



Grant Thornton

# Dumfries and Galloway Council

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**External Audit Annual Report to Members and the Controller of Audit  
for the financial year ended 31 March 2018**

Final Report - September 2018

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# Contents

Section	Page
1. Introduction	3
2. Our financial statements audit	4
3. Financial management	13
4. Financial sustainability	16
5. Governance and transparency	19
6. Value for money	23
<b>Appendices:</b>	
1. Audit Adjustments	28
2. Action plan and follow up of 2016/17 recommendations	29
3. Fees, independence and fraud arrangements	34
4. Communication of audit matters	35



## Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance that our approach is robust.

Through this Annual Report we seek to provide insight and commentary on certain aspects of Dumfries and Galloway Council's arrangements, sharing relevant practices with the Audit, Risk and Scrutiny Committee and officers. This is reflected in our audit recommendations which allow you to address gaps in your arrangements, and to continually improve.

We have continued to build on our working relationship with officers and our understanding of Dumfries and Galloway Council as an organisation. During the year we have shared relevant publications with management, in particular from Audit Scotland, and also supported with any technical queries. We have also worked with Audit Scotland in undertaking the Best Value Assurance Report (BVAR) due to report in November 2018.

In addition, our PFI accounting specialist has reviewed the new Design Build Finance Maintain (DBFM) model and we have provided a separate letter of assurance to officers around the reasonableness of the Council's accounting model assumptions.

# Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2018.

Our work has been undertaken in accordance with International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code').

Our report is addressed to the Members of Dumfries and Galloway Council. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Controller of Audit.

Once finalised this report will be made publically available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)), usually December 2018

Our report was presented as a draft to the Dumfries and Galloway Council Audit, Risk and Scrutiny Committee on 27 September 2018. The Annual Report and Accounts were approved and signed on the 27<sup>th</sup> September.

We would like to thank Dumfries and Galloway Council's officers and in particular the finance team for all their support and assistance in the audit process during the year.

## Structure of this report

In accordance with the Audit Scotland Code of Practice 2016, in addition to our core financial statements audit, we provide conclusions on the four dimensions of wider-scope public audit. Our report is structured as follows:

Financial statements – Section 1

Financial management – Section 2

Financial sustainability – Section 3

Governance and transparency – Section 4

Value for money – Section 5

## Our Opinion

For the financial year ended 31 March 2018 we have issued an **unqualified audit opinion**

- True and fair view of the financial statements
- Have been prepared in accordance with IFRSs as adopted by the EU, as interpreted and adapted by the 2017/18 Code and applicable legislation.
- Other prescribed matters (which include the audited information in the remuneration report and management commentary)
- We have modified our audit report reflecting the Council's Significant Trading Operations Failing to meet their statutory target of at least breaking even over a three year period.

## The audit process

The unaudited accounts were presented for public inspection by 30 June 2018, in line with statutory requirements. Officers provided good quality working papers and supporting documentation to support the audit process.

We identified no unadjusted differences to report to the Audit, Risk and Scrutiny Committee.

We had two audit adjustments which were agreed and processed in the financial statements (set out in Appendix 1)

A small number of very minor disclosure adjustments were required to the financial statements and these have been reflected in the final accounts and are insignificant in nature.

## Wider scope

Our audit work over the four dimensions of wider-scope public audit incorporated Audit Scotland's best value guidance, the Accounts Commission's priorities as well as good practice in public finance and governance.



# Financial statements audit – At a glance



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to Elected Members and the Controller of Audit.



We have performed sufficient audit testing around our identified area of significant risk including: management override of controls; risk of fraud in revenue recognition; and the risk of fraud in expenditure recognition in accordance with Financial Reporting Council's Practice Note 10.



We have raised 3 audit recommendations. These are detailed within appendix 2 along with follow up of prior year recommendations. Our recommendations are related to property, plant and equipment, financial sustainability and Internal Audit.

## An audit underpinned by quality



Materiality was set at 1.7% of gross expenditure based on the 2017/18 unaudited annual report and accounts (£8.484 million). In the previous year it was 1% of gross expenditure.

The financial statements were presented for audit inspection in line with agreed timescales. We would like to thank officers for their support during the audit process.



We performed sufficient audit testing over areas of inherently higher risk of material misstatement including valuation of property, plant and equipment and the recognition of defined benefit pension scheme liabilities.



Our audit opinion has been modified to reflect the Council's Significant Trading Operations (roads maintenance and building maintenance) failing to meet their statutory target of at least breaking even over a rolling three year period.

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# Financial statements audit



Materiality was set at 1.7% of gross expenditure based on the 2017/18 unaudited annual report and accounts (£8.484 million). In the previous year it was 1% of gross expenditure. Materiality was calculated in accordance with our plan.



Testing provided assurance on identified areas of significant audit risks and there were no unadjusted audit differences arising during the course of our audit



We have issued an unqualified true and fair audit opinion on the financial statements, including the wider information contained in the financial statements. The audited parts of the Remuneration Report are free from error.



We have included an “except for” paragraph in our opinion related to the failure of the Council’s two statutory trading services – Building maintenance and Roads Maintenance to break-even over a rolling three year basis in line with the Local Government in Scotland Act 2003.



The Council’s share of defined benefit pension scheme assets and liabilities is estimated through an annual actuarial valuation. The actuarial valuation provides an estimate of the Council’s future net pension obligations as at the balance sheet date. The scheme assets are estimated by the actuary based on market valuations as at December 2017 with forecast expected return on investments to 31 March 2018. Due to actual asset returns exceeding the actuaries estimation, within the draft accounts, the Council’s share of the total Dumfries and Galloway Pension Fund assets was understated by £3.2 million. Officers obtained a revised actuarial valuation to reflect actual asset values held at 31 March 2018 and the financial statements were adjusted accordingly.

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## Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit, Risk and Scrutiny Committee on 28 March 2018. We have updated our materiality calculations based on the unaudited 2017/18 financial statements. Overall materiality has been set at £8.484 million (1.7% of gross expenditure) and performance materiality is set at £6.363 (75% of materiality). We report to management any audit differences identified over £0.250 million (trivial as defined within the Code of Audit Practice).

The unaudited financial statements were presented for public inspection by 30 June 2018, the statutory deadline. Officers provided good quality working papers and supporting documentation to support our audit process.

## Audit opinion

Based on our audit procedures performed we have issued an unqualified audit opinion on the financial statements including:

- they give a true and fair view
- they have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the Annual Accounts, e.g. Management Commentary and Annual Governance Statement, is consistent with the financial statements
- audited parts of the Remuneration report have been prepared in accordance with applicable guidance

## Internal control environment

During the year we sought to understand the Council's overall control environment (design) as related to the financial statements. In particular we have:

- Sought to understand procedures and controls around related parties, journal entries and other key entity level controls
- Performed procedures around entity level controls and there are no significant matters that we wish to draw to your attention.
- Performed procedures around IT general controls
- Performed walkthrough procedures on key controls around identified risk areas including revenue, expenditure, payroll expenditure and asset valuations.

No material weaknesses in the accounting and internal control systems were identified based on our work undertaken during the audit which could have an adverse impact on the Council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We have reported separately to officers the findings from our audit work around IT general controls. No material weaknesses were identified that would impact on our audit approach or conclusions.

We adopted a substantive based approach to the audit of the financial statements and therefore our review is limited to the design of controls rather than the operating effectiveness of these.

## Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of the Council's Internal Audit function during 2017/18. We have reviewed the internal audit plan and individual reports issued to date, to consider if they have any impact on our audit approach. In particular, we have considered Internal Audits annual review of the Council's corporate governance arrangements and for 2017/18 no material control weaknesses have been identified in these arrangements. We also considered Internal Audit's Annual Report and overall opinion on the Council's internal control environment and considered any potential impact on the assurances noted in the Annual Governance Statement.

Internal audit concluded "*reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2018*". We are satisfied that there are no issues identified by Internal Audit that would impact on our audit work or conclusions.

## Key audit issues – Our response to significant audit risks

	Identified audit risk at planning	Work completed	Our conclusion
Risk of fraud in revenue	<p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. For annual grant funding we consider this to be well forecast and agreed directly to grant allocation letters. Likewise, for council tax and non-domestic rate income streams, we consider these revenue streams to be well forecast and not inherently at risk of manipulation. For these revenue streams we rebut the presumed risk of fraud in revenue recognition. We consider the risk to be prevalent in other service income with a focus around the year end transactions and balances where financial performance is monitored. Therefore we focus our testing on cut-off of service income.</p>	<ul style="list-style-type: none"> <li>Developed our understanding of the Council's other service income streams including walkthrough of key transactions.</li> <li>Performed targeted review and testing of other service income during the year, including analytical procedures and transaction testing with a focus on year end transactions</li> <li>Performed revenue cut off procedures and substantive testing over pre and post year end balances</li> <li>Tested the existence and recoverability of balances at the year end</li> </ul>	<p>Based on audit procedures performed we are satisfied that revenue is free from material misstatement.</p> <p>We are satisfied that revenue has been recognised in the appropriate financial year.</p>
Operating expenditure is not treated correctly	<p>Operating expenditure is understated or not treated in the correct period. The risk of fraud in expenditure, as set out in Practice note 10 (revised), applies to public sector entities. We consider the risk to be most prevalent in transactions and balances at the year end.</p>	<ul style="list-style-type: none"> <li>Developed our understanding of the Council's material expenditure streams including walkthrough of key transactions.</li> <li>Performed a targeted review and testing of key expenditure streams during the year, including analytical review of expenditure and targeted transaction testing, including consideration of the regularity of expenditure incurred.</li> <li>Performed cut-off testing of expenditure transactions around the year end to ensure these had been allocated to the appropriate financial year. Reviewed post year end payments for any potential unrecorded liabilities.</li> </ul>	<p>Assurance gained that expenditure has been recorded within the appropriate financial year and that payables are free from material misstatement.</p>
Management override of controls	<p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>Developed our understanding of the entity level controls in place at the Dumfries and Galloway Council that reduce the risk of management override</li> <li>Performed a review of journal transactions for unusual transactions or balances.</li> <li>Evaluated key areas of judgement within the Financial statements and the basis for these judgements / application of accounting policies</li> <li>Reviewed unusual and/or significant transactions</li> </ul>	<p>We did not identify any significant areas of bias in key judgements by management. We have not identified any unusual or significant transactions during the course of the year that would indicate management manipulation. Key areas of judgement and estimation have been agreed to supporting evidence and accounting policies applied consistently.</p>

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## Other key areas of the financial statements

There were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of increased risk due to their complexity or magnitude, and as such we have completed additional testing.

### Valuation of property, plant and equipment

Dumfries and Galloway Council holds property, plant and equipment of £841 million. In accordance with IAS 16, all assets are held at their fair value. For land and buildings, including Council dwellings, this includes regular revaluation a minimum of every five years. To comply with the requirements of the 2017/18 Code, management revalue land and buildings under a five-year programme of professional valuations. Where there has been material capital expenditure on land and buildings or market movements that would materially impact on the value of land and buildings, further revaluations would be undertaken in between the five year cycle. Valuations are undertaken as at 31 March each year. During 2017/18, £121.5 million of assets were subject to revaluation during the year. We have also discussed the basis of the valuation and assumptions applied, including consideration of impairment of assets held, with the Council's valuation team. We have reviewed the valuation applied and are satisfied that property, plant and equipment is appropriately recognised in the accounts.



When undertaking our PPE testing we identified a potential difference between what the system calculated as the entries between assets and the revaluation reserve for one asset. We performed alternative procedures and satisfied ourselves there was no material misstatement and this appeared isolated to the one asset. Officers will explore this issue with capita during 2018/19, as they provide the system to determine any adjustments required and depending on the outcome this will be reflected in the 2018/19 annual accounts.

Heritage assets are distinct from property, plant and equipment as they are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. These assets are held based on estimated value, typically based on insurance valuation. A number of the assets had not been subject to revaluation in the last five years. In accordance with the CIPFA Code, we recommend that management look to obtain valuations, with sufficient regularity to ensure that the assets are held at their fair value. **Action plan recommendation - 1**

### IAS 19 Defined Benefit Pension Scheme

The Council participates in the Dumfries and Galloway Council Pension Fund, a defined benefit pension scheme. The Council recognises its share of the net assets and liabilities of the pension scheme within the Council's accounts. The net defined benefit liability is determined through actuarial valuation. In order to ensure the valuation is provided in a timely manner, the actuary uses actual scheme data from December 2017, including scheme assets, and estimates the position as at 31 March 2018. Through our review of the reasonableness of the actuarial assumptions, we identified that the actual pension fund assets were higher than those estimated by the actuary. This was due to the actuaries' estimated return on assets for the final quarter of the year being lower than actual performance. We understand the approach has had a similar impact on other local government pension schemes across Scotland. Officers obtained a revised actuarial calculation based on actual asset values and have adjusted the financial statements. This resulted in a decrease in defined benefit pension scheme liability by £3.2 million.



We are satisfied that following the adjustment, the Council has appropriately disclosed its share of the defined benefit pension schemes assets and liabilities within the financial statements in accordance with IAS 19. While we recognise that management review the draft actuarial valuation, there are opportunities to extend this review to the actuaries assumed scheme assets where these are materially different to the actual fund assets.





### Consolidation

The Dumfries and Galloway Council group accounts consolidate the Dumfries and Galloway Council with the Dumfries and Galloway Integration Joint Board and SWestrans. We have reviewed the Council's consolidation process and adjustments and are satisfied that the Group accounts have been appropriately prepared.

### Dumfries and Galloway Charities

We are registered as appointed auditors to provide an audit opinion on charitable trusts registered with the Office of Scottish Charities Regulator (OSCR) where the Council, or some members of the Council, act as sole Trustee.



Following consolidation of a number of Council charities in 2017, the Council applied to OSCR to make the William Blyth Trust a non-Council charity. Consequently, there was only one Council charitable fund: Nithsdale Connected Trust Fund. In accordance with Section 106 of the Local Government (Scotland) Act 1973, we have undertaken audit procedures for the Nithsdale Connected Trust Fund and provided the Council with a separate audit opinion. No issues arose that we wish to draw Members attention to.

### Dalbeattie Learning Campus

The new Dalbeattie Learning Campus development was completed during the year. The campus brings together Dalbeattie High School and Dalbeattie Primary School and Nursery onto one shared site.

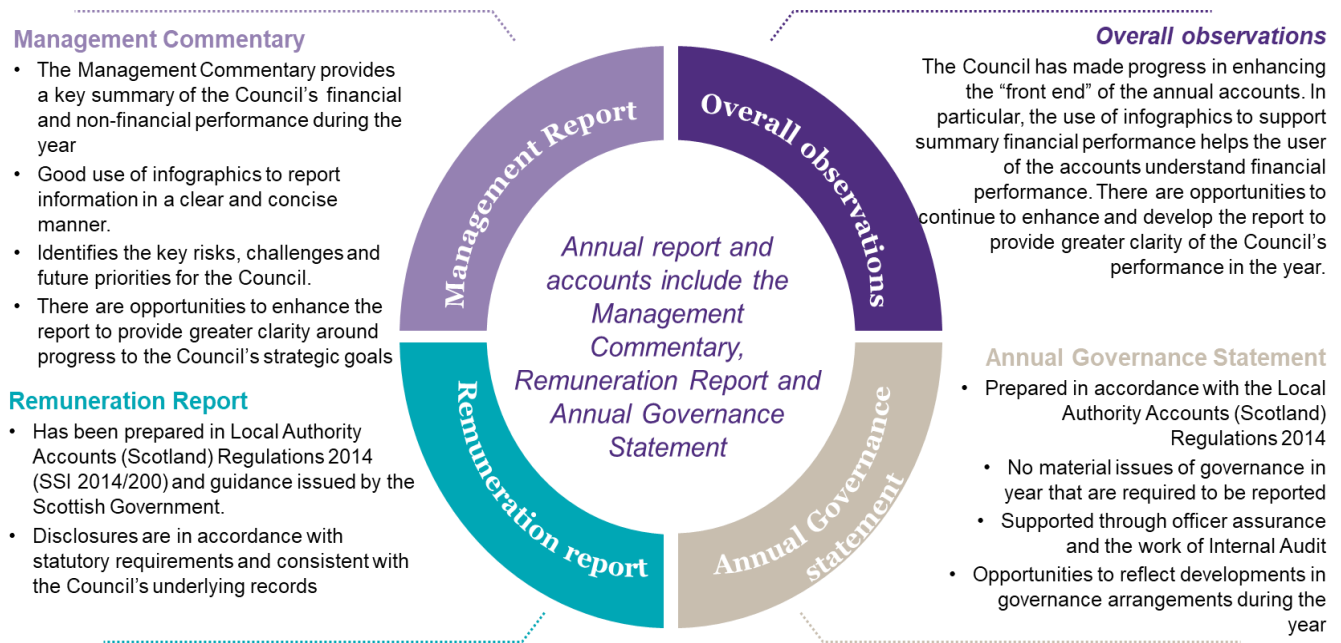


The development has been funded through the Scottish Government's Schools for the Future programme and has been financed through a Design, Build, Finance and Maintain (DBFM) project.

Along with recognising the new asset, the Council recognised a DBFM liability of £25.3 million. We have used our internal specialists to review the reasonableness of the underlying accounting model and the Council's accounting treatment and disclosures within the financial statements to ensure in accordance with IFRS. This has included review of accounting model to ensure consistent with the operators model and key assumptions. We are satisfied that the assumptions built into the model are reasonable and have been applied consistently.

## Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts. We have considered the consistency of this narrative with our understanding of the Council and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.



## Going concern

The Council approved an annual budget for 2018/19 in February 2018, which reflects the agreed local government settlement from the Scottish Government. While the Council faces significant financial challenges over the coming years, we are satisfied that it has sufficient resources to continue to meet its obligations over at least the next 12 months as they fall due and continue to deliver its statutory services. We therefore concur with the Council's conclusion that it continues to represent a going concern.

The Council will continue to receive a Scottish Government local government financial settlement and generate revenue through local taxes and fees and charges to deliver statutory services. The Council recognises that significant savings are required over the coming years to remain financially sustainable (see wider scope financial sustainability commentary in this report)

## Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.

The Council's Accounting policies are in accordance with IFRS as interpreted and adapted by the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

### Accounting estimates and judgements

Dumfries and Galloway Council's significant accounting estimates and judgement impacting on the annual accounts are the following:

- property valuations: Where we are satisfied these are supported by qualified expert valuations.
- Legal liabilities and provisions: Remains consistent with prior year and consistent with discussions with internal legal teams.
- Expected useful economic lives of property, plant and equipment, including ICT equipment and intangible assets. We are satisfied that the useful economic lives are in line with the Code and that the valuer has considered the nature and condition of the asset where appropriate.



We are satisfied that the estimates and judgements applied by management are reasonable and not subject to management bias.

### Significant Trading Operations

The Council has two trading operations: Roads Maintenance Service; and, Building Maintenance Services, which operate in a commercial environment. The Local Government (Scotland) Act 2003 requires significant trading operations to break even over a rolling three year period. The operations financial results are summarised below:

	2015/16 £'000	2016/17 £'000	2017/18 £'000	3 year rolling £'000
Roads Maintenance Services (Surplus) / Deficit	676	(10)	157	<b>823</b>
Building Maintenance Services (Surplus) / Deficit	56	(156)	603	<b>503</b>

The Council's statutory service has not achieved the statutory three year rolling breakeven position. We have included this as an other matter in our audit opinion. Achieving a recurring surplus position for the STOs continues to be a challenge for the Council. From 2018/19 the Roads Maintenance Service is unlikely to continue to be an STO as the Council will no longer deliver the Trunk Road (*Transerv*) contract. Furthermore, the Council is reviewing whether the Building Maintenance Service continues to represent a STO. As part of this review, should the Service remain an STO, the Council should ensure there are clear financial plans in place to ensure the service delivers its statutory financial targets. **Follow up recommendation - 2**

# Our wider scope audit work, including Accounts Commission strategic priorities

In accordance with the Audit Scotland Code of Audit Practice (2016), our audit responsibilities extend beyond the audit of the financial statements. Our wider scope audit work is a risk based approach informed through our understanding of the Council as well as consideration of the following areas:

## Wider scope audit dimensions

Audit Dimensions	The Code sets out a framework for all audit work conducted for the Auditor General for Scotland and the Accounts Commission covering: financial management; financial sustainability; governance and transparency; and best value.
Accounts Commissions strategic Audit Priorities	<p>The Accounts Commission's Strategy sets out an overall aim of holding Councils to account for their pace, depth and continuity of improvement facilitated by effectiveness governance. The Council sets out five Strategic Audit Priorities:</p> <ul style="list-style-type: none"> <li>• Having clear priorities with a focus on outcomes, supported by effective long term planning</li> <li>• Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities</li> <li>• Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future</li> <li>• Empowering local communities and involving them in the design and delivery of local services and planning for their local area</li> <li>• Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.</li> </ul>
Local Area Networks	Alongside other scrutiny body representatives, we develop and Shared Risk Assessment. This informs an annual Local Scrutiny Plan which summarises the proposed risk-based scrutiny response at the Council.
Best Value	The Accounts Commission refreshed the approach to auditing Best Value in council's in 2016. Best Value is assessed over a five year period, building on the work performed by external auditors as part of the annual audit process. During 2017/18 we have also worked with Audit Scotland in undertaking the Best Value Assurance Report (BVAR) due to report in November 2018.
Statutory Performance Indicators	The Accounts Commission's Statutory Performance Information (SPI) Direction (2015) requires councils to report a range of information in accordance with, but not confined to, the requirements of the Local Government Benchmarking Framework. In line with the Accounts Commission's Strategic Audit Priority of <i>'the quality of councils' reporting of their performance to enhance accountability to citizens and communities'</i> , we have considered this area specifically during 2017/18.

### Audit response

Through our wider scope audit work we consider each of these areas as well as our wider understanding of the Council's priorities and risks. Our audit report concludes on the key areas identified during our audit work.



The Council Plan 2017-22 incorporates Partnership Agreement commitments, the Council's key strategic themes, commitments and priorities and how these will be delivered over the period of the plan.



The Council has well established financial management arrangements. Financial performance information is monitored through service committees and at a corporate level through the Policy and Resources Committee and Council.



The council manages its financial position well and has delivered over £86 million of savings since 2010/11 and plans to deliver £9.9 Million of savings in 2018/19. It faces increased financial challenges over the medium term and forecasts that it needs to make an additional £56.1 million worth of savings (assuming a Council tax increase of 3% per annum) over the period 2019/20 to 2022/23.

## Wider scope work based on areas of identified risks



A future challenge for the Council, against a backdrop of reducing financial settlements, is balancing delivery of the Councils' priorities and commitments while maintaining a focus on the needs of a local and disperse population.



Delivery of the savings required to deliver financial plan 2018/19 are challenging for the Council. It must make savings and significantly change how services are delivered across widely dispersed and rural communities. It must maintain focus on its strategic priorities and respond to local priorities and issues.



The Council has a suite of performance measures to monitor the delivery of the Council's priorities. This incorporates statutory performance indicators as well as local indicators.

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# Financial management



The Council has well established financial management arrangements. Financial performance information is monitored through service committees and at a corporate level through the Policy and Resources Committee and Council.



Through budgetary controls, officers operated within operational service budgets to return a small overspend of £31,000. There was a £2 Million shortfall in the delivery of savings, primarily due to challenges associated with the delivery of the reduction in staff cost saving. This shortfall was met through the change fund, enabling the Council's uncommitted General Fund reserve to remain at 2% of annual planned expenditure. The Council continues to operate under a challenging financial environment, with £12.0 million of savings to be delivered in 2018/19 (including the shortfall from 2017/18).



The Council capital expenditure for the year totalled £73.0 million against planned capital expenditure of £74.7 million, primarily due to a relatively small level of slippage. The main areas of investment were Dumfries Learning Town as well as investment in Council's remaining school estate, and the remedial costs of DGOne (the Council's leisure facility)

Within our audit plan we identified risk around financial management at the Dumfries and Galloway Council. In accordance with the Code of Audit Practice, we have undertaken appropriate procedures to allow us to form a conclusion around the identified areas of risk and the organisation's financial sustainability. This includes review of financial performance during the year and discussions with management.

**Identified audit risk at planning**

Since 2010, the Council has achieved its financial savings targets, delivering over £86 million of savings, demonstrating resilient financial management arrangements. The Council required savings of £14.2 million (including the savings shortfall from 2016/17 of £1.3 Million) in 2017/18 representing a challenging financial target. While the Council has historically demonstrated effective financial management arrangements, the identification and delivery of savings becomes increasingly challenging year on year as scope for efficiencies reduces.

**Our Response:**

We reviewed the Council's financial management arrangements including the Council's financial capacity, budgetary processes, and control environment.

**Conclusion**

The Council has an established framework for monitoring financial performance with services and service committees monitoring performance during the year and the Policy and Resources Committee having overall oversight of financial performance. Financial performance reports are concise and include forecast outturn position to ensure transparency of financial position.

The Council reported an operational service budget deficit of £31,000. The deficit was a combination of:

- £1.0 million overspend within Economy, Environmental and Infrastructure. The overspend was primarily related to: £0.4 million overspend planning and regulatory services through a shortfall in planning and building warrant income; Roads trading services, while delivering a small surplus of £0.2 million, this was below budget by £0.4 due to the increase in emergency repairs on trunk roads which due to the fixed rate nature of the contract with *Transerv* for the works, left the Council exposed to additional costs; and, Building maintenance services income being lower than budget of £0.5 million, primarily due to reductions in service levels.
- These net overspends were offset through tight budgetary controls being put in place across other services including of £0.8 million within CYPLL.

The areas of financial pressure are consistent with previous years. While we recognise management is taking steps to address these and that some will naturally ease with the completion of the *Transerv* arrangement, there is continued pressure on specific areas of delivery.

**Delivery of savings plans**

The Council delivered £12.2 million of the £14.2 million savings that it had targeted during 2017/18.

	£ million
2016/17 Shortfall in delivery of agreed savings b/f.	1.3
2017/18 Agreed savings measures	12.9
<b>Total savings required to be delivered in year</b>	<b>14.2</b>
Savings measures delivered in year	(12.2)
<b>Shortfall on the delivery of agreed savings</b>	<b>2.0</b>

The primary reason for the shortfall of £2 Million was due to the challenges associated with delivery of the required £1.8 Million reduction in staff cost saving. This will require further voluntary severance approvals to be progressed in 2018/19. The shortfall in savings was mitigated through the corporate change fund on a one-off basis 2017/18.

**Financial management**

Financial performance is monitored by management and through service committees with corporate financial reporting through the Policy and Resources Committees on a quarterly basis. From our review of the financial reports and committee papers:

- Financial performance reports were concise. There is challenge and scrutiny of performance in the year and key variances between actual and outturn performance.
- Financial pressures and challenges are discussed and savings profiles revised during the year to enhance forecasting
- Based on review of committee minutes and papers there appears to be alignment between financial planning and operational plans. The alignment between financial and service plans is increasingly critical with pressures on resource.

## Capital Expenditure

	£ million
Planned capital expenditure	74.7
Capital net slippage	(2.1)
Capital Funded through Current Revenue (CFCR)	0.4
Net Capital Expenditure	73.0
Variance	-

During 2017/18, capital expenditure was made against the ten year capital investment plan. The Capital Investment Plan is aligned to the Council's priorities and commitments with detailed funding plans over the next three years. The main areas of capital investment in the year were:

- £49.3 million in priority projects including over £33.0 million in new school buildings and £6.1 million on the DG One remediation
- £9.3 million in infrastructure assets, including roads network
- £9.2 million in existing Council properties including £5.0 million in schools.

The Council's capital programme is well managed with over 97% of available funding utilised during the year. There is clear and transparent reporting of capital programmes and expenditure against the capital plan.

### DGOne and learning future lessons as well as completing the facility in 2018/19

DG One is the Council's flagship leisure complex which originally opened in 2008. However, following a number of structural and operational issues the complex was closed for major remedial works in October 2014 and has remained closed. Since the original development, the Council agreed a settlement with the original construction company. However, subsequent costs in repairing the building have exceeded the funding settlement.

In July 2017 the Council commissioned an independent inquiry to examine its DG One leisure facility. This was in response to significant building safety concerns and construction failures. The report identified major problems with the design and construction of the building, and council failings in leadership and project management, both through the duration of the original project and a subsequent remediation project.

At the time of settlement with the contractor, the estimated quote for remediation works was £11.3 million. The independent inquiry concluded that the council acted reasonably in accepting this offer, based on information available at the time, analysis and legal advice received. Given the circumstances and under the procurement strategy adopted, it would have been 'impossible' for the council to have foreseen the level of unidentified latent defects that were subsequently discovered. However, the inquiry did highlight that the council had missed opportunities to identify these.

The council has established an executive working group to address the inquiry recommendations and has an action plan to deal with the issues it raised. While some of the project management and procurement issues reflected historic practices that the council no longer follows, management recognises there is scope for strengthening project governance and decision making. It is essential that the Council take learnings from the DGOne project into future capital programmes and this will be an area of focus for our 2018/19 External Audit work, following up on the actions taken by the Council in line with the agreed action plan and the remaining costs to complete DG One and its valuation on the Council's balance sheet.



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# Financial sustainability



The Council Plan 2017-22 outlines the Council's strategic priorities over the five year period. The Plan defines how the Council will deliver these priorities over the period. Critical to the delivery of the plan is a clear and concise financial strategy.



The Council faces significant financial challenges over the coming years. The council manages its financial position well and has delivered over £86.0 million of savings since 2010/11. It faces increased financial challenges over the medium term and forecasts that it needs to make £56.1 million savings over the period 2019/20 to 2022/23 (assuming a Council Tax increase of 3% per annum). The council faces major challenges. It must make savings and significantly change how services are delivered across widely dispersed and rural communities. It must maintain focus on its strategic priorities and respond to local priorities and issues.



The 2018/19 financial planning assumptions appear reasonable. However, like other local authorities facing financial challenges, the Council recognise that the delivery of the required level of savings becomes increasingly challenging.

Within our audit plan we identified risk around financial sustainability at the Council. In accordance with the Code of Audit Practice, we have undertaken appropriate procedures to allow us to form a conclusion around the identified areas of risk and the organisation's financial sustainability. This includes review of corporate and financial strategies and plans as well as discussion with senior management.

We identified a specific audit risk in our plan related to the Council's longer term financial sustainability. We have outlined below our response to this risk and overall conclusion.

Identified audit risk at planning	Conclusion
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The Council continues to face significant financial and operational challenges. The March 2018/19 budget paper identified that £56.1 million of savings will need to be delivered over the next four years, excluding the requirement to deliver savings of £12.0 million during 2018/19. This reflects operational demand pressures as well as rising cost pressures including staff and inflationary pressures. Furthermore, the uncertainty around the potential impact of EU withdrawal on future finances and workforce creates additional challenges. The Council's strategies including: Financial, Workforce: and Change and Transformation, shape the Council's operations and how the Council will address these challenges.

**Our Response:**

We reviewed the scenarios set out, the governance of the plans and regular reporting. We considered the extent to which the Council has considered potential scenarios and how transparently the risk of these are reported to members.

Since 2010/11 the Council has delivered £86 million of savings. The Council's five year financial strategy recognises the financial challenges facing the Council over the coming years. Between 2018/19 to 2022/23 the council will have a gross funding gap (the difference between its income and spending) of £79.1 million, which has been reduced to £56.1 million through the identification of planned savings and a 3% per annum increase to Council tax planning assumption. This represents a step-change in savings from these delivered since 2010 and delivery of these becomes increasingly challenging over the medium term to deliver.

The Council recognise the scale of the financial challenges it faces and has established a transformation board to lead the Council's modernisation programme. This programme aims to deliver the required savings and service transformation to meet its financial and operational challenges. The transformation board includes elected members and senior officers to provide strategic oversight.

While we are satisfied that the Council has a framework in place for the identification and delivery of savings, the Council still faces challenges in delivering the required level of savings while maintaining a focus on strategic priorities while maintaining attention on local needs and issues. Officers are in the process of assessing potential options for delivering the forecast cumulative budget gap of £30.2 million between 2019/20 and 2020/21. The options will be evaluated against the council's strategic priorities as well as potential impact on council services.

The council faces major challenges. It must make savings and significantly change how services are delivered across widely dispersed and rural communities. It must maintain focus on its strategic priorities and respond to local priorities and issues. **Action plan recommendation - 3**

**Reserves and sustainability**

The Council's non-earmarked reserves play a critical role in supporting the Council to meet any unplanned investment or contingency to meet unforeseen expenditure that could not be met through in year resources. As at 31 March 2018, the Council's non-earmarked reserves balance represents 2% of the annual revenue budget. This is in line with the Council's reserves strategy.

The Corporate Change Fund is used to support the delivery of change, savings and efficiencies. The fund reduced from £6.2 million as at 1 April 2017 to £3.5 million in 31 March 2018. The fund has primarily been utilised to meet severance costs associated with voluntary severance programmes.

Given the scale of financial challenges facing the Council, effective use of the non-earmarked general reserves and the Corporate Change Fund will be essential in meeting the additional costs associated with delivering the required change.

	£ million
Schools PPP Sinking Fund	15.1
Waste PFI Sinking Fund	2.3
Corporate change fund	3.5
Affordable Social housing	3.2
Welfare reform / anti-poverty	2.6
Early years / Children and Young People's Bill	4.2
Other earmarked reserves	12
Non-earmarked reserves	6.8
<b>Total General Fund</b>	<b>49.7</b>

## Financial planning 2018/19

The Council's 2018/19 budget was approved in February 2018. The budget is developed using a detailed budgeting approach to ensure that forecast income and expenditure is based on key planned activity during the year. Financial forecasts are reviewed during the year to ensure these remain appropriate.

The annual budget identifies that savings of £9.9 million (in addition to the £2.1 million carried forward from 2017/18) will be required to be delivered during the year in order to breakeven.

Key assumption	Budget £ million	Considered reasonable	Comment
Revenue grant	280.4	✓	Revenue allocation received from the Scottish Government.
Council tax	59.2	✓	Includes the Council tax reduction scheme.
Annual budget	(352.5)	✓	This is based on an incremental budgeting approach based on the net revenue budget in 2017/18 million. The budget includes forecast Staff cost increases based on the proposed Scottish Government pay award (3% for those earning up to £36,500 and 2% for those earning in excess, capped at £1,600). The Council has also incorporated the planned uplift in teachers pay. The budget also includes allowances for budget pressures across individual services as well as the expected cost of new policy developments agreed.
Stage 1 Budget bill funding	1.0	✓	Stage 1 - Budget Bill
Council tax increase (3%)	2.0	✓	Agreed Council Tax increase of 3% as part of annual budget
<b>Funding gap requiring delivery</b>	(9.9)	<b>Challenging</b>	A range of savings options have been identified and are being delivered through the Senior Leadership Team, Transformation Board and ultimately the Council. We have considered the various measures for delivery and while significant progress has been made in securing these savings, the delivery of the full balance will be challenging. A key challenge will be the delivery of savings while considering and developing activities to deliver strategic change.

The Council have a number of key costs pressures including the impact of the Scottish Government's potential pay settlement on staff costs as well as ongoing inflationary and demand pressures on services.

We are satisfied that the financial plans in place are based on reasonable assumptions and are appropriate based on our understanding of the Council. However, the delivery of the required level of savings is becoming increasingly challenging for the Council. Financial projections as at 30 June 2018, forecast a shortfall in delivery of savings of £1.82 million for the financial year. This is predominantly through £1 million shortfall in delivering savings through reductions in staff as part of a voluntary severance programmes. The Council has contingency arrangements to meet the shortfall in the year, through the application of unallocated budget pressures funding. However, going forward given the scale of forecast required savings, it will be critical that the Council has resilient plans in place to support the delivery of these as the capacity to absorb shortfalls in savings delivery reduces. Furthermore, it is important that the Council ensure that reductions in staffing numbers are across the right areas to ensure the Council maintain focus on key priorities and commitments.

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# Governance and transparency



The Council Plan 2017-22 incorporates Partnership Agreement commitments, the Council's key strategic themes, commitments and priorities and aligns these with the Council's financial and workforce strategies. The Plan defines how the Council will deliver the priorities and commitments over the period.



There are opportunities to enhance the Council's strategic risk management and scrutiny arrangements within the Audit, Risk and Scrutiny Committee. This should provide greater strategic oversight and scrutiny of the Council's management of corporate risks and more transparent approach to scrutiny of policy.



The Council faces significant financial and operational challenges. Addressing these requires clear and effective leadership across Members and Officers. In order to support management, there are opportunities for utilising Internal Audit to provide more strategic, value adding services including supporting risk assessment of proposed service redesign.

During our audit planning process no specific governance and transparency risks were identified for 2017/18.

We considered, through discussions with management and review of minutes, Dumfries and Galloway Council's overarching governance arrangements and how the Council ensure that they are transparent and open to Service's stakeholders including members of the public.

#### Identified audit risk at planning

In May 2017, the Council approved the amalgamation of the Audit and Risk Committee and a committee tasked with wider scrutiny, into a new Audit, Risk and Scrutiny Committee. The Committee is comprised of 11 elected members who are opposition councillors. The remit of the Committee is relatively broad and it is anticipated that certain aspects of the scrutiny role will be done via sub-groups in order to help manage this. It is recognised that the new committee will need time to establish itself.

#### **Our Response:**

We reviewed the Council's governance arrangements including the extent to which effective scrutiny arrangements have been established across the Council.

#### Conclusion

The Audit, Risk and Scrutiny Committee has a broad remit providing an important role in the overall scrutiny and risk management arrangements at the Council. We observed scrutiny and challenge taking place across all service committees. In 2017 the council established an audit, risk and scrutiny committee. Prior to 2017 the scrutiny committee made up of opposition members reported summary findings to the minority administration, which were taken forward and actioned. The combined audit, risk and scrutiny committee is new and, as yet, untested. There is a potential risk as the committee is an opposition only committee that it is not given sufficient prominence in the council structure, which may impact on future scrutiny at the council.

#### **Risk Management arrangements**

We note that during 2017/18, the Audit, Risk and Scrutiny Committee had limited oversight of the adequacy of the Council's risk management arrangements. There is limited oversight or consideration of the Council's key strategic risks during the year and the systems of internal control to manage these. Furthermore, while we acknowledge the Committee business was embedding in the year, we consider there to be opportunities to provide greater strategic oversight of Council risks and risk management arrangements as well as overall scrutiny of Council policy.

### **Openness, transparency and effective reporting of performance**

The Council demonstrates transparent public reporting. Council and committee meeting minutes and supporting papers are published online as well as a range of corporate publications detailing the Council's underlying performance and activities.

The Council publishes the Council Plan and supporting business plans as well as performance on the delivery of these. In particular, the "Priorities and Commitments Performance Report" summarises the Council's performance for the year.

Based on our review of Committee minutes and associated papers we note that these all follow a consistent structure which supports Committees in their decision making. There is clarity around the purpose of presented papers, when informing elected members of any judgements or decisions to be made.



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## Strategic transformation

The Council Plan 2017-22 incorporates the Administration's Partnership Agreement commitments, the Council's key strategic themes, commitments and priorities and aligns these with the Council's financial and workforce strategies. The Plan defines how the Council will deliver the priorities and commitments over the period.

The Plan sets out the need for change and transformation to allow the Council to meet the needs and priorities of population within a challenging financial context. The Council has established a Transformation Board to provide oversight and direction to the Change programme. This will report quarterly to the full Council. The Board will oversee the delivery of the transformation programme facilitated through the Transformation Delivery Board, Strategic Assets Board and Workforce Transition Board across the transformational themes which are aligned to the Council's priorities:

- Prioritisation of resources on Council Plan outcomes
- Transform our customer experience and improve our digital offer
- Modernise how we deliver some services to meet our outcomes
- Maximise use of fewer assets, working with and within communities
- Develop a smaller more flexibly skilled workforce
- Maximising our income and underpinning fairness through targeted concessions



The delivery of the level of transformation will require strong and effective leadership setting a tone-from-the-top. This will be required from elected members and the senior leadership team. Given the scale of the financial challenges facing the organisation, difficult decisions will need to be made balancing available resources with strategic priorities and commitments.

## Risk management and internal audit

The Council has made progress in enhancing its risk management arrangements during the year. There is greater alignment between the Corporate Risk Register and the Council's priorities. Furthermore, more effective and consistent processes of review from officers is now embedding across the organisation. Furthermore, risk management disciplines are incorporated into both business planning and project management arrangements to allow greater oversight and scrutiny of operational risks. While we have recognised there is an opportunity for greater oversight of risks from the Audit, Risk and Scrutiny Committee, we acknowledge the progress made in effective risk management at the Council.

The internal audit function provides assurance to the Audit, Risk and Scrutiny Committee about the effectiveness of the Council's systems of internal control. From review of the work performed in the year and planned for 2018/19 we found that the activity was primarily focused on retrospective reviews around the operating effectiveness of controls. We recognise the importance of regular assurance around the adequacy of these. Given the challenges facing the Council and likely level of transformational change across the organisation, there is potentially scope for utilising internal audit resource in a more strategic capacity, providing real time feedback on any proposed changes in the systems of internal control. **Action plan recommendation - 2**



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## Fraud and Irregularity

Dumfries and Galloway Council has arrangements in place to help prevent, detect and mitigate the risk of fraud or irregularity, including whistleblowing policy and confidential helpline for reporting fraud. While we consider these to be reasonable, no arrangements can fully prevent against the risk of fraud, theft or irregularity. We are not aware of any material frauds at the Dumfries and Galloway Council during the course of the year and have confirmed this with management.

The Council participates in the National Fraud Initiative (NFI), a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the National Audit Office to identify fraud and error. We found Dumfries and Galloway Council's arrangements for participation in the NFI exercise during 2017/18 to be satisfactory. The Council has effective arrangements in place for the submission of data and investigation of potential matches.



## Impact of the UK withdrawal from the EU

The impact and implications of the UK withdrawal from the EU remains uncertain. The Council continues to assess the potential implications of withdrawal from EU and this is incorporated into the Council's risk assessment and risk management arrangements.

While the full implications are not yet known, it is critical that the Council continue to assess and monitor the potential implications on them and, where appropriate, put arrangements in place to address these.

In particular, officers should undertake a review of potential workforce implications of EU withdrawal and potential implications on services.

Recognising the importance of this area, and risks around timing and impact, we will follow up and report on the Council's arrangements further during our 2018/19 external audit work.



## New financial powers

The Scotland Act 2016 (and 2012) devolved new financial and social security powers to the Scottish Parliament, representing a fundamental change to Scottish public financial processes. The Budget Process Review group's report to the Scottish Parliament made a number of recommendations to enhance financial management to help parliamentary scrutiny of decisions. Consequently, there is an expectation that public bodies, including councils, will be subject to greater scrutiny through parliamentary committees.



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# Value for money



Dumfries and Galloway Council has a well established performance management framework in place, including corporate performance reporting. The Council has a suite of performance measures to monitor the delivery of the Council's priorities. The Council should look to continue to develop these to be outcome focused measures.



The Council faces significant financial and operational challenges. Effective partnership working with strategic partners including NHS Dumfries and Galloway as well as local engagement will be increasingly important to support the delivery of the Council's strategic goals.



The key challenge for the Council, against a backdrop of financial challenges, is balancing delivery of the Councils' priorities and commitments while maintaining a focus on the needs of a local and disperse population.



During our audit planning process no specific risks were identified around the Council's arrangements for securing value for money. We considered, through discussions with management and review of minutes, Dumfries and Galloway Council's overarching performance and performance management arrangements. We will consider the Council's performance management framework and how they capture and measure performance and outcomes. We will also consider progress against the key strategic objectives.

## Best Value Audit

The Accounts Commission agreed the overall framework for auditing Best Value in June 2016. As part of the new approach, Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in the five year period. As noted in our audit plan, for Dumfries and Galloway's BVAR report is due to be reported to the Accounts Commission in November 2018.

As appointed auditors, we have worked together with Audit Scotland's Performance and Best Value Assurance Team in undertaking the work this year.

## Strategic priorities



Over the last ten years, the Council's priorities and commitments have remained consistent over the following themes:

- Build the local economy
- Provide the best start in life for all our children
- Protect our most vulnerable people
- Be an inclusive Council

The Council's Corporate Plan 2017-22 ("Council Plan") outlines how the Council will deliver these and sets the performance framework for which progress against the framework will be measured against. The Plan was approved by Full Council on 26 September 2017. As part of this, the Council introduced five year business plans to align with the Council's priorities and commitments. The Business Plans direct resources and activity and provide a basis for effective reporting on the delivery of the Council Plan for Elected Member scrutiny.

## Performance management

On a quarterly basis, performance against key performance measures including commitments contained within a Council Plan, are reported to the Policy and Resources Committee and Service Committees. However, end-of-year performance is often reported to service committees in September, so can be six months out of date by the time it comes to committees. The Council uses around 160 indicators to monitor how it performs against its priorities and commitments. These indicators utilise information from local government benchmarking, they also report progress on over 80 improvement projects as part of the reporting of performance against priorities and commitments. Each directorate takes responsibility for reporting progress against a group of indicators and improvement projects. The chief executive holds monthly one-to-one discussions with each of the four directors on the performance reports. The council also reports directorate performance twice a year to service and area committees.

As part of its performance management arrangements, the council uses exception reporting for areas of significant underperformance. This ensures that the Council identifies falling performance and agrees how to respond. There is evidence of the council taking improvement action to address some performance issues.

There are opportunities to continue to enhance performance reporting arrangements. The Council should consider streamlining all internal and public facing performance reporting to focus more on fewer but better key measures. This would make it easier to monitor progress against long-standing priorities. The Council is facing a significant financial challenge and clearer reporting would help elected members understand trends in performance and make informed decisions.

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## Effective partnership working to deliver the needs of citizens, service users and communities

The Council recognise the importance of effective partnership working to deliver the *Council Plan*. This includes working with key strategic partners including NHS Dumfries and Galloway and local community groups. The disperse and rural area covered by the Council creates challenges to ensure local communities are engaged.

The community planning partnership's (CPP) has a good understanding of local needs and issues. Plans are based on research, data analysis and feedback from a range of CPP and other stakeholders, including third sector organisations and individuals with experience of inequality.

The CPP has produced a single Local Outcomes Improvement Plan (LOIP) which links to the council's four priorities, defining eight clear outcomes which the CPP aims to improve.

The LOIP performance management framework draws on performance reported against strategies and projects of the council and other partners, alongside case studies. At the time of our report the CPP partners and other interested groups were to develop the first annual performance report in September 2018.

The CPP has also developed a single locality plan which focuses on food sharing. This innovative approach is based on academic research and feedback from the Tackling Poverty Reference Group which highlighted gaps in food bank provision across the region and a need for more coordinated arrangements to make it easier for people in poverty to access help.

In 2016, the council created a new ward officer role for each of its 12 wards. Ward officers engage with local communities, councillors and partners such as third sector. During 2017/18, the ward officers piloted 'community conversations' where ward officers, through engagement with local communities to determine the use and application of small relatively small budget allocation. The council is exploring how it can use community conversations in the future to gather feedback on other council services and budget decisions. The Critical challenge for the Council, against a backdrop of financial challenges, is balancing delivery of the Council's priorities and commitments while maintaining a focus on the needs of a local and disperse population.



### Integration Joint Board

The Integration Joint Board (IJB) arrangements continue to embed. The IJB includes all acute health board services, such as general hospitals, along with community health and social care, mental health and information management services.

While the IJB faces operational and financial challenges we have observed open and effective communication between partners. Dumfries and Galloway IJB held its performance review in public in 2017 and plans to do so again in October 2018. These reviews look at where the IJB is in terms of delivering its strategic plan.



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### Commitment to partnership working

The Borderlands Inclusive Growth Deal involves a partnership between Dumfries and Galloway Council and Scottish Borders, Cumbria County, Northumberland County and Carlisle Councils. The partnership has proposed projects to transform the economy of the five councils.

In June 2017, the Scottish Government announced plans to establish a South of Scotland Enterprise Agency. The agency, expected to be operational by 2020/21 aims to enable the area to grow in ways that benefit all sectors of society in the region.



The Borderlands Inclusive Growth Deal and South of Scotland Enterprise Agency are two developments that should directly help deliver the council's priority of economic growth. While both initiatives are in the early stages, the initiatives demonstrate the Council's commitment for innovative ways of working with partners for the benefit of the local community. It will be important that the council continues to work with a wide range of partners, including the third sector and local business, to maximise the impact of these, and other, developments.

### Waste Management PFI

To support the delivery of waste management services, the Council has a PFI arrangement with a third party supplier, Renewi UK Services Limited, a subsidiary of Renewi PLC. Under the contract, waste management facilities were developed and operated by the third party and utilised by the Council.



The contract was due to continue until November 2029 but has encountered difficulties mainly associated with reaching agreement with regard to changes required to meet new zero waste legislation. Full Council therefore agreed, on 3 September 2018, to the early termination of the Waste PFI contract and the contract was formally terminated on 10 September 2018. The services previously provided under the contract will subsequently be provided in-house by the Council following a short transition period.

The Council has appropriately disclosed this within the post balance sheet events note within the financial statements. The financial and accounting implications associated with this issue will be fully addressed in the 2018/19 final accounts.

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# Appendices

**Audit adjustments**

**Action plan and follow up of 2016/17 recommendations**

**Fees, independence and fraud arrangements**

**Financial reporting future developments**

**Communication of audit matters**

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# Audit adjustments

## Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

The following adjustment was identified during the course of the audit and corrected in the financial statements.

Item	Dr (£'000)	(Cr) (£'000)	Description
1		(3,205)	<i>Being adjustment to recognise defined benefit pension scheme net assets.</i>
	3,205		
2		(1,597)	<i>Being adjustment to recognise reclassification between long and short term borrowing, to represent the long term borrowing due to be repaid within the next 12 months (identified by officers).</i>
	1,597		

## Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit, Risk and Scrutiny Committee to evaluate the impact of these matters on the financial statements.

There were no material/significant disclosure misstatements identified.

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# Action plan recommendations for 2017/18

We have set out below, based on our audit work undertaken in 2017/18, those risks and recommendations which we consider are of a higher risk to Dumfries and Galloway Council that Management may wish to consider in the future.

## Recommendation

## Agreed management response

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### 1.) PPE

Heritage assets are distinct from property, plant and equipment as they are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. These assets are held based on estimated value, typically based on insurance valuation. The Council's last formal valuation was based on independent insurance valuation in 2013. In accordance with the CIPFA Code, we recommend that management look to obtain valuations, with sufficient regularity to ensure that the assets are held at their fair value. recognised in the accounts. When undertaking our PPE testing we identified a potential difference between what the system calculated as the entries between assets and the revaluation reserve for one asset. We performed alternative procedures and satisfied ourselves there was no material misstatement and this appeared isolated to the one asset. Officers will explore this issue with capita during 2018/19, as they provide the system to determine any adjustments required and depending on the outcome this will be reflected in the 2018/19 annual accounts.

Despite the Terms of Instruction stating that as part of the SLA the estates team would "prepare all specific Property Valuation Certificates and an overarching Valuation Report for audit purposes on or before 30th June each year. All relevant information, assumptions and the extent of the Valuer's investigation will be detailed in the Valuation Report rather than individual Valuation Certificates" an actual overarching Valuation Report does not exist. This report should be developed to aid in the valuation process going forward.

**Management response:** Options for developing an overarching valuation report will be considered and we will explore the potential for obtaining updated valuations for Intangible Assets where it is economical to do so, taking into consideration materiality. We will investigate the potential fixed asset system issue with Capita during 2018/19.

**Action owner:** Capital and Treasury Manager and Property and Architectural Services Manager

**Timescale for implementation:** April 2019

## 2.) Internal audit

The internal audit function provides assurance to the Audit, Risk and Scrutiny Committee about the effectiveness of the Council's systems of internal control. From review of the work performed in the year and planned for 2018/19 we note that the activity was primarily focused on key financial controls. We recognise financial controls are required to be covered but there is an option to do this on more of a rotational basis or risk basis. This would then allow further input from internal audit to support the transformation and period of service redesign, from the perspective of the design and operation of controls in a period of change. This we feel would increase the value which internal audit activity provides to the Council.

**Management response:** Options to better incorporate Internal Audit input into Transformation and Service Redesign will be explored.

**Action owner:** Head of Legal and Democratic Services

**Implementation:** March 2019

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## 3.) Financial delivery of the 2018/19 plans and beyond

The Council has in place a medium term financial strategy and plans in place to deliver the required savings during 2018/19. However, there are some recognised risks associated with the savings plans which could impact on the achievement of the plans in year. The scale of the financial challenge does increase over the medium term, and it is recognised that some of the savings required will take a longer period of time to implement and planning needs to start now. The Council should continue to track and report on the delivery of financial saving plans and have contingency plans should they be needed. In addition, there should continue to be a focus on achieving recurring savings where possible to reduce the burden of additional/carry forward savings in prior year.

**Management response:** We will continue to actively monitor savings delivery and ensure scrutiny of further savings options put forward.

**Action owner:** Head of Finance and Procurement in conjunction with SLT.

**Timescale for implementation:** February 2019

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# Follow up of 2016/17 recommendations

We have completed follow up of our 2016/17 recommendations and this is reflected below for information.

<b>Follow up of 2016/17 External Audit Recommendations</b>	<b>Action as at September 2018</b>
<b>1.) Fixed assets</b>  When reconciling the Fixed asset register and the General Ledger we identified that for Vehicles, plant, furniture & equipment there is a £79,000 difference between the fixed asset register and the ledger. This difference is a known difference and immaterial. Officers continue to ensure that this difference does not increase as a fix is not possible and relates to the historic change in IT systems around fixed assets and goes back a number of years.  There is a risk that this difference increases resulting in a material difference which is not anticipated.	<b>CLOSED</b> <b>Management update:</b> Annual year end reconciliations are in place to ensure that the difference remains consistent.
<b>2.) Statutory trading organisations</b>  The roads maintenance service generated a very small surplus in 2016/17, but failed to breakeven over the 3 year rolling period.  Actions identified may not improve financial performance of roads maintenance.	<b>Ongoing</b> <b>Management update:</b> A review of the future viability of Trading Operations has taken place. The roads maintenance function will no longer be a statutory trading operation. Plans are in place to return the building maintenance service to a surplus position.  <b>Action owner:</b> Head of Enterprising Services.
<b>3.) Management commentary</b>  The Management commentary reflects our understanding of the Council. It is very narrative focused and although conscious it could be enhanced for the user of the accounts through the inclusion of diagrams to show year-on-year comparisons and to highlight particular practices through case studies.	<b>CLOSED</b> <b>Management update:</b> The commentary was significantly redesigned for 2017/18 to include more use of graphics and made more user friendly.
<b>4.) Elected Member training</b>  The Council has invested in a significant training programme for Elected members but based on previous experience attendance outwith the required sessions had been mixed. Therefore the importance of attending training should continue to be emphasised by Council Officers  Investment in Elected Member training may not result in a return due to poor attendance rates or lack of commitment and engagement with the programme.	<b>CLOSED</b> <b>Management update:</b> Since the election in May 2017, Members have gone through an intensive induction process as well as in-depth training on a number of topics relevant to their committee works and this is a continuous process." Drop in" sessions run by officers or more complex issues have proved to be popular with members. Uptake has been much improved and officers are responding to requests to develop more on-line training that can be accessed at any time ; and for courses to be able to be linked through skype or video conferencing to facilitate greater involvement



## 5.) Website

The Council website contains a wealth of information for service users. From our review, we noted that information on how the Council performs and delivery of outcomes could potentially be clearer, as currently you need to go through about 4 sub menus.

There is a risk that performance information may not be easily identifiable via the website.

CLOSED

### Management update:

Information on how the Council performs and delivery of outcomes is available from the Performance information landing page <http://www.dumgal.gov.uk/performance> and is easily identifiable. You can get to this information in 3 clicks using the menus. It is also easily accessible via the search and if our customers start their search from Google it is ranked at the top of the search results.

## 6.) Audit, Risk and Scrutiny

The Audit, Risk and Scrutiny Committee is a newly formed Committee which will take time to be embedded and agree the balance of the agenda, number of meetings, and effectiveness of the scrutiny.

The findings from the Committee may not be fully embraced by the main Council given the 100% opposition nature of the committee and/or the committee may not operate as intended and therefore scrutiny would not be enhanced.

Ongoing

### Management update:

No formal review has yet taken place, given the officers view is that this would still be premature. The Committee's work in scrutiny has developed and strengthened in the past months and has been delivered with energy and pace. Meetings have been supplemented with regular workshops for scrutiny work which have been well received by members. The next stage of development will be to focus on the Committee's role with risk. The Council's Risk Management framework has been recently refreshed and this will provide an opportunity for training for members and to see them exercise their role in committee over the forthcoming months

### Action owner:

Head of Democratic and Legal Services

## 7.) Corporate Governance Code

The corporate governance code contains a number of documents and/or links to documents which are out of date or no-longer relevant.

Out of date policies and procedures may be applied in error.

Ongoing

### Management update:

There has been a great deal of progress this year in updating systems and documents in preparation for the implementation of the Council's new committee management system. The system will also allow members to update register of interest and declare any gifts and hospitality received. A thorough review of election documents and processes has also taken place. We have kept standing orders under review through the committee process. We will be drawing all the work together under a new Code, a little later than expected, but by the end of the calendar year. This therefore should be carried forward to December 2018 for final completion

### Action owner:

Democratic Services Manager

### 8.) Risk management

The Council's corporate risk register reflect a number of risks, as recorded on covalent. However, there is an opportunity to re-review these risks and link them to the risk of failure to deliver the Council priorities. In addition, Council Officers may wish to consider the focus risk management receives across the Council. This would then ensure risk was integrated into the Council's wider arrangements and the Corporate Management team would then only focus on those risks that are critical to the Council.

### CLOSED

#### Management update:

In February 2018 the individual risks in the Corporate Risk Register were linked to the Council's Plan for 2017-22. The links were registered in Pentana, and create understanding of the potential impact on the Council's priorities and commitments. The Policy and Resources Committee also agreed to update the Council's Risk Management Policy and Strategy in June 2018. The actions in the report covering production of a risk management toolkit for managers, the establishment of a dedicated resource page on the Council's intranet, provision of an online training course for staff/Members.

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### 9.) Performance Measures

The Council are continuing to consider and develop suitable performance metrics that can be measured during the year in support of an annual performance metric to give an "early warning" signal where needed.

Performance that is only reported annually may not give sufficient time to re-look at performance outcomes or make the necessary changes.

#### Management update:

Ongoing

#### Action owner:

Performance and Improvement Manager

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# Fees, independence, fraud arrangements

## External Audit Fee

Service	Fees £
External Auditor Remuneration	196,319
Pooled Costs	17,100
Contribution to Audit Scotland costs	12,220
Contribution to Performance Audit and Best Value	96,660
<b>2017-18 Fee</b>	<b>322,299</b>

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Officers.

The above fee has not changed and our final fee was £322,299

## Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2017/18 financial year	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

## Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at Dumfries and Galloway Council.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for the Dumfries and Galloway Council this is assumed to be the Audit, Risk and Scrutiny Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit. – None were identified in-year

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is **Dumfries and Galloway Council's** responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with Dumfries and Galloway Council to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

# Communication of audit matters

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and officers/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
<b>We are independent of Dumfries and Galloway Council and have not identified any conflicts of interest</b>		
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
<b>We have not incurred any non-audit fees during the year and no threats to independence identified</b>		
Significant matters in relation to going concern	•	•
<b>No significant going concern matters identified</b>		
Views about the qualitative aspects of Dumfries and Galloway Council accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
<b>Set out in the Financial statements Section</b>		
Significant findings from the audit		•
<b>No significant findings from our audit</b>		
Significant matters and issues arising during the audit and written representations that have been sought		•
<b>Letter of representation has been signed by the Council's Section 95 Officer.</b>		
Significant difficulties encountered during the audit		•
<b>No difficulties encountered</b>		
Significant deficiencies in internal control identified during the audit		•
<b>None identified</b>		
Significant matters arising in connection with related parties		•
<b>None identified</b>		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
<b>None identified. A nil fraud return was submitted to Audit Scotland in April 2018 in accordance with the planning guidance.</b>		
Non-compliance with laws and regulations		•
<b>None noted</b>		
Unadjusted misstatements and material disclosure omissions		•
<b>None noted. Minor disclosure amendments only and these were not material in nature</b>		
Expected modifications to the auditor's report, or emphasis of matter		•
<b>None, an unqualified opinion, with an explanatory paragraph in relation to the Council's Significant Trading Operations failing to meet their statutory target of breaking even over a three year period.</b>		

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to Dumfries and Galloway Council Officers and the Audit, Risk and Scrutiny Committee.

