserves Statement (MIRS) as a transfer of balances from the reserve.</p> | <p>The audited accounts have been amended. The amendment goes through the MIRS and has no impact on the general fund balance.</p>  |
| <p><b>2. Financing arrangement (Dundee House)</b></p> <p>The council's calculation of the financing arrangement payment for Dundee House originally recognised the full payment £0.58 million in 2019/20 as interest. This had to be revised to split the payment between the financing arrangement principal repayment and interest.</p>                      | <p>The audited accounts have been amended. The impact of this amendment is to reduce net expenditure and increase net assets by £0.26 million. The amendment goes through the MIRS and therefore there is no impact on the General Fund balance.</p> |

Source: Audit Scotland

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### Misstatements were identified during the audit and were adjusted by management

**34.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

**35.** There were a number of adjustments to the unaudited financial statements identified during our audit and these were adjusted by management. The net impact of these adjustments was to reduce net expenditure and increase net assets and unusable reserves by £0.26 million. We have concluded that the

misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

## Our audit opinions on Section 106 charities were unmodified

**36.** 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 where elected members of Dundee City Council are sole trustees, irrespective of the size of the charity.

**37.** The council administers three charities registered under section 106, Dundee City Council Charitable Trusts, the Dundee Trust and the Lord Provost of Dundee Charity Fund, all of which are prepared on a receipts and payment basis. The basis for the Dundee City Council Charitable Trusts has changed from an accrual basis as the charity falls below the threshold for reporting on an accruals basis.

**38.** We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in the independent auditor's reports that:

- the financial statements properly present, each section 106 charity's financial position and are properly prepared in accordance with charities legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

**39.** The Dundee City Council Charitable Trusts has valued its assets on an appropriate basis and using information provided by professional valuers. The audit opinion of the Dundee City Council Charitable Trusts includes an emphasis of matter paragraph to draw attention to the Trust's disclosure of material uncertainty in the valuation of its property assets due to the impact of Covid-19 on global markets.

**40.** We set separate materiality levels for the audits of the charities' accounts. On receipt of the charities' accounts we reviewed our materiality calculations. Materiality was not set for the Dundee Trust as only one transaction was made in 2019/20, which fully utilised the fund.

**41.** Our final materiality levels are summarised in [Exhibit 4](#) below

## Exhibit 4

### Trust materiality levels

| Trust                                 | Planning materiality * | Performance materiality ** | Lower performance materiality *** | Reporting threshold |
|---------------------------------------|------------------------|----------------------------|-----------------------------------|---------------------|
| Dundee City Council Charitable Trusts | £18,000                | £13,500                    | £700                              | £900                |
| Lord Provost Charity Fund             | £900                   | £650                       | £100                              | £100                |

\* planning materiality based on 2% of the net asset value

\*\* higher performance materiality based on net asset value

\*\*\* lower performance materiality based on gross revenue expenditure

42. Significant findings from our audit of the three section 106 Charitable Trusts are summarised in [Exhibit 5](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

## Exhibit 5

### Significant findings from the audit of the section 106 Charitable Trusts financial statements

| Issue  | Resolution  |
|--|---|
| <p><b>1. Receipts &amp; Payments basis (Dundee City Council Charitable Trusts)</b></p> <p>Dundee City Council Charitable Trusts unaudited accounts were initially presented on an accrual's basis in June 2020. Following the audit, the trustees have revised the basis on which the accounts are prepared to a receipts and payments basis.</p> <p>The trustees have noted that income on the charitable trusts is below the £250k threshold for fully accrued accounts and they are not aware of any other legal or procedural impediment to reverting to receipts and payments accounts.</p> | <p>For information - the audited accounts have been amended and are now prepared on a receipts and payments basis.</p>  |
| <p><b>2. Grant authorisation (Lord Provost of Dundee Charity Fund)</b></p> <p>The authorisation for the payment of grants for this trust can be on a verbal basis, therefore documentation did not always reflect these authorisations prior to payment. A formal process should be instigated to ensure all authorisations are adequately documented.</p>   | <p>For information - Management has agreed to implement a formal process.</p> <p> Recommendation 1 (refer <a href="#">appendix 1</a>, action plan)</p> |

Source: Audit Scotland

### No objections to the 2019/20 accounts were received

43. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations. There were no objections to the accounts.

### Whole of Government Accounts will be submitted to the Scottish Government by the revised deadline

44. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted its consolidation pack for audit on 24 September 2020. We will complete the audit of the return and submit it to the Scottish Government by the revised due date of 4 December 2020.

### Good progress was made on prior year recommendations

45. The council has made good progress in implementing our 4 prior year audit recommendations. Progress is set out in [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

**Financial management is effective with a budget process focussed on the council's priorities.**

**Overall, the council has delivered services within budget in 2019/20, an underspend of £3 million is reported on services.**

**Systems of internal control operated effectively in 2019/20. There were a small number of areas where controls could be strengthened.**

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

### Financial management is effective. The council operated within its budget in 2019/20

**46.** The BVAR concludes that 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.

**47.** In February 2019, the council approved a revenue budget of £353.7 million for 2019/20. The budget was based on a three per cent increase in council tax and included net savings of £17.0 million. The council did not anticipate the use of reserves to fund revenue expenditure in 2019/20.

**48.** The council has a history of delivering services within budget and reported an underspend on services for 2019/20 of £3.0 million.

**49.** City Development has reported overspends against budget in recent years with an overspend of £2.6 million reported for 2019/20. This overspend was partly attributable to the planned rationalisation of property savings not being fully achieved. The other area of significant budget pressure in 2019/20 was due to increased demand for health and social care services across Dundee. This resulted in the council having to contribute an additional £1.0 million to the health and social care partnership during the year.

**50.** The budget overspends during 2019/20 were funded by underspends in other services and savings on corporate budgets, including a reduction in annual debt repayments linked to the reprofiling of the repayment periods for loans fund advances. This was approved by the Policy and Resources Committee in September 2019 and generated savings of £3.0 million for the General Fund in 2019/20.

**51.** As a result of the Covid-19 pandemic in March 2020, the council has reported that it incurred additional net costs of £0.88 million in 2019/20. More significant costs arising from the Covid-19 pandemic will impact on the council from 2020/21.

### **Emergency support to individuals, businesses and suppliers due to Covid-19**

**52.** In August 2020, the Policy and Resources Committee discussed a paper on the Financial Implications of the Council's Response to the Covid-19 Emergency. The paper covers the council's approach to providing financial support for individuals, businesses and key suppliers. It describes specific support provided to Tayside Contracts and Leisure and Culture Dundee (LACD) which are reflected as associates in the council's group accounts.

**53.** Tayside Contracts provides catering, cleaning, roads maintenance, vehicle maintenance and winter maintenance services for Dundee, Angus and Perth & Kinross Councils. Its income has been significantly impacted by the Covid19 emergency. As an interim measure, until their eligibility for support through the Job Retention Scheme is clarified, the three councils agreed to use their existing budgets for catering, cleaning, road maintenance etc to continue to make payment to Tayside Contracts to cover its fixed costs.

**54.** LACD has been significantly affected by the Covid-19 emergency, with all leisure and cultural facilities across the city closed until recently. The council is continuing to pay the monthly management fee to LACD to help support its fixed costs. In addition, council officers are assisting LACD to identify ways in which the organisation's financial resilience can be strengthened and government assistance accessed. A report was considered by the Policy & Resources Committee on 16 November 2020 surrounding the funding arrangements for LACD.

### **The housing revenue account operated within budget in 2019/20**

**55.** 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.

**56.** In January 2019, the Council approved a 3.75% increase in the average weekly rent levels for tenants for 2019/20. The rent level set reflected the income required to fund the revenue budget of £54.2 million.

**57.** The deficit in the net cost of HRA services for 2019/20 was £25.89 million (2018/19 £14.010 million). After statutory adjustments, the HRA reported a surplus for 2019/20 of £1.80 million. This surplus was transferred to the council's Renewal and Repair Fund.

### **The Capital Plan 2020-2025 sets out a £391.2 million investment programme**

**58.** In recent years the council and its partners in the Dundee Partnership have been successful in regenerating and reinvigorating the city centre through projects such as the Dundee Waterfront development, including the V&A Museum of Design Dundee and the new Dundee Railway Station. Progress is also being made in regenerating the wider city through projects such as the newly opened Regional Performance Centre for Sport and the Michelin Innovation Parc joint venture.

**59.** The council's budgeted capital expenditure for 2019/20 was approved at £124.41 million. The actual capital spend for 2019/20 was a substantially lower sum of £73.74 million. The council acknowledges that slippage in some projects has occurred together with an element of 'over-programming' expenditure in the original budget.

**60.** The council's Capital Plan 2020-2025 was approved in February 2020. The plan details a £375.01 million programme of work split between £260 million of

general fund projects and £115 million of housing revenue account projects. The programme was front loaded with £107.278 million planned for 2020/21 and £267.73 million for the remaining 4 years. An updated Capital Plan 2020-25 was approved on 28 September 2020 increasing the five year capital expenditure programme to £391.21 million, with £90.19 million programmed for 2020-21.

**61.** The BVAR recommends that improvements are made in the appraisal of capital projects to ensure the projects which will make the greatest contribution to the City Plan are prioritised. Post project evaluations should also be carried out for all projects to share good practice and monitor the delivery of intended benefits. In his report to the Policy & Resources Committee on the Updated Capital Plan, the Executive Director of Corporate Services has committed to reviewing the methodology and techniques used for options appraisals and evaluation of capital projects.

### **Workforce planning**

**62.** The BVAR comments on the council's workforce planning arrangements. The council recognises that the Our People and Workforce Strategy 2019-22 needs to be supplemented with detailed workforce plans for each service. These are needed to demonstrate that the council has the skills and capacity required to deliver its priorities.

### **Financial systems of internal control operated effectively**

**63.** As part of our audit we identify and assess the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**64.** Our findings were included in our management letter that was presented to the Scrutiny Committee on 23 September 2020. We concluded that internal controls are operating as specified and that there were no issues which would impact on our audit approach. A small number of areas have been identified however, where a control could be strengthened. Management has agreed actions to strengthen these areas.

# Part 3

## Financial sustainability



### Main judgements

The council has made good progress in financial planning with the introduction of a long-term financial strategy.

Future financial plans are challenging with a cumulative funding gap of £32 million projected by the end of 2022/23 and a longer-term funding gap of £78 million by 2029/30.

The council has approved a financial recovery plan to mitigate the effect of Covid-19 but further review of spending levels to more closely align with funding available is to be undertaken by the council. Financial plans will need to be updated to reflect the significant impact of Covid-19.

Delivery of the Changing for the Future 2022 transformation programme (C2022) will be critical to bridging the medium and long-term funding gaps and improving the council's services.

Financial sustainability looks forward to the medium and long term to consider whether the council is planning effectively to continue to deliver its services or the way in which they should be delivered.

### The BVAR covered the council's financial position beyond 2019/20

65. The BVAR concluded that:

- the council has made good progress in financial planning with the introduction of a long-term financial strategy
- the approved 2020/21 budget demonstrates the council's commitment to tackling the health and wellbeing challenges facing the city
- the council has protected Children and Families Services budgets where possible when identifying savings plans in recent years
- the council's uncommitted general fund balance is in line with its reserve strategy but is low in comparison to other Scottish local authorities
- future financial plans are challenging with a cumulative funding gap of £32 million projected by the end of 2022/23 and a longer-term funding gap of £78 million by 2029/30
- delivery of the C2022 transformation programme will be critical to bridging the medium and long-term funding gaps and improving the council's services
- the Dundee City Integration Joint Board has yet to demonstrate how it will deliver sustainable health and social care services in the future

- the Capital Plan 2020-2025 sets out a £375 million investment programme
- improvements are required in the appraisal of capital projects to ensure the projects which will make the greatest contribution to the City Plan are prioritised.

### **The financial impact of the Covid-19 pandemic will be significant and the council's financial plans will need to be updated to reflect its impact**

**66.** A report on the financial implications of the council's response to the Covid-19 emergency (update and recovery plan) was presented to the Policy and Resources Committee on 24 August 2020. The report noted that the latest financial projections show gross additional costs of £32.7 million for 2020/21 for Covid-19. After taking into account confirmed additional government funding streams, the projected funding shortfall for 2020/21 is £19.6 million.

**67.** The council's financial recovery plan contains various measures aimed at mitigating these increased costs. The financial recovery plan currently totals £16.5 million, leaving a projected deficit of £3.1 million for 2020/21. Further reports are to be presented to elected members to advise of progress in aligning 2020/21 spend levels more closely with the funding available to protect the Council's financial sustainability going forward.

**68.** The Scottish Government Cabinet Secretary for Finance recently wrote to CoSLA indicating that the Chief Secretary to the Treasury had agreed some "flexibilities" to mitigate the immediate financial impact on Scottish councils. Further details are to be brought forward in the form of statutory guidance and a change to statutory regulations, but councils can now plan on the basis that the following flexibilities will be available:

- capital receipts may be used to finance Covid-19 revenue expenditure
- councils will have the flexibility to amend the accounting treatment of debt included in service concession contracts (for example, public private partnership) contracts, thereby reprofiling charges to services
- a Loans Fund repayment holiday will permit councils to defer loans fund repayments due to repaid in either 2020-21 or 2021-22.

**69.** The Cabinet Secretary also emphasised that the flexibilities should not be seen as an opportunity to maintain or grow reserves. Councils are expected to consider using reserves to meet Covid-19 funding pressures. It is also expected that councils will first consider the additional resources available from capital receipts and the change in accounting arrangements for service concession contracts before taking advantage of a loans fund repayment holiday.

**70.** It is too early to assess with any accuracy what the longer term impact on the council's finances will be, or what additional support may be provided to local authorities to offset these costs.

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## **Recommendation 2**

**The council should continue to assess the financial impact of Covid-19 on its services and update its financial plans to reflect future cost and funding estimates.**

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## **EU Withdrawal**

**71.** There remains significant uncertainty from the UK's withdrawal from the European Union (EU) for public sector bodies. In 2018/19 we reported that the

council is well prepared to address high risks to local services. It is involved in work ongoing both at a national level (e.g. COSLA) or with the third sector and private organisations that provide services in partnership with the council. In 2019/20 these preparations are continuing and our view is that the council has taken reasonable action in relation to the risks associated with EU withdrawal.

# Part 4

## Governance and transparency



### Main Judgements

The council had appropriate and effective governance arrangements in place during the year. The arrangements changed in March 2020, to reflect the challenges of delivering services during the Covid-19 pandemic.

Committee meetings were reintroduced in August 2020 in a virtual format, with meetings recorded and uploaded to the council's website to provide transparency.

The revised governance arrangements are described in the annual governance statement.

The council conducts its business in an open and transparent manner.

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.

### Governance and accountability arrangements were appropriate

**72.** Elected members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. The governance and accountability arrangements we consider include:

- council and committee structure
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption. This includes action in response to the National Fraud Initiative
- openness of council and committees
- reporting of performance and whether this is fair, balanced and understandable

**73.** Aspects of the council's governance and accountability arrangements are reported in the BVAR, including risk management and the digital strategy. We have not repeated our findings in this report.

**74.** Since we completed our BVAR work, the council has approved a Covid-19 Recovery Plan which sets out proposals to develop a multi-agency response to recovery through the Dundee Partnership and the development of a refreshed City Plan. At the same time, the council has also approved a Covid-19 Recovery Risk Register to help manage the risks to recovery and provide a framework for identifying future Covid-19 recovery risks and mitigating actions.

**75.** No significant risks were identified from our review of the governance and accountability arrangements in the council.

### **The Covid-19 pandemic had a significant impact on governance arrangements from March 2020**

**76.** The council made significant changes to its governance arrangements from March 2020 in response to Covid-19, to enable the council to manage the unprecedented nature and scale of the threat to its communities and staff. The changes are set out in the annual governance statement in the Annual Accounts.

**77.** All non-essential committee business was deferred. All essential committee business which is not covered by the Scheme of Delegation of Powers to Officers was dealt with as Urgent Matters Arising Between Meetings by the Chief Executive / relevant Executive Director, in consultation with the nominated Member of the Administration Group, nominated Members of the Labour Group, Conservative Group and Liberal Democrat Group, the Independent Member and the Lord Provost.

**78.** A corporate level Incident Management Team (IMT) was established at the outset to consider the challenges and the Council's responses, including instigating the corporate level business continuity plan, supported by individual project and service level plans.

**79.** Regular briefing meetings were also held with political group leaders to ensure they have been kept up to date with the impact and response to the crisis.

**80.** Committee meetings were reintroduced in August 2020 in a virtual format.

### **The council conducts its business in an open and transparent manner**

**81.** Openness and transparency means that the public have access to understandable, relevant and timely information about how the council is taking decisions and how it is using resources such as money, people and assets.

**82.** While public meetings were temporarily suspended due to Covid-19, the council's commitment to openness and transparency is demonstrated by:

- public availability of committee papers
- since August 2020, 'virtual' committee meetings have been recorded and uploaded to the council's website
- the availability of the annual accounts on the council's website.

### **Internal audit generally complies with PSIAS and has sound documentation standards and reporting practices in place**

**83.** Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

**84.** We reviewed the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. Overall, we concluded that the internal audit service generally complies with PSIAS and has sound documentation standards and reporting practices in place.

**85.** 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 2020 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
- linking the developing assurance mapping template to service risks.

**86.** In our 2019/20 annual audit plan we highlighted that we did not plan to place reliance on the work of internal audit for our financial statements work, however we considered internal audits reports issued to inform our wider scope and Best Value audit work.

**87.** The Internal Auditor's Annual Report was considered by the Scrutiny Committee in June 2020 and highlighted changes and rescheduling to the 2019/20 plan. These were approved by Members utilising the Essential Council Business arrangements. Specific reasons behind these changes varied but generally related to under estimation of assignment days and new assignments not originally in the internal audit plan, as well as the timing of planned reviews being unsuitable. Some assignments were also delayed from March 2020, to assist management capacity in responding to the challenges of Covid-19.

**88.** Internal audit considers the work carried out in 2019/20 is sufficient for them to provide an opinion on the system of internal controls, governance arrangements and risk management arrangements which informs the annual governance statement.

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

**89.** 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 elected members and officers. The council also has an Integrity Group which was set up to improve the council's resilience to crime, fraud and corruption.

**90.** 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. We concluded that overall the council's arrangements are appropriate.

**91.** In September 2019 Internal audit reported on fraud governance in the council. Internal audit concluded that whilst there is basically a sound system of control, there are some areas where improvements can be made. The main recommendations made by internal audit for which improvement actions were agreed are:

- preparation of a fraud risk register recording the key fraud risks. Once the fraud register is prepared, fraud management information should be reported to the council's Integrity Group and senior management on a regular basis
- an update of the corporate fraud and corruption policy
- establishment of a fraud training and awareness plan.

**92.** Since then, a fraud risk register and revised corporate fraud and corruption policy have been drafted and are in the process of being reviewed. The fraud training and awareness plan has been taken forward, in part through the work of a Children & Families Compliance Sub-Group. In addition, the Head of Corporate Finance, as Chair of the Compliance Group, issued generic Control Self-

Assessment (CSA) checklists across the council in October 2020, along with best practice guidance. Once returned, the completed checklists will be reviewed and help to inform where training and awareness may be required. The council's intention is to use the returned CSA checklists and Fraud Risk Register to help inform a risk-based training and awareness plan, which will then be approved by the Integrity Group.

**93.** In 2018/19 we reported on Internal Audit's follow up of progress made in implementing improvements following a significant ICT fraud, covered in a [report](#) by the Controller of Audit. In June 2019 internal audit report concluded that the control environment has been significantly enhanced but there are some areas where further improvements could be made:

- documentation of reconciliations and evidence of senior officer review has not always been retained
- documentation of key systems, processes and accounting pathways has not yet been completed but is being compiled as new systems are introduced.

**94.** An action plan was agreed to implement further improvements and internal audit are due to report on progress made soon. We will monitor the progress as part of next year's audit.

**95.** We are not aware of any specific issues that we need to bring to your attention and we have concluded that appropriate arrangements are in place for the prevention and detection of fraud, error and irregularities.

### **Internal investigations relating to contract award issues**

**96.** Following the receipt of whistleblowing allegations over the award of a contract for electrical work, internal investigations commenced involving the council's Human Resources and Corporate Fraud Team. These have now been concluded.

**97.** The council has been liaising with Police Scotland throughout investigations. A formal report will be taken to the relevant Committee as soon as its possible to do so and we will review the outcome of the investigation in 2020/21.

### **Arrangements in place for investigating and reporting data matches identified by the National Fraud Initiative are satisfactory**

**98.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Audit Scotland coordinate NFI in Scotland. Computerised techniques are used 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.

**99.** The council has processes in place to ensure cases are reviewed timeously. The current NFI review highlighted 175 errors, with overpayments of £135,920 identified as at 8 September 2020.

**100.** We have concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

# Part 5

## Best Value



### Main judgements

In September 2020 the Best Value Assurance Report (BVAR) on Dundee City Council was published. The BVAR concludes that the council has demonstrated a steady pace of improvement since the last Best Value Audit in 2010.

The council demonstrates improving services, effective leadership, an ambitious vision and a clear focus on continuous improvement. Despite progress, Dundee continues to face severe challenges and the council recognises the pace of improvement needs to accelerate if some priorities are to be delivered.

The council needs to ensure that it has the capacity and skills to deliver its aspirations, and its improvements may need to be prioritised.

An action plan in response to the improvement recommendations in the BVAR has been discussed by the Council.

**The Best Value Assurance Report concludes that the council has demonstrated a steady pace of improvement since the last Best Value Audit in 2010.**

**101.** Best Value is concerned with using resources effectively and continually improving services. Best Value is assessed over the audit appointment as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council is considered by the Accounts Commission at least once in this period. The BVAR for Dundee City Council was published by the Accounts Commission in September 2020. Key messages from the BVAR are noted at [Exhibit 6](#).

### Exhibit 6

#### Key messages from the September 2020 BVAR

##### Key messages

1. The council has demonstrated a steady pace of improvement since the last Best Value audit in 2010. The council and its partners have a clear and ambitious vision for Dundee, with the City Plan and the Council Plan showing how they aim to improve life in the city. They understand that the key to this is addressing Dundee's high levels of poverty and inequality.

2. The Leader of the Council and Chief Executive provide effective leadership and officers, and councillors work well together. The Dundee Partnership has been successful in regenerating and reinvigorating the city centre through projects such as the Dundee Waterfront development, including the V&A Museum of Design Dundee and the new Dundee Railway Station. Progress is also being made in regenerating the wider city through projects such as the new Regional Performance Centre for Sport and the Michelin Innovation Parc joint venture.

3. Council services are improving but it recognises the pace of improvement needs to accelerate if some priorities are to be delivered, particularly its aspiration to reduce poverty and inequality.
4. The council demonstrates a clear focus on continuous improvement across its activities. It uses self-assessment effectively, to identify strengths and weaknesses and where improvement is required. However, it has been slow to develop timely reporting of performance information on all council services for councillors.
5. The council has innovative ideas and there is a large volume of improvement activity taking place. The council needs to ensure that it has the capacity and skills to deliver its aspirations, and its improvements may need to be prioritised. Workforce plans need to be progressed for all services to help demonstrate this.
6. In 2019 the Dundee Drugs Commission made recommendations for a new approach to services which aim to reduce drug use and deaths, a significant longstanding challenge in the city.
7. Financial management is effective with budgets focussed on the council's priorities. The council has made good progress in financial planning with the approval of a long-term financial strategy in 2019.
8. Delivery of the council's Changing for the Future transformational change programme (C2022) will be critical to delivering future financial plans. A cumulative funding gap, prior to the Covid-19 impact, of £32 million is projected by the end of 2022/23 with a longer-term funding gap of £78 million by 2029/30.
9. The Dundee Partnership has embraced the requirements of the Community Empowerment Act. Eight Local Community Planning Partnerships deliver local projects to communities. Citizens' views informed how £1.2 million was spent on local projects in 2018/19.
10. The council's self-evaluation against BV characteristics, demonstrates a mature organisation that honestly appraises its own strengths and weaknesses and identifies where improvement is required.

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Source: Audit Scotland BVAR September 2020

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**102.** The BVAR was considered by the Council on 16 November 2020, together with an action plan in response to the improvement recommendations. We will continue to monitor the council's progress against the improvement actions and next year's Annual Audit Report will include an update on the progress made by the Council in response to the BVAR.

### **The council is meeting statutory performance indicators (SPIs) expectations on reporting its performance to the public**

**103.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

**104.** The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments and how it has engaged with and responded to its diverse communities (with its partners where appropriate).

**105.** The BVAR demonstrates that the council is meeting these expectations and concludes that:

- the 'Dundee Performs' section of the council's website provides an easily accessible means for citizens to see how the council performs

- the council uses self-assessment effectively, to identify strengths and weaknesses and where improvement is required
- the council's self-evaluation against BV characteristics, demonstrates a mature organisation that honestly appraises its own strengths and weaknesses and identifies where improvement is required.

### **National performance audit reports**

**106.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published a number of reports which may be of interest to the body. These are outlined in [Appendix 3](#). National reports are reviewed by officers and taken for councillors' consideration where appropriate.

# Appendix 1

## Action plan 2019/20



| No. | Issue/risk  | Recommendation  | Agreed management action/timing   |
|-----|---|---|---|
| 1   | <p><b>Grant authorisation (Lord Provost of Dundee Charity Fund)</b></p> <p>The authorisation for the payment of grants for this trust can be on a verbal basis therefore documentation did not always reflect these authorisations prior to payment.</p> <p><b>Risk:</b> payments could be made without appropriate authorisation.</p>  | <p>A formal process should be instigated to ensure all authorisations are adequately documented.</p> <p><a href="#">Paragraph 42</a></p>  | <p>Actions will be implemented to ensure that all authorisations are adequately documented going forward.</p> <p>Responsible officer:<br/>Executive Director of Corporate Services.</p> <p>Agreed date: Immediate.</p>  |
| 2   | <p><b>Cost of Covid-19</b></p> <p>The council's latest financial projections show gross additional Covid-19 costs of £32.7 million for 2020/21. After taking into account confirmed additional government funding streams, the projected funding shortfall for 2020/21 is £19.6 million.</p> <p><b>Risk:</b> the council is unable to sustain its services due to increased Covid-19 costs.</p> | <p>The council should continue to assess the financial impact of Covid-19 on its services and update its financial plans to reflect future cost and funding estimate.</p> <p><a href="#">Paragraph 70</a></p> | <p>The Council will continue to assess the financial impact of Covid-19 on its services and will bring forward update reports to the Policy and Resources Committee on a regular basis. Also, financial plans will be updated to reflect future cost and funding estimates, once more clarity emerges around these issues.</p> <p>Responsible officer:<br/>Executive Director of Corporate Services.</p> <p>Agreed date: 31 March 2021.</p> |

A number of audit recommendations were also reported in the BVAR. These have not been duplicated here. The council's improvement plan in response to the BVAR will be monitored and an update reported in the 2020/21 annual audit report.

### Follow up of prior year recommendations

|     |  |   |   |
|-----|--|---|---|
| PY1 | <p><b>Reserves</b></p> <p>The council is currently projecting an overspend of £2.809 million for 2019/20. In the absence of mitigating action, this is unsustainable, given the level of uncommitted reserves held.</p> <p><b>Risk:</b> reserves could be depleted to an unsustainable level which</p> | <p>The council should continue to monitor its level of reserves, in light of the projected overspend for 2019/20.</p> | <p>COMPLETED</p> <p>Updated position reported in part 2 and 3 of this report.</p> |
|-----|--|---|---|


**No. Issue/risk**
**Recommendation**
**Agreed management action/timing**

could impact on the council's ability to support service expenditure.

**PY2 Elected members' training**

Elected members' training records are not comprehensive. Comprehensive records of elected members' attendance at training events 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.

**Risk:** elected members may not be fully effective in scrutinising council activity.

Comprehensive records of individual elected members attendance at training events should be kept. The linkage of Training Needs Analyses and Personal Development Plans for elected members to these training records should be considered.

**ONGOING**

The BVAR concludes that the council has a well developed programme for supporting councillors. Officers are currently engaging with elected members on proposals for future personal development activity to tailor this to their specific needs and develop personal development plans for each councillor.

**PY3 Performance management framework**

Whilst service performance indicators show improvements in the council over time, the pace of improvement has deteriorated.

**Risk:** the council is unable to demonstrate effective continuous improvement.

The council should review the effectiveness of the new performance management framework to ensure it identifies and prioritises areas for improvement in line with the council's priorities.

**COMPLETED**

The BVAR reports that council services are improving and there is a clear focus on continuous improvement across its activities. The council uses self-assessment effectively, to identify strengths and weaknesses and where improvement is required. However, regular performance reports for councillors, which include current performance data on all services are still being developed.

**PY4 Dundee City Council Charitable Trusts – Depreciation**

Dundee City Council Charitable Trusts has not depreciated its tangible fixed assets. We were advised that this is because tangible fixed assets are revalued each year and therefore depreciation is not required. In our view depreciation should be charged in accordance with accepted accounting practices.

**Risk:** the Trust may not be complying with accepted accounting practices.

Dundee City Council Charitable Trusts should review the practice of not depreciating its tangible fixed assets and undertake a review of its assets with a view to depreciating appropriate assets for the 2019/20 annual accounts.

**COMPLETED**

The Dundee City Council Charitable Trust Accounts are now prepared on a receipts and payments basis and depreciation is not required to be charged in the 2019/20 accounts.

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

### Risks of material misstatement in the financial statements

|   |   |   |   |
|---|---|---|---|
| 1 | <p><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 includes the risk of management override of controls that results in fraudulent financial statements.</p>  | <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 outside the normal course of business.</li> </ul> | <ul style="list-style-type: none"> <li>• We used data analytics to analyse feeder and journal transactions to review for patterns of inconsistent activity.</li> <li>• No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</li> <li>• A review of accounting estimates did not show any instance of bias.</li> <li>• Focused testing of regularity and cut-off assertions did not reveal any lapses in controls.</li> <li>• No significant transactions outside the normal course of council business were identified.</li> </ul> <p><b>Conclusion:</b> There is no evidence of management override of controls.</p> |
| 2 | <p><b>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>• 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>   | <ul style="list-style-type: none"> <li>• Sample testing of income and transactions to confirm that these were in the normal course of business.</li> <li>• We obtained satisfactory explanations for any significant increases or decreases in income.</li> <li>• Our sample cut-off testing confirmed that transactions were processed in the correct accounting year.</li> <li>• The council has adequate counter-fraud arrangements.</li> <li>• The council is pro-active in investigating matches and reporting the outcomes from National Fraud Initiative activity.</li> </ul>  |

**Conclusion:** The council has effective arrangements in place to minimise the risk of fraud over income.

|  |   |   |  |
|--|---|---|--|
| 3  | <p><b>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>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> | <ul style="list-style-type: none"> <li>Sample testing of expenditure transactions to confirm that these were in the normal course of business.</li> <li>We obtained satisfactory explanations for any significant increases or decreases in expenditure.</li> <li>Our sample cut-off testing confirmed that transactions were processed in the correct accounting year.</li> <li>The council has adequate counter-fraud arrangements.</li> <li>The council is pro-active in investigating matches and reporting the outcomes from National Fraud Initiative activity.</li> <li>See <a href="#">paragraph 96</a> with an update on the internal investigations into contract award issues.</li> </ul> |
| <p><b>Conclusion:</b> The council has effective arrangements in place to minimise the risk of fraud over expenditure.</p>  |   |   |  |
| 4  | <p><b>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>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>  | <ul style="list-style-type: none"> <li>We considered the council's accounting policies and whether these were appropriate.</li> <li>A number of estimations and judgements in the accounts were based on the opinion of experts. We assessed the reliability of these experts and reviewed their work.</li> <li>We tested non-current assets, pension and provisions disclosures and confirmed them to appropriate evidence.</li> </ul>  |
| <p><b>Conclusion:</b> estimations and judgements included in the accounts are supported by appropriate audit evidence.</p> |   |   |  |
| 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,</p>   | <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> </ul>   | <ul style="list-style-type: none"> <li>We reviewed the consolidation of group entities into the council's group accounts ensuring entities treated in line with the Code.</li> </ul>   |

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 (the Dundee Studio Joint Venture).

- Review of accounting basis for preparation of the group accounts.

- We reviewed the component auditor's findings for the group entities.
- We reviewed the accounting basis for the preparation of the group accounts was in line with requirements.

**Conclusion:** The council is accounting appropriately for its group entities.

**6 Risk of material misstatement caused by accounting adjustments arising from loan debt reprofiling**

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.

- Review debt reprofiling to ensure compliance with regulations, financial sustainability and compliance with the council's treasury management strategy.
- Focused testing of loans fund accounting undertaken in 2019/20.

- We reviewed debt reprofiling to ensure compliance with regulations, financial sustainability and compliance with the council's treasury management strategy.
- We tested the council's accounting for the loans fund.

**Conclusion:** the council's accounting for the loans fund reprofiling is appropriate.

**7 Risk of material misstatement caused by accounting for service concession assets**

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 construction. There is a risk that this arrangement is not appropriately recognised in the financial statements.

- Review of service concession model and disclosures in the accounts including asset valuation and liability.

- We reviewed and agreed the council's accounting treatment for the waste plant at Baldovie as part of the service concession asset arrangements.

**Conclusion:** The council is accounting appropriately for service concession assets

**8 Risk of material misstatement of trust accounts caused by inaccurate accounting for tangible non-current assets**

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

- Focused testing of non-current assets within trust accounts.

- The basis for accounting for these charities has been reviewed with a receipts and payments basis now being adopted.

**Conclusion:** Depreciation is not required for receipts and payments accounts.

misstatement in the trust's financial statements.

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## Risks identified from the auditor's wider responsibility under the Code of Audit Practice

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### 9 Financial sustainability and management

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 ten year funding gap of £78.1 million to 2030.

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.

- Review the council's process for monitoring the transformation programme progress.
- Review financial monitoring reports and the financial position.
- To be considered as part of the Best Value Assurance Report.
- Parts 2 and 3 of this report notes the updated position.
- Financial management is effective with budgets focussed on the council's priorities. The council has made good progress in financial planning with the approval of a long-term financial strategy in 2019.

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### 10 Local government settlement

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.

The timing of budget setting for the UK has led to increased uncertainty for councils in setting their 2020/21 budgets and council tax.

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.

- Review of the council's 2020/21 budget setting arrangements.
- Part 2 and 3 of this report notes the updated position.
- Overall, the council has delivered services within budget in 2019/20.

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### 11 Leadership and governance – Drugs Commission findings and mental health services

A Drugs Commission investigation into 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 multiagency approach required to make a meaningful difference to the people of Dundee. The

- Review progress on improvement actions.
  - To be considered as part of the Best Value Assurance Report
  - The BVAR reports on The Dundee Partnership's response to the city's drug problems. Improvement recommendations are being progressed.
  - The BVAR reports on the Tayside partners response to the mental health services inquiry. Improvement recommendations are being progressed.
  - Progress will be monitored as part of the 2020/21 audit.
-

council is committed to working on a partnership solution to improve services.

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|---|--|---|
| <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>• Review progress with performance reporting.</li> <li>• To be considered as part of the Best Value Assurance Report.</li> </ul>                    | <ul style="list-style-type: none"> <li>• The BVAR reports that council services are improving and there is a clear focus on continuous improvement across its activities. It uses self-assessment effectively, to identify strengths and weaknesses and where improvement is required. However, regular performance reports for councillors, which include current performance data on all services are still being developed.</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 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>   | <ul style="list-style-type: none"> <li>• To be considered as part of the Best Value Assurance Report.</li> </ul>   | <ul style="list-style-type: none"> <li>• The BVAR concludes that the council has a well developed programme for supporting councillors. Officers are currently engaging with elected members on proposals for future personal development activity to tailor this to their specific needs and develop personal development plans for each councillor.</li> </ul>  |
| <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 progress against plans to ensure this is appropriately reflected in the assurances provided in the annual governance statement.</li> </ul> | <ul style="list-style-type: none"> <li>• Internal audit plan assignments were rescheduled in 2019/20, however the Senior Manager – Internal Audit considers the work carried out to be sufficient to support her opinion on the system of controls. We concur with this view.</li> </ul>  |
| <p><b>15 Unsupported software</b></p> <p>Several IT systems operated by the council are now unsupported by the manufacturer. If any vulnerabilities are found in the unsupported software, no patches will be provided by the software</p>  | <ul style="list-style-type: none"> <li>• Review progress in replacing the current unsupported services.</li> </ul>   | <ul style="list-style-type: none"> <li>• The work is progressing but understandably it has been impacted by Covid-19. Windows 7 machines were purchased prior to lockdown but the replacement programme requires physical</li> </ul>  |

manufacture. There is a risk to the security and sustainability of these systems

attendance. It is planned for the replacement programme to be completed in 2020/21. The Weighbridges system is expected to be upgraded in the coming weeks. The procurement for the Boiler Management replacement system is ongoing.

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**16 IT – business continuity**

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.

- Review progress in replication of systems on both data centres.

- Followed up progress with data centre replication. The Data Centre move was finalised on 20 September 2020.
-

# Appendix 3

## Summary of national performance reports 2019/20



|  |   |             |  |
|--|---|-------------|--|
|  |   | Apr         |  |
| Social security: Implementing the devolved powers        |    | <b>May</b>  |  |
| Scotland's colleges 2019                                 |    | <b>Jun</b>  |  Enabling digital government  |
|  |   | Jul         |  |
| NHS workforce planning - part 2                          |   | <b>Aug</b>  |  |
| Finances of Scottish universities                        |  | <b>Sept</b> |  |
| NHS in Scotland 2019                                     |  | <b>Oct</b>  |  |
|  |   | Nov         |  |
| Local government in Scotland: Financial overview 2018/19 |  | <b>Dec</b>  |  |
| Scotland's City Region and Growth Deals                  |  | <b>Jan</b>  |  Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models |
|  |   | Feb         |  |
|  |   | <b>Mar</b>  |  Early learning and childcare: follow-up  |

# Dundee City Council

## 2019/20 Annual Audit Report

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