

Dundee City Council

Annual Audit Plan 2016/17



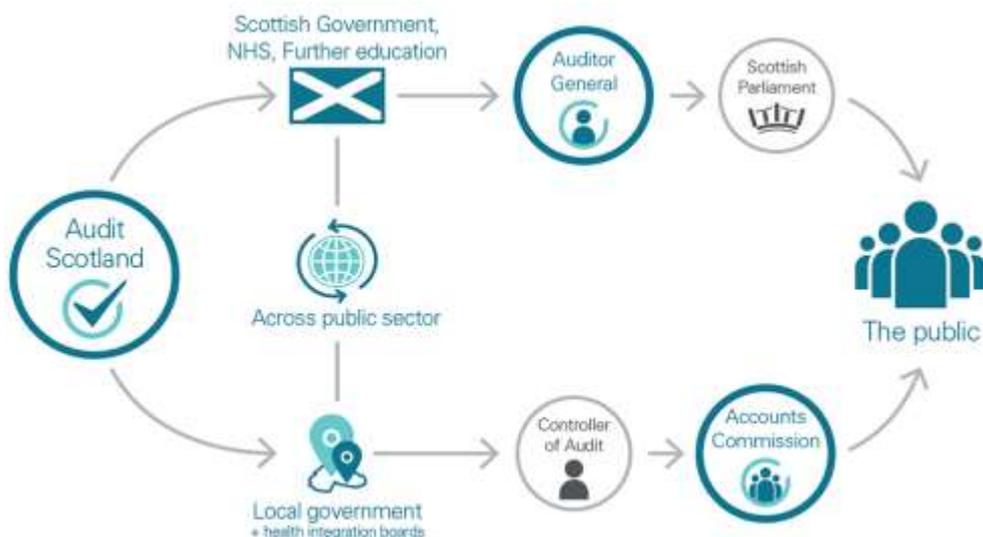
 **AUDIT SCOTLAND**

Prepared for Dundee City Council
March 2017

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

Introduction

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit including the new approach to Best Value. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

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

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>Management has the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> owing to the nature of this risk, assurances from management are not applicable. 	<ul style="list-style-type: none"> detailed testing of journal entries review of accounting estimates focused testing of accruals and prepayments evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income and expenditure</p> <p>ISA 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> include 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.</p>	<ul style="list-style-type: none"> regular budget monitoring and reporting local code of corporate governance outlining the governance framework participation in the National Fraud Initiative internal controls in financial systems to mitigate risks of error or manipulation 	<ul style="list-style-type: none"> analytical procedures on income/expenditure testing of key internal financial controls detailed testing of transactions focusing on the areas of greatest risk review the council's actions to mitigate the risk of fraud review the council's

Audit Risk	Management assurance	Planned audit work
<p>The council receives a significant amount of funding from the Scottish Government, however income is received from other sources, including council tax, housing rents etc.</p> <p>Additionally, the Code of Audit Practice requires consideration of the risk of fraud over expenditure. Dundee City Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<ul style="list-style-type: none"> internal audit review of interface and reconciliation procedures throughout the council Internal audit review of internal financial controls. 	<p>involvement in the National Fraud Initiative.</p>
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas such as 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"> reconciliation of estates and financial information valuation and impairment review of non-current assets by professional valuer in line with 5 year rolling programme actuarial valuation to provide pension figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable confirmation from legal services of all potential cases together with an assessment of potential liability and likelihood of settlement. 	<ul style="list-style-type: none"> 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 focused testing of non current asset, pension and provisions.
<p>4 Group entities consolidation</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. These include:</p> <ul style="list-style-type: none"> Design Dundee Limited (DDL), which was excluded from the 2015/16 financial statements as it was not considered material' Dundee Energy Recycling Ltd (DERL), which may be impacted on by ongoing competitive tendering for the long term recycling contract. 	<ul style="list-style-type: none"> review to consider if DDL should be consolidated, including consideration of revenue contributions provided to DDL for the operation of the V&A at Dundee completion of competitive negotiations for long term recycling contract and recognition of impact on financial statements if appropriate. 	<ul style="list-style-type: none"> review of council's consideration of related parties to ensure all group entities are appropriately recognised review of component auditors and of findings in relation to group entities review of accounting basis for preparation of the group accounts.

Audit Risk	Management assurance	Planned audit work
<p>5 Group entities consolidation: Dundee City Integration Joint Board (IJB)</p> <p>The Dundee City IJB should be considered for consolidation into the accounts in 2016/17. Officers have yet to conclude on whether the IJB will be consolidated. As this may be the first year of consolidation, there is an increased risk of errors in accuracy and/or disclosure.</p>	<ul style="list-style-type: none"> consideration of requirements through the final accounts working group any consolidation will be done as part of the annual accounts process and will adhere to all recommended best practice. 	<ul style="list-style-type: none"> review the council's approach to consolidation agreement that consolidation adjustments are accurate and correctly disclosed and focussed testing of group disclosures confirm balances have been agreed by the partner bodies.
<p>6 Revisions to the presentation of the financial statements</p> <p>The 2016/17 Code of Practice on Local Authority Accounting makes a number of changes in the presentation of the financial statements, including:</p> <ul style="list-style-type: none"> changes to the structure of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, with associated restatement of prior year figures a new expenditure and funding analysis changes to the requirements of the annual governance statement to provide additional disclosures. <p>These changes present a risk of material misstatement in the financial statements if they are not properly actioned.</p>	<ul style="list-style-type: none"> consideration of changes required through the final accounts working group. 	<ul style="list-style-type: none"> focussed testing on the financial statements to ensure that the changes have been properly actioned.
Wider dimension risks		
<p>7 Financial sustainability</p> <p>Along with all other public bodies in Scotland, the council is facing the prospect of having to make significant budget savings. At the same time as the council aims to support the local economy and maintain service provision, it is likely to face a reduction in resources. The council also has a relatively low level of usable reserves in comparison with other authorities. There is a risk that the council is unable to secure</p>	<ul style="list-style-type: none"> medium term financial strategy regularly updated and reported to members changing for the future - transformation programme monitoring and reporting transformation reviews underway, with regular monitoring and reporting of progress regular financial monitoring reports presented to members. 	<ul style="list-style-type: none"> undertake specific work on financial planning and governance. This will include assessing the council's arrangements for medium to long term financial planning review the council's process for monitoring the transformation programme progress review financial monitoring reports and the financial position.

Audit Risk	Management assurance	Planned audit work
<p>the efficiencies required without impacting on services.</p>		
<p>8 Capital expenditure</p> <p>The capital plan 2017-22 includes record levels of capital investment with £378 million of expenditure planned over the period. Against this backdrop of an increased capital investment programme, there have been consistent significant underspends over a number of years. In 2016/17 gross capital expenditure is projected to be underspent against the original budget of £121 million by £26.8 million (22% underspend).</p> <p>There is a risk that the council is unable to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area due to delays in investment or improvements to the asset base.</p>	<ul style="list-style-type: none"> • 5 year Capital Plan with strategic themes clearly identified. • development of a full longer term capital investment strategy to be considered in conjunction with the Corporate Plan and Local Outcome Improvement Plans. • regular monitoring reports to members highlighting changes and slippage in the capital programme. 	<ul style="list-style-type: none"> • on-going monitoring of capital budget, plans and monitoring reports and inclusion in annual audit report as appropriate.
<p>9 Risk management</p> <p>The corporate risk register has not been considered by members since June 2014. There is a risk that the council is not mitigating risks to an acceptable level.</p>	<ul style="list-style-type: none"> • the corporate risk register will be presented to the Scrutiny Committee on a regular basis once the new format has been agreed • Annual Governance Statement in the annual accounts will include an update on risk management. 	<ul style="list-style-type: none"> • monitor the progress on updating the corporate risk register and review the content of the Annual Governance Statement in regard to risk management.
<p>10 Members' training</p> <p>The 2017 local government elections will result in changes in the elected members. There is a risk that there is a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required. Audit Scotland's How Councils Work publication on the role of councillors provides guidance in this area.</p>	<ul style="list-style-type: none"> • induction training planned for new members. • a suite of training is available for members and members are offered the opportunity of participating in the continuing professional development framework allowing personal development plans to be agreed (several members have participated to date). This is to be re-launched following the elections • Consideration of the Audit Scotland's '<i>How Councils Work</i>' publication on the role of councillors. 	<ul style="list-style-type: none"> • review of the council's induction and training arrangements for councillors following the elections • assess the effectiveness of decision making and scrutiny arrangements as part of ongoing BV audit work • collate information for a national study in relation to the role of boards.

Audit Risk	Management assurance	Planned audit work
<p>11 ICT resilience strategy and IT disaster recovery plan</p> <p>An internal audit report considered by the members in April 2016 highlighted that <i>"formally documenting a corporate ICT resilience strategy and high-level IT Disaster Recovery Plan with a corresponding testing regime for business critical systems is required. In addition, as a result of ongoing structural changes, there is a requirement to refresh existing business continuity arrangements and this will be an opportune time to discuss and agree business critical systems and recovery priorities corporately and with Services."</i></p> <p>Progress in this area is critical to strengthen the control environment.</p>	<ul style="list-style-type: none"> external consultant commissioned to align the council's ICT resilience, business continuity arrangements and refresh the existing business continuity arrangements. Internal audit will be monitoring progress with this. 	<ul style="list-style-type: none"> review the council's progress in implementing these arrangements.

3. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council currently administers 27 trusts with charitable status, with total assets of £6 million. We will perform the audit of the council's charitable trusts in parallel with the audit of Dundee City Council's financial statements.

Reporting arrangements

4. 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.

5. 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.

6. We will provide an independent auditor's report to Dundee City Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the members of Dundee City Council and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Scrutiny Committee Date
Governance Report	14 June	28 June
Annual Audit Report including ISA 260 requirements	13 September	27 September
Signed Independent Auditor's Report	27 September	N/A

Audit fee

7. The proposed audit fee for the 2016/17 audit of Dundee City Council is £341,200. In determining the audit fee we have taken account of the risk exposure of Dundee City Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. We also propose an audit fee of £4,000 for the audit of the council's charitable trusts. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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 outwith our planned audit activity.

Responsibilities

Scrutiny Committee and Executive Director of Corporate Services

9. 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.

10. The audit of the financial statements does not relieve management or the Scrutiny Committee, as those charged with governance, of their responsibilities.

Appointed auditor

11. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

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

Audit scope and timing

Financial statements

13. The statutory financial statements audit will be the foundation and source for the majority 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 Dundee City 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 Dundee City 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.

14. We will give an opinion on the financial statements as to whether they:

- give a true and fair view in accordance with applicable law and the Code of the state of the 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 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.

Materiality

15. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Dundee City Council are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2016 based on the latest audited accounts.	£6 million
Performance materiality - 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 50% of planning materiality.	£3 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£0.1 million

16. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issue identified will be reported to the Scrutiny Committee.

Timetable

17. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Scrutiny Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	28 June
Latest submission date of unaudited financial statements with complete working papers package	30 June
Latest date for final clearance meeting with Executive Director of Corporate Services	6 September
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	13 September
Independent auditor's report signed	27 September
Latest date for signing of WGA return	30 September

Internal audit

18. 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 and as part of our planning process we carry out an assessment of the internal audit function. The internal audit service is delivered utilising a mix of in-house and external resources and overseen by the council's Senior Manager - Internal Audit. The external resources are provided by

PwC who were approved as the council's co-sourcing partner for the delivery of internal audit services with effect from January 2014.

Adequacy of Internal Audit

19. Overall, we concluded that the internal audit service generally operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. An external quality assessment is planned for 2017/18 with a self assessment currently being undertaken. Several reports in relation to the 2015/16 audit are still to be reported and there is a risk that this could impact on the 2016/17 internal audit plan. We also note that progress with the internal audit plan is not regularly reported to the Scrutiny Committee which presents a risk to obtaining the necessary assurances Committee members require for the Annual Governance Statement.

Areas of reliance

20. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- revenue monitoring
- journal entries.

21. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- assurance mapping
- fraud guidelines
- health & social care integration
- information governance
- public performance reporting
- risk management arrangements (including ICT risk management)
- transformational change
- cyber crime
- data security
- procurement assurance mapping.

Audit dimensions

22. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



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

Financial sustainability

24. 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 the body's 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 the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

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

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

Governance and transparency

26. 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 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

27. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

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

Best value

28. The Accounts Commission agreed the overall framework for a new approach to auditing best value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. As such, auditors will use the framework for their audit work from October 2016.

29. A key feature of the new approach is that it integrates best value into the wider scope annual audit, which will influence audit planning and reporting. Best value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on best value will be 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.

30. The first six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 6](#) below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

Exhibit 6

2016/17 Best Value Assurance Reports

Clackmannanshire Council	Orkney Islands Council
East Renfrewshire Council	Renfrewshire Council
Inverclyde Council	West Lothian Council

31. Some best value work is planned in Dundee City Council this year and this will focus on the council's arrangements for demonstrating best value in financial and service planning, financial governance and resource management. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective self evaluation processes are in driving improvement across the council. The results of this work will be reported in the annual audit report.

Independence and objectivity

32. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

33. The engagement lead for Dundee City Council is Fiona Mitchell Knight, Assistant Director. 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 that may impact on the audit of Dundee City Council.

Quality control

34. 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.

35. 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

36. 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

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