



Dumfries and Galloway Council

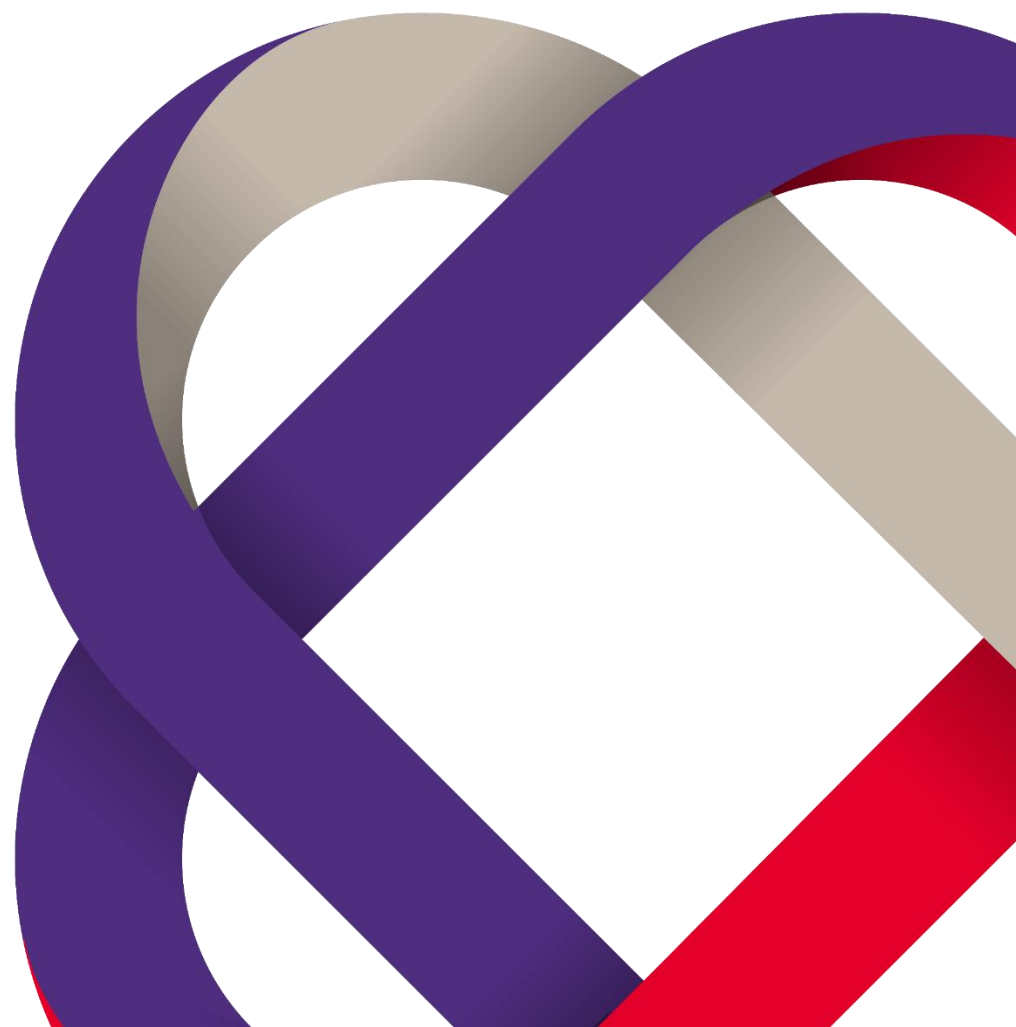
Annual External Audit Report to Those Charged with Governance and the Controller of Audit for the financial year ended 31 March 2020

Final Report

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Financial statements at a glance



The unaudited Annual Report and Accounts were presented for public inspection on 25 June 2020. In accordance with our annual external audit plan our audit work commenced on 6 July 2020. Due to the travel restrictions and social distancing measures introduced by the government in response to the Covid-19 pandemic, we delivered the audit remotely. We thank Officers for their support and assistance throughout the audit.



The Management Commentary is in line with our understanding of the Council. The Governance Statement, included within the Accountability Report, outlines the governance framework. The Remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) regulations 2014.



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work. This final report to Dumfries and Galloway Council (“the Council”) and the Controller of Audit concludes our work.

An audit
underpinned by
quality and adding
value to you



We have issued an unmodified audit opinion on the annual report and accounts. Our audit opinion includes an emphasis of matter paragraph in relation to the material uncertainty over the valuation of land and buildings arising as a result of Covid-19 and the forecasted economic downturn.



Significant audit risks were: management override of controls; risk of fraud in revenue recognition as set out in International Standards on Auditing (ISAs UK); the risk of fraud in expenditure recognition as set out in Financial Reporting Council’s (FRC) Practice Note 10, defined benefit pension obligations, and the valuation of property plant and equipment. An additional significant audit risk was identified in relation to Covid-19, which caused significant disruption to all public sector entities in the later half of March 2020.



Materiality is set at £8.072 million for the Group consisting of the Council, the South West of Scotland Transport Partnership and the Dumfries and Galloway Integration Joint Board (as a joint arrangement). Council only materiality is £8.054 million. This represented 1.5% of gross expenditure excluding Dumfries and Galloway IJB transactions which we exclude on the basis that the nature of recording transactions with the IJB effectively double counts income and expenditure transactions.

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Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016).

Through this Annual Report we seek to provide insight and commentary over certain aspects of Dumfries and Galloway Council's (the Council) arrangements, sharing relevant practices with the Audit, Risk and Scrutiny Committee and Senior Officers.

We have continued to build on our working relationship with Officers and our understanding of the Council as an organisation. Reflecting on feedback from Officers in previous years we looked to complete our audit testing procedures in line with our audit plan. Unfortunately, due to the impact of the COVID-19 pandemic, our audit was undertaken remotely. As a consequence our audit testing procedures took longer than originally planned. We will work with Senior Officers and the Finance team to learn lessons from the current year audit approach, reflecting on what worked well alongside how we can address the inefficiencies in working remotely and look to incorporate these learnings into our 2020/21 audit.

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Introduction

Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2020.

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

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

This final report will be made publicly available on the Audit Scotland website (www.audit-scotland.gov.uk).

Our report was presented as a draft to the Council's Audit, Risk and Scrutiny Committee on 22 September 2020 and was finalised following approval of the financial statements.

We would like to thank the Council's finance team and senior officers for all their support and assistance in the audit process.

Covid-19

As a result of the Covid-19 pandemic we re-assessed our audit risks included within our external audit plan. This resulted in the identification of a new Covid-19 financial statement risk. This is captured in this report alongside the work undertaken to address the risk identified. The risk considered the risk to us as auditors in working remotely alongside potential Covid-19 financial statement impacts, for example valuation of property plant and equipment and debt recovery.

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 including Best Value.

Our conclusions on wider scope risks identified in the audit plan are set out in the relevant wider scope sections of this report.



Our Opinion

For the financial year ended 31 March 2020 we have issued an **unmodified audit opinion** that the financial statements:

- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 code
- 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
- Other information in the annual report including Annual Governance Statement
- Other prescribed matters

Emphasis of matter – property valuation

We draw attention to the Council's annual accounts Note 5 to the financial statements, which describes the basis for valuing land and buildings. Officers use an internal expert to value their land and buildings portfolio on a rolling programme of revaluations. The expert's valuation included a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global due to the impact of COVID 19. Consequently less certainty and a higher degree of caution should be attached to the Council's valuation than would normally be the case. Our opinion is not modified in respect of this matter.

Materiality

We updated our audit materiality to reflect your 2019/20 draft financial statements. Materiality is set at £8.072 million for the Group consisting of the Council, the South West of Scotland Transport Partnership and the Integration Joint Board. Council materiality only was £8.054 million. This represents 1.5% of gross expenditure excluding Dumfries and Galloway IJB transactions which we exclude on the basis that the nature of recording transactions with the IJB effectively double counts income and expenditure transactions. Our performance materiality is set at £6.054 million (Council only: £6.04 million), being 75% of overall materiality.

We set a lower materiality level in respect of the remuneration report, given the interest to the users of the accounts. This was set at £5,000, linked to the bandings used.

We report to officers and those charged with governance any difference identified over £250,000 (Trivial capped at £250,000 by Audit Scotland).

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:

- Considered procedures and controls around related parties, journal entries and other key entity level controls.
- Performed walkthrough procedures of key financial processes including income and expenditure recognition, journal postings, payroll, land and building valuations, and the IAS 19 valuation of the defined benefit pension scheme.

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not place reliance on the operation of controls.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Internal Audit

As set out in our external audit plan our audit approach is to comply with the ISAs and we did not place formal reliance on the work of the Council's internal audit function during the year. We have reviewed the internal audit plan and individual reports issued during the year, to consider if any impact on our audit approach.

From our review we are satisfied that there were no areas arising from the work of internal audit that would impact on our audit of the financial statements and that appropriate disclosure is contained within the annual governance statement.

We confirm that internal audit is independent and has sufficient capacity to fulfil its role and remit.

The audit process

The unaudited accounts were published on 25 June 2020. In accordance with our annual external audit plan our audit work commenced on 6 July 2020. Due to the travel restrictions and social distancing measures introduced by the government in response to the Covid-19 pandemic, we delivered the audit remotely.

There was one adjusted misstatement to the draft financial statements relating to the IAS 19 Actuarial valuation of the defined benefit pension scheme liabilities. The actuarial valuation was updated to reflect the proposed remedy to the "McCloud ruling", a court judgement that pension schemes were unlawful on the grounds of age discrimination that impacts on future liabilities of LGPS schemes, reflecting information received after publication of the draft accounts.

There were a number of minor disclosure adjustments made to the draft financial statements including presentational adjustments to disclose the impact of the restatement of the 2018/19 Comprehensive Income and Expenditure Statement.

See detail set out in Appendix 1.

Responding to significant risks

Risk area	Identified audit risks at planning (as per the External Audit Plan)
Risk of fraud in revenue recognition	<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. Similarly, revenue in relation to the IJB funding is agreed to underlying funding confirmation. For these revenue streams, we therefore rebut the presumed risk of fraud in revenue recognition. We consider the risk to be prevalent in other service income (2018/19 totalled £174 million) with a focus around the year end transactions and balances where financial performance is subject to greater external scrutiny. Therefore, we focus our testing on cut-off of service income.</p>
Work completed	
<ul style="list-style-type: none">• Walkthroughs of the controls and procedures over service income (for those services with material revenue streams);• Substantive testing (at an elevated risk level) income recognised pre and post year end to identify if there is any potential misstatement• Substantive testing (at an elevated risk level) of income recognised in the final two months of the year to identify if this has been potentially overstated• Review and sample testing of accrued income and debtors to gain comfort around the recoverability of balances at the year end.	
Our conclusion	
<p>Based on our testing we conclude:</p> <ul style="list-style-type: none">• We did not identify any exceptions in our cut-off testing of year end income.• We did not identify any material misstatements arising from our testing of accrued income, prepayments and debtors at the year end or material concerns around the recoverability of balances.• We did not identify any indication of fraudulent recognition of revenue transactions around the year end.	

Risk area

Risk of fraud in expenditure recognition

Identified audit risks at planning

Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on other material non-pay service expenditure streams. As financial performance targets are measured externally on year end outturn, we consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay service expenditure

Work completed

- Walkthroughs of the controls and procedures over non-payroll expenditure
- Substantive testing (at an elevated risk level) of expenditure recognised post year end to identify if there is any potential understatement of expenditure
- Substantive testing of post year end bank statements and review of minutes to identify any potential unrecorded liabilities.
- Reviewing accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimate and challenging Officers around the completeness and accuracy of these.

Our conclusion

Based on our testing we conclude:

- We did not identify any material deficiencies in the design of controls in place over non-pay expenditure
- We did not identify any exceptions in our cut-off testing of year end expenditure.
- We did not identify any exceptions in the completeness and accuracy of accruals, deferred income or other creditor balances at the year end.

Risk area

Identified audit risks at planning

Management override of controls

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management (Senior Officers) to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

We consider those key judgements that are most susceptible to significant audit risk of management override are those over expenditure recognition. These are areas where management (Senior Officers) has the potential to influence the financial statement through estimate and judgement.

Work completed

Accounting estimates:

We assessed the risk of management override, consider those key accounting estimates and judgements that could impact on the organisations financial results and where there is an inherently increased risk of fraudulent misstatement or where management (Senior Officer) bias could result in a material misstatement. In particular we focused on estimates around material provisions, accruals and defined benefit obligations. In response to the significant audit risk we:

- considered the design of controls in place over key accounting estimates and judgements including: the valuation of land and building; valuation of defined benefit pension scheme obligations and reasonableness of the provisions for bad or doubtful debts, including Council tax debtors.
- Reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.

Journals testing:

We performed data interrogation procedures to identify journals that, based on our planning assessment, presented a higher risk of fraud or error. In response to the significant risk we:

- Assessed the design of controls in place over journal entries, including how these are prepared, authorised and processed onto the financial ledger;
- We risk assessed the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they are appropriate and that suitably recorded in the financial ledger;
- We performed targeted testing of transactions around the financial year end reviewing those journals that are large or otherwise appear unusual to understand the rationale for the transaction.

Our conclusion

Based on our testing we conclude

- There was no evidence of management override in our testing.
- The Council's draft financial statements identify significant areas of estimation and judgement including; valuation of property, plant and equipment; the valuation of the defined benefit scheme obligations; debtor provisions and Council tax provisions. We have not identified any indication of management bias or fraud in the estimates applied.
- We have not identified any unusual or inappropriate transactions during the course of the year that would indicate management manipulation of the financial results.

Risk area

Valuation of property, plant and equipment (Land and buildings)

Identified audit risks at planning

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ('the 2019/20 Code') property, plant and equipment is held at current value. The exact valuation basis depends on the nature and use of the assets. For land and buildings (where cost depreciated historical cost is not considered a reasonable proxy for current value), these assets need to be revalued with sufficient frequency to ensure the carrying value as at 31 March is not materially different to that if they had been valued at that date. As at 31 March 2019, Dumfries and Galloway Council held PPE of £877 million, including Other Land and Buildings of £679 million and Infrastructure Assets of £141 million. Given the value of PPE held by the Council and the level of complexity and judgement in the estimation of valuations, there is an inherent risk of material misstatement in the valuation of land and buildings. The risk is less prevalent in non land and buildings assets as these are generally held at depreciated historic costs, as a proxy of fair value and therefore less likely to be materially misstated.

Work completed

- Walkthrough of the controls and procedures over the valuation of land and buildings to gain an understanding of the arrangements in place at the Council for ensuring the carrying value of land and buildings remains appropriate and in accordance with IAS 16 and the Code.
- Challenged the underlying assumptions continued within the valuation of land and buildings and the reasonableness of these including the suitability of any indices used in the valuation.
- Reviewed the processes in place to support the valuers assessment of potential impairment of PPE and considering if there are any indications of impairment of PPE not recognised by the Council.
- Challenged officers to demonstrate that the valuation of land and buildings as at 31 March 2020 was materially consistent with the valuation that would be obtained if a full valuation had been undertaken at the balance sheet date.
- Using our auditor valuations expert, challenged the Council on the valuation instructions and approach adopted in valuing land and buildings as at 31 March 2020.

Our conclusion

Based on our testing we conclude:

- Property, plant and equipment has been valued in accordance with IFRS 16 and the Code.
- The assumptions adopted by the Council are reasonable. However, we found that underlying price data used in the valuation was based on BCIS forecast data rather than actual market prices. While Officers were able to demonstrate that the valuations were not materially misstated, to avoid potential error in future valuations, the Council should ensure that current market data is used in the valuations to ensure compliance with the code that assets are valued at current value as at 31 March each year. In addition, under the Code, the Council should obtain a formal valuation report each year to enable them to scrutinise the suitability and reasonableness of the assumptions made by the valuer in year and that these are consistent with wide knowledge and understanding of the Council. *Action plan recommendation– 1*
- We have agreed the revaluation to the independent revaluation report and confirmed through testing a sample of revaluation entries, that these have been appropriately recognised in the financial statements.

The Royal Institute of Chartered Surveyors (RICS) have issued a valuation practice note regarding material uncertainties in valuations as a result of impacts to the market caused by Covid-19. The RICS Red Book defines material uncertainty as 'where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted. Due to the impact of Covid-19 on markets, including reduced level of data points to support valuations, the Council's valuers have reported their valuation advice on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global Standards. Consequently, less certainty, and a higher degree of caution, should be attached to the valuation advice than would normally be the case. The Council have updated the accounts to disclose the material uncertainty within note 5 (Accounting policies).

Risk area

Valuation of defined benefit pension scheme (LGPS)

Identified audit risks at planning (as per the external audit plan)

The Council participates in the Dumfries and Galloway Council Pension Fund, a local government pension scheme. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, the Authority is required to recognise its share of the scheme assets and liabilities on the statement of financial position. As at 31 March 2019 the Council had pension fund liabilities of £435 million. Hymans Robertson UK LLP provide an annual IAS 19 actuarial valuation of the Authority's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme could be materially misstated within the financial statements.

Work completed

- Walkthroughs of the controls over the valuation of pension scheme liabilities, including information and instructions provided to the pension fund and actuary
- Obtained an understanding the arrangements in place at the Council for reviewing the assumptions adopted by the actuary and suitability of these for the Council
- In accordance with Audit Scotland planning guidance, we used the work performed by PricewaterhouseCoopers (PwC) in undertaking a central review of actuarial assumptions and challenged the suitability and reasonableness of the Council's assumptions adopted by the actuary in arriving at the defined benefit pension scheme liability.
- We tested the underlying data of assets and liabilities supporting the valuation to ensure these are consistent with the Council's underlying records

Our conclusion

Based on our testing we conclude:

- The assumptions adopted by the Council in arriving at the IAS 19 actuarial valuation of the net defined benefit pension scheme liabilities were reasonable.
- The data used in the actuarial valuation was consistent with the Council's underlying records.
- The Council's actuarial valuation included an allowance for the estimate of the Council's likely future pension obligations in relation amounts arising in relation to unlawful discrimination ("McCloud/Sargeant") within historic changes to local government pension fund terms and conditions. In June 2020, the UK Treasury have proposed remedial action as to the settlement of these arrangements. The settlement is lower than the initial estimate made by the actuary. As the UK Treasury announcement reflects more accurate information around conditions that existed at the balance sheet date, this is considered an adjusting post balance sheet event. The Council obtained a revised IAS 19 actuarial valuation, incorporating a more accurate estimate of the McCloud obligation. This revised actuarial valuation reduced the net defined benefit liability by £3.513 million. Officers have considered the potential impact of indexation of Guaranteed Minimum Pension (GMP) provision for members with a GMP for service between April 1978 and April 1997 (for members reaching retirement age before 5 April 2021) and do not consider the impact of any potential provision to be material to the financial statements and overall pension liability. We have agreed with this conclusion.

Risk area

Covid-19

Identified audit risks at planning

The global outbreak of the Covid-19 pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We anticipated current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and restrict the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by officers to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate officers estimates;
- Financial uncertainty will require officers to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant audit risk in April 2020.

Work completed





- Worked with officers to understand the implications the response to the Covid-19 pandemic has had on the Council's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations;
- Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- Evaluated whether sufficient audit evidence could be obtained through remote technology;
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant Officers estimates such as recovery of receivable balances; and
- Evaluated Officer's assumptions that underpin the revised financial forecasts and the impact on Officer's going concern assessment.





Our conclusion

Based on our testing we conclude:




- Covid-19 and remote working did not restrict the Council's ability to prepare the financial statements or restrict the audit evidence required to complete the audit.
- Officer's assumptions underpinning financial forecasts and the going concern assessment have adequately considered the potential impact of Covid-19.
- We have not identified any significant impact on the Council's debtor recovery, although acknowledge that the majority of these are with other public bodies
- The impact of COVID-19 has resulted in a material uncertainty surrounding the valuation of property, plant and equipment (see Valuation of Property, plant and equipment significant risk)
- Officers have adequately assessed and disclosed the impact of Covid-19 on the Council's governance arrangements, particularly the arrangements in place beyond mid March 2020.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Accounting policies	Application of IFRS and deferral of IFRS 16: Leases	The Council's Accounting policies are in accordance with the code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by Internal Financial Reporting standards (IFRS), unless legislation or statutory guidance required different accounting treatment. These have been applied consistently to the previous year. No new International Financial Reporting Standards (IFRS) have been adopted in the year as the adoption of IFRS 16 for public bodies has been delayed by a year as a result of the Covid-19 pandemic.	 Green
Revenue recognition	Funding and income	The Council's accounting policies summarise when income transactions are recognised in the Council's Comprehensive Income & Expenditure Statement. The Council's accounting policies are consistent with the requirements of the Code and IFRS 15.	 Green
Significant estimates	Major sources of estimation uncertainty	The Council's unaudited financial statements included the following areas of significant risk of material adjustment in the forthcoming financial year: property, plant and equipment; LGPS pensions liability; debtor provisions; and Council tax provisions. During the Audit, Officers enhanced the disclosure around the material valuation uncertainty disclosure over the valuation of property, plant and equipment within the accounts and this has been reflected in the amended accounts. From review of the disclosure, we do not consider the Council tax provision as major sources of estimation uncertainty given our audit materiality but recognise that Council has followed the principles of the Code of Practice for Local Authority Accounting in the United Kingdom (2019/20) in preparing the disclosure.	 Amber
Critical judgements	Critical judgements in the statement of accounts	The Council has disclosed critical judgments around the classification of lease arrangements; provisions and contingent liabilities; and uncertainty around future levels of funding for local government. Whilst we do not consider some of the areas disclosed to be Critical Judgements, based on the ISA definitions, we acknowledge current disclosure has been prepared in accordance with the Code of Practice for Local Accounting in the United Kingdom (2019/20).	 Green

Accounting area	Summary of policy	Comments	Assessment
Group accounts	Group accounts	<p>In accordance with the Code, the Council has prepared group accounts. The Group accounts represent the Council, The South West of Scotland Transport Partnership (as a subsidiary of the council) and the Dumfries and Galloway Integration Joint Board (as a joint arrangement).</p> <p>The Council administers the Common Good Fund and Charitable Trust Funds. While these are disclosed within the financial statements, they are excluded from consolidation into the Group Accounts on the grounds of materiality. We are satisfied that the approach taken by Officer is appropriate and in line with the requirements of the Code.</p>	 Green
Common Good	Common Good Funds	<p>Dumfries and Galloway Council administers the Common Good Funds of the former Burghs of Kirkcudbright, Castle Douglas, Gatehouse of Fleet, Annan, Lochmaben, Lockerbie, Stranraer, Whithorn, Wigtown, Sanquhar, and Dumfries. As at 31 March 2020 the Common good funds held total net assets of £8.691 million, primarily in land and buildings and long term investments. Funds are held for the benefit of the residents of those former burghs and must be used in the first instance to maintain the assets of the Common Good. Thereafter, funds can be used for purposes which are in the interests of the community for which the Common Good Fund was established. The Council continues to explore opportunities to utilising the funds for the purposes intended.</p>	 Green
Prior year reclassification	Reclassification of services	<p>During 2019/20 the Council undertook a restructuring of its services. As the Comprehensive Incomes and Expenditure Statement disclosure is based on service level income and expenditure the prior year comparators have been restated to align with the services in place during 2019/20. While we are satisfied that the restatement of 2018/19 figures is consistent with the 2019/20 service structure, we raised a disclosure adjustment for the Council to enhance the disclosure to provide the reader of the accounts a greater understanding of the impact on the prior year Service income and expenditure. This has been reflected in the updated draft accounts.</p>	 Green
Significant Trading Operation	STO	<p>During 2018/19 the Council reviewed its Roads Maintenance Service (STO) and concluded that it was no longer a Significant Trading Operation. This reflects the completion of the Trunk Roads maintenance contract arrangement. Consequently the 2019/20 financial statements do not include disclosure of any STOs.</p>	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other financial statement areas

Going concern

The Council has an approved budget for 2020/21, which reflects the Scottish Government local government settlement. The Council has also approved a provisional budget for 2021/22 and 2022/23, covering the policy intentions over the three-year period. Whilst the Council faces increasing financial challenges over the coming years, including the potential cost and lost revenue implications of Covid-19, we are satisfied that the Council has demonstrated sufficient resources to continue to meet its obligations over at least the next 12 months as they fall due and continue to deliver statutory services. We therefore agree with the Council's conclusion that it continues to represent a going concern.

The Council will continue to receive Scottish Government funding and generate revenue through local taxes and fees and charges to deliver statutory services. Whilst we recognise that Officers anticipate that there will be reductions in Scottish Government Funding the Council is looking at cost containment and efficiencies initiatives. The Council recognises that significant savings are required over the coming years to remain financially sustainable.

Fraud and irregularity

The 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 Council during the course of the year and have confirmed this with Officers and report to Audit Scotland through quarterly fraud reports.

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 the Council's arrangements for participation in the NFI exercise during 2019/20 to be satisfactory. The Council has effective arrangements in place for the submission of data and investigation of potential matches.

Trust Funds

The Council administers a number of education, welfare and charitable trusts, usually provided from legacies of former school pupils, donations to Social Work Services children's homes and other centres, as well as local residents of particular areas.

In accordance with Section 106 of the Local Government (Scotland) Act 1973, we are appointed auditors to provide an audit opinion on charitable trusts which are registered with the Office of Scottish Charities Regulator (OSCR) where the Council, or some members of the Council, act as Trustee. The Council has one Council charitable fund: Nithsdale Connected Trust Fund. We have substantially completed our audit procedures over the Nithsdale Connected Trust Fund and will provide the Council with a separate audit opinion. No issues have arisen during the audit of the Nithsdale Connected Trust Fund that we wish to draw Members attention to.

Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below.

Management Commentary

The Management Commentary provides a summary of the Council's financial and non-financial performance during the year. The Management Commentary identifies key risks, challenges and priorities for the Council. The report makes use of infographics to highlight key performance information during the year.

Overall Observations

We have not identified any inconsistencies between the information contained within the Annual Report and the Council's financial statements. The Annual Report provides a summary of the key activities of the Council during the year as well as strategic risks and priorities. The report also includes information on the impact of Covid-19 on the Council and the organisation's response. Looking forward there is an opportunity for the Council to continue to enhance its annual accounts to improve the readability.

Annual Report and Accounts include the Management commentary, Remuneration Report and the Governance Statement.

Remuneration Report

The remuneration report has been prepared in accordance with Local Authority Accounts (Scotland) Regulations 2014. The statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016). The disclosures are consistent with the Council's underlying records.

Governance Statement

The Governance statement has been prepared in accordance with the Local Authority Accounts (Scotland) regulations 2014. The statement is supported by Officer and Committee assurances to the Council and the internal auditors' assurance over internal controls. While the governance statement complies with regulatory requirements and disclosures, there is an opportunity to enhance the disclosures. Currently, the Governance Statement contains a significant number of references to other published documents or Council papers. While references to published information can add further information to the reader of the accounts it should not replace disclosure of key information to inform the reader of the accounts, particularly where these may be read in paper format without access to the links. In addition, an important element of assurance informing the Governance Statement is the work of Internal Audit. Currently, the Statement does not include the overall Internal Audit Opinion (**Action Plan Point – 2**).

Wider scope key messages

The Council reported a deficit on the provision of services of £37.407 million. Whilst the council reported a deficit for the year, this reflects the impact of accounting adjustments (particularly pensions accounting entries) and a more informative indication of the Council's financial performance for the year is reflected in the movement in General Fund Balances. The Council's total General Fund Balances as at 31 March 2020 were £46.2 Million (2018/19: £45.0 million).



Council spending was contained within budget in 2019/20 and the amount held in unallocated General Fund Balances at the end of the year is in line with the Council's agreed policy to seek to retain unallocated balances at a minimum of 2% of annual planned expenditure (£7.2 Million).



For 2020/21 the Council has identified savings of £5.908 million, representing less than 1% of annual service expenditure and therefore considered a achievable target. However, like many public bodies, the Council, face increasing financial and operational challenges. Over the medium term the Council is forecasting greater budget gaps. In 2021/22 the Council has forecast a budget gap of £16.254 million rising to £33.009 million in 2022/23. In addition, the Council's budgeted estimates do not include the impact of Covid-19 on the Council's resources both in terms of estimated lost revenue as well as increased cost pressures through demand and service remobilisation. Scottish Government have provided funding support to meet some of these cost pressures although there remains significant uncertainty around how the Council funds lost revenue as well as the longer term financial impact of Covid-19. The Council is currently investigating options to deliver the required savings through the Transformation Programme. To date the Council has demonstrated effective financial planning arrangements and the ability to achieve required savings in year and maintain unearmarked reserves balances that provide financial flexibility if required.

During 2019/20 the Council, through public consolidation, developed its Waste Management strategy, recognising its statutory obligations while considering strategic priorities and costs. Following an option appraisal, the Council has selected its preferred service delivery model and has established a project team to lead in its development. A waste management sub-committee was established to oversee the development and delivery of the Council's waste strategy and transition of arrangements in-house. Going forward the programme requires capital investment of over £21 million to provide new waste collection vehicles and the Dumfries zero waste park .



Working effectively with partners is essential to the Council in delivering its strategic outcomes. During 2019/20, the Council and its partners progressed in establishing governance and operational arrangements around the Borderlands funding arrangement, with the formal agreement due to be concluded in late 2020. In addition, the Council supported the review of the integration scheme with NHS Dumfries and Galloway. The Covid-19 outbreak has evidenced partnership working in response to an emergency situation with the Council working closely with key partners including the health board, local businesses and community groups to coordinate a local response. With the continued uncertainty facing the region with Covid-19 and potential social and economic challenges as a result of measures to contain the spread of the virus as well as the potential impact of EU withdrawal, it will be increasingly important that the Council continues to work with its partners to support the delivery of its strategic objectives.

Wider scope – significant risks

Within our annual audit plan we identified four significant wider scope risks in relation to: financial sustainability; value for money in partnership working; waste management; and, Borderlands.

Wider Scope Significant Risk: Financial Sustainability

The Council established a Transformation Programme to address the challenges of providing high-quality service across dispersed rural communities to an ageing population, against a backdrop of addressing a significant funding gap projected for future years. The Transformation Programme is overseen by the Finance, Procurement and Transformation (FPT) committee to support oversight and governance. While key themes have been identified of where strategic transformation can be delivered, it is critical for the financial sustainability of the organisation that these are delivered.

Audit response to significant wider scope risk

We will review the progress made by the Council in developing and delivering transformation across the Council. We will consider the extent to which the Council's Transformation Programme has supported the Council achieve financial targets in the current year and future years.

During 2019/20 we will review the impact of the Council's early retirement / voluntary severance scheme on the Council's financial performance, including the assessment of voluntary severance programme and pay back for the Council and how this aligns to the Council's workforce plan.

External Audit Conclusion

The Council's Transformation Programme has an important role in supporting the Council transform its services to ensure that it meets the Council's strategic priorities and delivers services to the public in a financially sustainable way. In 2019/20 the Council continued to demonstrate effective financial management retaining unearmarked general reserves of 2% of annual expenditure budget. A key part of this has been the transformation of staff in year. Between 2014 and 2019 the Council has implemented a voluntary severance / early retirement scheme which has saw a reduction in workforce of 1348 delivering over £60 million of savings. In 2019/20, the Council had 65 leavers under ERVS costing £2.63 million with expected pay back of savings over the next two years. A key challenge for the Council is continuing to deliver the level of transformation required while continuing to deliver statutory services to the public and the achievement the Council's wider strategic objectives.

Like many public bodies, the Council, face financial and operational challenges. Over the medium term the Council has forecast a budget gap of £16.254 million for 2021/22 rising to £33.009 million in 2022/23. Alongside the identified budget pressures, the Council face challenges with regards the impact of Covid-19. The Council's latest forecasts project costs pressures associated with Covid 19 of £10.355 million in 2019/20. The Council has received confirmation of funding of £7.8 million, representing Hardship and Food Fund of £3.2 million and the Council's share of the £155 million additional Scottish Government support (£4.6 million). For 2020/21 there is therefore additional cost pressure on budgets of £2.5 million. Action plan point – 3

The Council has effectively retained unearmarked reserves at targeted 2% of operating budget in recent years through effective financial management. A key challenge for the Council is managing the impact of Covid-19 as well as delivering the transformation required to ensure council services are delivered in a financially sustainable way.

Wider Scope Significant Risk: Value for money – partnership working

A key risk for Dumfries and Galloway Council is balancing the delivery of priorities and outcomes while facing significant financial challenges. A critical element of this is how Dumfries and Galloway Council work with key strategic partners to enhance performance. In particular it is important that there are effective partnership working with Dumfries and Galloway Council and Dumfries and Galloway Integration Joint Board to transfer the balance of care from acute services to primary care.

Audit response to significant wider scope risk

We will assess the extent to which Dumfries and Galloway Council works with key strategic partners to enhance performance improvement and deliver outcomes for the local citizens. We will consider how the performance management framework is used to help monitor and shape performance improvement recognising the financial and resource pressures faced.

External Audit Conclusion

The Council remains committed to working with its key strategic partners to enhance performance improvement and deliver outcomes for local citizens. The Council's community Planning partnership aligns the council's key strategic priorities with local outcomes and improvement plans. This includes working with NHS Dumfries and Galloway, Police Scotland, Scottish Fire and Rescue Service and South of Scotland Enterprise. The Local Outcome Improvement Plan 2017-27 outlines the key objectives of the Strategic Partners. The council's performance management framework aims to incorporate these into internal performance monitoring to ensure alignment between the Council's and the wider partnership goals.

The Covid-19 outbreak has evidenced partnership working in response to an emergency situation with the Council working closely with key partners including the health board, local businesses and community groups to coordinate a local response. With the continued uncertainty facing the region with Covid-19 and potential social and economic challenges as a result of measures to contain the spread of the virus as well as the potential impact of EU withdrawal, it will be increasingly important that the Council continues to work with its partners to support the delivery of its strategic objectives.

During 2019/20 the Council has looked to support the local economy and business during the period of uncertainty. This has included issuing £43 million in Small Business Grants since 1 April 2020 as well as managing Self-Employed Hardship Fund awards to local individuals.

The Council remains committed to working with its key strategic partners. The Covid-19 outbreak has evidenced partnership working in response to an emergency situation with the Council working closely with key partners including the Health Board, local businesses and community groups to coordinate a local response. These arrangements appear to have worked well with joint working arrangements helping to address the challenges faced locally.

Wider Scope Significant Risk: Value for money – waste management

In September 2018, the Council agreed the early termination of a waste management PFI contract. The contract was due to continue until November 2029 but has encountered difficulties mainly associated with financial difficulties of the funder, particularly in complying with zero waste legislation. The Council has transitioned the services in-house and are in the process of exploring the strategic direction of waste management at the Council. Given the financial implications in delivering waste management services as well as the regulatory requirements associated with waste disposal, it is critical that the Council carefully evaluates and appraises the various options available with regards waste management.

Audit response to significant wider scope risk

We will assess the extent to which Officers have evaluated the various options with regards waste management at the Council. We will consider the extent to which the Council has explored various options with regards waste disposal and progress made in developing a financially sustainable solution that is sufficient to meet regulatory and operational needs.

External Audit conclusion

During 2019/20 the Council, through public consultation developed its Waste Management strategy, recognising its statutory obligations while considering strategic priorities and costs. Following an option appraisal, the Council has selected its preferred service delivery model and has established a project team to lead in its development. This represented the lowest cost option that would meet existing waste disposal legislative requirements. A waste management sub-committee was established to oversee the development and delivery of the Council's waste strategy and transition of arrangements in-house. As the new proposed model has been developed and strategy in place, oversight around its delivery will return to existing governance structures in place at the Council.

During the year the Council undertook an analysis of the estimated cost of the Council's waste collection, treatment and disposal services. The proposed investment required is summarised as follows:

- Investment of £8.2 million in waste collection vehicles and bins.*
- Annual estimated repayment cost of £1.492 million, funded through annual revenue budget*
- Investment currently estimated at £13.2 million in associated works necessary at the Dumfries Zero Waste Park*

The Council has started development of the Dumfries Zero Waste Park to provide a new Household Waste Recycling Centre and the reception, processing and support facilities necessary for the delivery of a code-compliant kerbside collection service with these proposals to be further developed for consideration as part of the development of the Council's Capital Investment Strategy. The Council has incorporated an estimated capital repayment cost into the annual budget reflecting the revenue impact of the expenditure being incurred in developing the operation.

The Council's option appraisal process has sought to identify the most efficient and effective model of delivering waste management in the region. It is important that as the service fully mobilises the Council objectively reviews the actual costs incurred in service delivery as well as operational performance against those forecast in the options paper and waste strategy to ensure that the Council realises planned benefits, demonstrating value for money in service delivery. In particular, ensuring that the Council can demonstrate that operating model continues to deliver the financial and operating benefits planned.

Action plan point 4

Wider Scope Significant Risk: Value for money – Borderlands

The Borderlands Inclusive Growth Proposition was submitted to both the UK and Scottish Governments, by the Leaders of the five local authorities making up the Borderlands Partnership (Carlisle City Council, Cumbria County Council, Dumfries and Galloway Council, Northumberland County Council and Scottish Borders Council). An agreement on Heads of Terms was achieved in late June and was signed by the five Council Leaders, the Secretary of State for Scotland, the Cabinet Secretary for Transport, Infrastructure and Connectivity and the Minister for the Northern Powerhouse and Local Growth on 1 July 2019. The total funding value announced for the Deal was £350 million - £150 million in Scotland and £200 million in England. The Scottish allocation from the Deal is provided jointly by both Scottish and UK Governments with £85 million from the Scottish Government and £65 million from the UK Government.

Audit response to significant wider scope risk

The Council working with other partnership bodies have establish both local and partnership governance arrangements including a project management office to support the delivery of programmes under the deal supporting investment in the area. We will consider the arrangements from the perspective of Dumfries and Galloway Council. While unlikely to impact on the 2019/20 financial statements it will be important that robust governance arrangements in place to ensure clear and transparent decision making around any funding secured by the Council.

External Audit Conclusion

The Council working with other strategic partners has continued to progress with the development of governance and operational arrangements in place to progress the Borderlands growth deal and implement plans that will enable the Council and other partners to access the funding to support economic development in the area. This has included the establishment of a Programme Management Office (PMO) based at Northumberland County Council and governance arrangements. The PMO are currently developing the framework of information and processes required to form part of the full Deal, including the Monitoring and Evaluation Framework, the Communications Protocol, the Implementation Plan and the Financial Profile for the total spend and draw down of funds from the Deal. Under the arrangement the Council has involvement in nine different programmes including three directly relating to the Council: Stranraer Marina; Chapelcross; and Dairy Nexus, and six shared arrangements: Place – Borderlands; 7 Stanes; Digital; Natural Capital; Business Infrastructure; and., skills and Learning Network. It is anticipated that these will be subject to review and approval from the Council and the Partnership Board over the coming months, supporting significant investment for the region.

The impact of Covid-19 has delayed some of the progress in establishing governance structures and formal sign off of the Borderlands' Collaboration Agreement between the Councils. As the councils' are remobilising services, the next phase in formally agreeing the collaborations is expected to be undertaken towards the end of 2020. Over the coming years effective partnership working with the four other local authorities will be an important element of supporting the economic development of both Dumfries and Galloway Council as well as the wider area.

Overall the Council continues to make progress in working with strategic partners in developing projects to utilise and maximise the Borderlands funding to support strategic growth in the region.

Wider Scope Commentary

Financial management and financial sustainability

Financial Performance 2019/20

The Council reported total comprehensive income for the year of £90.558 million and a net cost of services of £37.407 million. Whilst the council reported a deficit for the year, this reflects the impact of accounting adjustments (particularly pensions accounting entries) and a more informative indication of the Council's financial performance for the year is reflected in the movement in General Fund Balances. The Council's total General Fund Balances as at 31 March 2020 were £46.2 Million (2018/19: £45.0 million).

Council spending was contained within budget in 2019/20 and the amount held in unallocated General Fund Balances at the end of the year is in line with the Council's agreed policy to seek to retain unallocated balances at a minimum of 2% of annual planned expenditure (£7.2 Million).

The outturn position reflects the Council's financial management and cost control arrangements to continue to deliver services within budget. The Council reported a net underspend against service budgets of £816,000. The outturn position reflected overspends against budget in areas including Education and Learning (£0.332 million) due to rising cost and demand pressures on additional learning support costs, and Social Work (£0.585 million) primarily due to demand pressures within Children's Residential Placements and Payments to Support Looked after Children. These were offset by other services savings and the release of budget held to support budget pressures.

Key financial performance information

	2019/20 £ million	Audit comment
Net underspend against operational budgets	0.816	Overall service underspend against budget reflecting cost management and delivery of service efficiency savings in year
Uncommitted general reserves (as a percentage of annual planned expenditure)	7.2	The Council's unearmarked general reserves remained at 2% of annual budgeted expenditure in line with the Council's financial strategy. This reserve represents the Council's contingency to meet unforeseen cost pressures in any given financial year.
Net assets	167.8	The Council's net assets increased from £77.2 million at 31 March 2019 to £167.8 million as at 31 March 2020. This was primarily due to a decrease in defined benefit pension scheme liabilities of £38.7 million mainly due to actuarial gains reducing estimated pension scheme liabilities and a decrease in short term borrowing of £31 million due to repayments in year.

	2019/20 £'000
Education and Learning – overspend	332
Social Work – overspend	585
Communities – underspend	(152)
Economy & Resources – underspend	(664)
JB and Social Care Funding	0
Release of Unallocated Budget Pressures Funding	(917)
Total Operational underspend	(816)

The Council delivered £8.943 million (88%) of targeted savings with the remainder (£1.218 million) being funded through planned use of the Council's Corporate Change Fund.

The 2019/20 corporate outturn position represents a positive position for the Council from which to address the challenges in addressing and supporting the pressures associated with the COVID 19 pandemic. The full financial implications associated with this pandemic are currently subject to detailed monitoring and review. However, it is apparent that financial support will be required over the upcoming financial year to implement a number of changes to facilitate an updated model of service delivery and assist/influence the economic recovery of Dumfries & Galloway.

Capital expenditure and capital investment strategy

The Council had net capital expenditure of £27.861 million against a budget of £31.416 million during the year. £3.555 million slippage was primarily due to programme delays with North West Cluster (demolition works), Glenluce Traveller Site as well as the Land (Inclusive Play Parks) and SWestrans (bus purchases) Asset Classes. The capital spend is lower than previous years, primarily because the Council are in a period of spending restraint following the significant investment in Dumfries Learning Town projects.

In February 2020, the Council agreed an updated 10-year Capital Investment Strategy covering the period 2019/20 to 2029/30. The strategy includes an allocation of £96.8 million to support future priority projects. Subsequent to that, Full Council in June 2020, agreed to add Dumfries Zero Waste Park into the strategy which subsequently reduced this allocation to £84.2 Million.”. The Council’s investment strategy aligns strategic priorities with affordable levels of funding and investment. It is important that the Council continue to scrutinise the capital programme to ensure this remains affordable especially moving forward due to the COVID 19 pandemic and subsequent recovery which will have an impact on the Capital Investment Strategy both in terms of delivering current projects and identifying future priorities.

The Council recognise the role that the delivery of the Capital Programme will play in the recovery of the local economy from COVID 19 is fully recognised and steps have been taken to ensure that projects can be progressed without unnecessary delay as restrictions are eased.

Financial management

Service committees have oversight of service level financial performance. From review of the Council’s Scheme of Administration and Delegation to Committees (revised June 2019) oversight of corporate expenditure is overseen by the Finance, Procurement and Transformation Committee. This committee also specifically oversee the delivery of the Transformation programme ensuring alignment and focus on financial performance. Service committee also have oversight of financial performance within their committee.

From our review of the financial reports and committee papers:

- Financial performance reports were reported throughout the year and 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 ensure accurate forecasting.
- Officers are continuing to enhance this reporting arrangements, including clearer reporting of budget movements in each quarter as well as greater operational controls over expenditure.

Financial planning and financial strategy

Like many other local authorities, the Council faces substantial financial challenges. In February 2020 the Council set a three-year budget 2020-2023. The budget included agreed savings of £5.908 Million, prior to the application of a Council Tax increase. The currently projected funding gap for 2021/22 is £16.254 million increasing up to £33.009 million in 2022/23. Work is currently ongoing through the Transformation Programme to identify savings options to address the identified budget gap in 2021/22 and 2022/23.

The Council have a number of key costs pressures including the impact of agreed pay awards and service demand and cost pressures. We are satisfied that the financial plans in place are based on reasonable assumptions. The delivery of the level of savings requires more than reducing costs and will require the Council to transform service delivery. The Corporate Change Fund (£3.5 million) is an important resource in supporting the Council delivery transformational change while managing in year financial performance, allowing the Council to absorb unforeseen costs or invest in change activity.

The Council's financial management framework underpinned by a combination of agreed Budget Setting Principles and budgetary control arrangements. However, the significant uncertainty on the revenue and cost implications facing the Council as a result of the Covid-19 pandemic represent an exceptional challenge in terms of the nature of the required Council support individuals, communities and businesses and the associated financial implications will be very significant. The Council have estimated, as of August 2020, that additional costs associated with the measures introduced to support individuals, communities and businesses are estimated at £10.355 million. In addition, the Council faces significant additional costs in relation to Education staffing, reconfiguration of the learning estate, transport and hygiene/safety measures. It is currently estimated that the costs associated with these measures will be funded through the receipt of additional funding from the Scottish Government. This assumption is currently subject to ongoing review.

The Council have received £7.8 million in additional funding to assist the Council in addressing the initial impact of the COVID-19 emergency. The Council have identified a number of potential methods to address the financial implications such as the use of unallocated funds and funds within the Council's reserves. Additionally, the Council will have to reassess its financial position and revise its financial plans and strategy in order to determine how best to support the Council's priorities with an increased focus on economic and social recovery.

The coming months and years represent a significant level of challenge for the Council in managing the impact of Covid-19 as well as delivering the transformation required to ensure council services are delivered in a financially sustainable way.

Transformation - Delivering savings

Essential to the Council's medium terms financial sustainability is the successful delivery of the Council's Transformation Programme to address the challenges of providing high-quality service across dispersed rural communities to an ageing population, against a backdrop of addressing a significant funding gap projected for future years. The Transformation Programme is aligned to the Council's Strategic themes. The Finance, Procurement and Transformation sub-committee receive updates (Modernising the Council – Transformation Update) on the transformation programme and delivery of savings.

Council redesign and workforce planning

An important part of the Council's Transformation is the efficient and effective deployment of the Council's workforce. During 2019, reflecting on the recommendations of the Audit Scotland Best Value Assurance Report in 2018, the Council developed a Council-wide workforce plan. The Plan sets out the Council's proposals to ensure there is a resilient and committed workforce in place to deliver ambitions for the future and describes the challenges the Council face and the strategic actions required to deliver the Council Plan vision. The Plan recognises the importance of the Transformation Programme in changing the way that the Council operate and identifies key actions designed to support employees in achieving the Council's ambitions. The Plan is a live document where detailed actions will be developed and reported annually to the Economy and Resources Committee to track progress and measure success. This will include reporting any updates to the plan with actions and adjustments as transformation progresses.

Trunk road maintenance management contract

The 4th Generation Trunk Road Maintenance Management Contract was in place from 2013 to 2018. The contract was anticipated to produce an operating surplus. However, in 2018/19 following a review of the contract, the Council found that previously accrued contract income was non-recoverable and that the overall contract would result in a deficit of £3.263 million. Following an internal review of the events that lead up to the loss, the Council identified a number of failings in how the contract was administered. This included: a lack of a formal risk assessment being undertaken prior to entering into the contract and effective risk management processes within the service to properly understand and quantify risk associated with entering into this contract; a lack of a clear delivery model both operationally and financially; insufficient reporting on the performance of the contract to the Corporate Management Team or Committees of the Council; and, reliance on external sub-contractors to deliver the contractual obligations but with no comprehensive competitively tendered or properly aligned contractual arrangements in place. The Council has sought to enhance its internal controls and governance arrangements to prevent previous practices from re-occurring. This has included:

- New management and committee structures;
- Improved procurement arrangements; and
- Improved financial management relating to budget management structure and financial controls

Officers has been finalising all outstanding financial matters under the contract. As at 31 March the outstanding amounts due to the Council under the contract were £882,000. Over £700,000 has been received since the year end with the final sums due in 2021. The Council has commissioned KPMG to undertake an independent investigation into the financial and operational arrangements in place which resulted in the loss being incurred and it is expected that this will conclude during 2020/21. We will follow up the progress of the investigation as part of our audit work in 2020/21.

In a wider context, the Council use a range of third-party suppliers to support operational delivery. The Council has invested in developing its internal procurement function and has a range of significant third-party suppliers providing a range of services including ICT core services to construction contracts and service providers such as care provision. The trunk road maintenance contract highlighted that there was a reliance placed on external sub-contractors to fulfil contract obligations. A number of improved procurement arrangements have been established to ensure that previous practices will no longer occur. It is important that the Council ensures that as these embed they operate effectively including sufficient oversight and scrutiny of third party contracts and service provision.

Governance and transparency

Governance Committee structures

Following an internal review of governance arrangements in 2018/19, the Council implemented an updated Scheme of Administration and Delegation to Committees in June 2019. The Audit, Risk and Scrutiny Committee now has representatives from both opposition and Administration members following members of the Administration joining the committee. In addition, the Council changed its strategic committees to Communities; Economy and Resources; Finance, Procurement and Transformation (FPT); Education and Learning; and Social Work Services to reflect service structure.

The Council's governance arrangements are reviewed and reported in accordance with statutory requirements and under a framework and guidance for Scotland called Delivering Good Governance in Local Government. During 2019/20 the Council undertook an evaluation of their compliance with the Local Code of Corporate Governance. This was considered by the Corporate Management Team prior to officer recommendations being published and reviewed on 22 May 2020 by the Ad Hoc COVID-19 Sub Committee. Arising from the Review of the Code and Evaluation, four Improvement Actions were identified:

- Ensure consistent process for early stage legal advice as appropriate
- Review of Committee report arrangements (also referenced in the Best Value Assurance Action Plan)
- Re-establishing regular senior-level review and refresh of the corporate risk register
- Develop the Council's understanding of balancing conflicting interests (including the roll out of social value assessment).

As the Council looks to re-establish governance arrangements following the impact of the Covid-19 pandemic they will look to ensure these improvement actions are implemented in a timely manner. We will review the governance arrangements further as part of our 2020/21 external audit.



Covid-19 Governance Arrangements



Following the outbreak of Covid-19 and travel and social distancing measures introduced by the Government, the Council temporarily suspended its existing governance arrangements. This included the temporary suspension of Council and Committees and the establishment of the Covid-19 Sub Committee and a revised management structure to co-ordinate the work of different 'Cells' dealing with the Council's Response. The Ad Hoc COVID-19 subcommittee was responsible for determining all urgent and/or important business relating to Non-Statutory Exclusions; and Council Committee and Sub Committee remits. The Ad hoc COVID-19 subcommittee has been meeting on a weekly basis throughout the pandemic and its operation was subject to review on a monthly basis. The Full Council held its first meeting in June 2020 since the pandemic began and it was decided that the Ad Hoc COVID-19 sub-committee would be discontinued and the suspension of the delegations to Committees and Sub Committees would be lifted. Subsequently, Council and Committee meetings are being undertaken through virtual meetings as the Council looks to re-establish governance arrangements while adhering to social distancing protocols.

Risk Management

The Council's risks are held on a central corporate risk register, which is continuously updated by risk owners and reviewed by the Corporate Management Team. The Council has sought to ensure Members' focus and oversight of strategic risks through Directorate business plans, half-yearly update reports to Service Committees and Service Plans.

However, as noted in previous years, the Audit, Risk and Scrutiny Committee continues to have 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. The Audit, Risk and Scrutiny Committee's remit includes:

Independent assurance of the adequacy of the risk management framework and the associated control environment within the Council to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations.

While we recognise that the Council receive certain assurances from Internal Audit and Officers over the design and operating effectiveness of controls over risks, we have observed limited consideration of Council risks or level of assurances over these. We also recognise that the Audit, Risk and Scrutiny Committee has undertaken targeted areas of scrutiny at the Council which incorporates consideration around how services are managing risks. However, this does not provide a holistic or strategic review of the Council's risks. There remains opportunities to enhance the risk management and risk oversight arrangements at the Council through enhancing the level of oversight through the Audit, Risk and Scrutiny committee over risks.

Action point follow up point - 6



Openness and transparency

The Council demonstrates committed to clear and 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 website contains performance reports during the period. The impact of Covid-19 impacted on the level of information published online as Council business was streamlined to focus on key priority areas and the Council's response to the global pandemic. As a consequence during the period of the pandemic the level of published information was more restricted than during ordinary period of governance.

Value for money

Oversight and scrutiny of performance

The Council utilise a suite of performance reports to monitor and challenge the Council's performance during the year. The Council report against key corporate priorities and commitments. This report is aimed at providing a transparent report on performance outcomes against the key priorities set out against the Council's key performance objectives. This is published on the Council's website.

The Council have published business plans for each of their services on the website. The ten business plans for the period 2019-2023 identify how each will deliver their services and what they will be doing to support the Council Plan. These plans directly link back to the Council Plan and each service monitors and reports on performance using agreed performance indicators and projects.

Services report on performance to Service Management Teams and Head of Service on a monthly; to the Corporate Management Team on a quarterly basis; and individual Heads of Service report on performance to Service and Area Committees on a six-monthly basis. Reports made to the Service and Area Committees are examined and scrutinised by members. In line with the Best Value Audit Improvement Plan, Area reporting has been reviewed and enhanced from previous Business Plans and services attend Area Committees with volunteers and partners as appropriate to illustrate the projects and activities in local communities.

The Council's performance management system is used to record and report performance. Each service uses key performance indicators which are used to report on the Council Priorities and Commitments and the Scottish Local Government Benchmarking Framework. Where a service's performance exceeds or is below targets set, or projects do not achieve milestones, exception reports are produced on a six monthly basis which outline corrective action being taken to ensure performance is back on track or to explain the reasons for over achievement.

We reviewed the agendas, papers and minutes of the Council's committees which confirmed that six-monthly update reports were provided by the Heads of Service for each of the business plans. The updates on the progress made in the period were scrutinised and challenged by the members of each committee. Where performance targets had not been met, members were provided exception reporting and asked to consider whether the actions proposed were adequate to improve performance and future monitoring of areas which have not met their target.

Local Area Network

The Accounts Commission, supported by Audit Scotland, chairs the Strategic Scrutiny Group (SSG). The SSG is made up of scrutiny bodies from across the public sector to make their work on local government more co-ordinated, better targeted and more proportionate to identified risks. The scrutiny bodies involved include the Care Inspectorate, Education Scotland and the Scottish Housing Regulator. The arrangements for coordinating scrutiny at a local level continue to include a Local Area Network (LAN) for each council. For Dumfries and Galloway Council the LAN is led by ourselves as appointed auditor for the Council. As part of our audit work we met with other scrutiny bodies in the area including engagement with the Care Inspectorate and Education for Scotland. The results of these discussions have helped inform our audit planning and feed into the National Scrutiny Plan. We will continue to engage with other inspection bodies during 2020/21 to ensure coordinated approach to scrutiny within the area.



Statutory performance indicators

The Accounts Commission has a statutory power to define the performance information that councils must publish for performance comparison and benchmarking purposes. It fulfils this power by issuing a Statutory Performance Information (SPI) Direction to councils. The Accounts Commission published an updated direction in December 2018. This requires the Council to report on SPI 1: *Improving local services and local outcomes*, and SPI 2: *Demonstrating best value*, with effect for financial year ended 31 March 2020.

Under SPI 1, the Council is required to report on:

- Performance in improving local public services, provided by both (i) the council itself and (ii) by the council in conjunction with its partners and communities.
- Progress against the desired outcomes agreed with its partners and communities.

The SPI guidance anticipates that these indicators will be reported assessing the Council's performance over time as well as compared to other authorities using the Local Government Benchmarking Framework.

In reporting against SPI 2: *Demonstrating best value* the guidance requires authorities to report on:

- The council's assessment of how it is performing against its duty of Best Value, and how it plans to improve against this assessment.
- Audit assessments of its performance against its Best Value duty, and how it has responded to these assessments.
- In particular, how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities.

The Council publishes a range of performance information through the Council's website. This includes: financial reports; performance benchmarking information; council priorities and commitments; business plans and performance reports; as well as best value information. In addition, the Council's services monitor performance against Best Value duty through business plan reporting with any areas of underperformance reported through exception reports. However, there are opportunities to enhance the current reporting arrangements. In particular, under SPI 2: *Demonstrating best value*, the Council should look to report on audit assessments of its performance against Best Value duty, and how it has responded to these. The BVAR report and follow up are not documented with the Council's wider performance information. In addition, we found some of the performance information to be dated with the Council's latest report on performance against the Council Priorities and Commitments being 2016/17. While we acknowledge that performance is reported to Service Committees on a six monthly basis this does not provide a strategic overview of the Council's performance. The Council should consider collating the information, including its own performance as well as that in working in conjunction with partners and communities into a central report to enable the public to obtain an understanding of the Council's overall performance against these statutory areas.

Action plan point - 5

Partnership working – Integration of health and social care

The integration model implemented within Dumfries and Galloway delegates all acute services to the IJB, reflecting the same geographical boundaries of the Council and Health Board.

The Public Bodies (Joint Working) (Scotland) Act 2014 outlines that there is a statutory duty to prepare an Integration Scheme which sets out which integration model is to apply, the functions to be delegated from each organisation, and the financial arrangements and payments for these functions. The Integration Scheme, agreed between the Council and NHS Dumfries and Galloway, confirmed that for the first year of operation as a partnership that if the IJB is unable to deliver a balanced position, any overspend would be supported by the organisation who originally delegated the budget. For 2020/21, it has been agreed between the parties that this arrangement will continue for a further year.

The Public Bodies (Joint Working) Act 2014 also requires that the Local Authority and Health Board undertake a review of the Integration Scheme before the expiry of the relevant period, which for Dumfries and Galloway is the 3rd October 2020. The Scottish Government recognises the inevitable impact and delay to this activity due to the extensive work and focus across the local health and social care system to plan and implement their COVID-19 response. As such, the Government has advised that the partnership is not required to prepare a successor integration scheme but as a minimum should review their current arrangement by this time.

The Council remains committed to working with its key strategic partners. The Covid-19 outbreak has evidenced partnership working in response to an emergency situation with the Council working closely with key partners including the health board, local businesses and community groups to coordinate a local response. These arrangements appear to have worked well with joint working arrangements helping to address the challenges faced locally. With the continued uncertainty facing the region with Covid-19 and potential social and economic challenges as a result of measures to contain the spread of the virus as well as the potential impact of EU withdrawal, it will be increasingly important that the Council continues to work with its partners to support the delivery of its strategic objectives.

Best Value

Duty to secure best value

It is the duty of Dumfries and Galloway Council to secure Best Value as prescribed in Part 1 of the Local Government Scotland Act 2003. The Act specifically outlines the following requirements:

- It is the duty of a local authority to make arrangements which secure best value.
- Best value is continuous improvement in the performance of the authority's functions.
- In securing best value, the local authority shall maintain an appropriate balance among: the quality of its performance of its functions; the cost to the authority of that performance; and, the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.
- In maintaining that balance, the local authority shall have regard to: efficiency; effectiveness; economy; and the need to meet the equal opportunity requirements.
- The local authority shall discharge its duties under this section in a way which contributes to the achievement of sustainable development.
- In measuring the improvement of the performance of a local authority's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

Best Value arrangements

The Council has a range of arrangements in place to secure best value. The Council has a clear strategic direction and is committed to priority areas which link to the challenges facing the local priority. These have remained consistent over five administrations and are reflected in the Council's plans, strategies and policies ensuring there is continued commitment and focus on these. This was reflected in the Best Value Assurance Report of the Council in 2018.

The Council has established governance arrangements to provide leadership, oversight and scrutiny. As noted in our report these continue to be reviewed to ensure they remain effective. The Council has demonstrated ability to use its resources effectively. The Council has reported identified and secured savings of £112 million over the last 10 years, up to and including 2021. The Council recognises that, like many other public bodies, over the medium term it faces challenges in continuing to deliver services within the financial resources available.

The Council's performance is monitored through service committees and the Council's website has dedicated section on performance including links to benchmarking data to enable analysis of Council performance against other local authorities. Committee minutes and papers indicate continued focus on performance across services. However, there is an opportunity to further develop performance monitoring, particularly in enabling a holistic view on Council performance, enabling the Council to demonstrate Best Value.

Best Value Assurance Report – Follow up

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. The Council's best value assurance report was published by the Auditor General for Scotland and the Accounts Commission in November 2018. During 2018/19 we followed up the Council's progress with regards the BVAR recommendations. During 2019/20 as part of our wider scope audit work we have noted the ongoing progress made by the Council in implementing and embedding the actions raised in the BVAR. The following areas reflect recommendations where the Council continues where work is ongoing.

Recommendation	Ongoing progress
<p>The Council should work with community councils to implement improved ways of working together to maximise the input and added value community councils can bring.</p>	<p>The Scheme for the Establishment of Community Councils was agreed by Dumfries and Galloway Council on 25 September 2018 and provides for 106 Community Councils across the region. The Scheme is more streamlined than previously and was developed with full engagement of our Community Councils. The Communities Directorate Business Plan 2018 to 2023 includes an Improvement project 'Community Council Development Programme' which is to support Community Councils in their contribution to community engagement and the 'Local Governance Review'. Community Councils have supported the Council's budget consultation process and there is ongoing programme of engagement with Community Council's which has been implemented over the last two years.</p>
<p>The Council should work with members to understand reasons for low attendance at training courses and agree action to improve current rates.</p>	<p>The Council has implemented a number of initiatives to understand the challenges and opportunities in relation to member training. Working with members, Officers are implementing actions to seek to improve rates of attendance including ensuring training meets Members needs. These arrangements continue to embed.</p>
<p>The Council should work with members to agree what level of information is required in committee reports and ensure reports to members are as clear and concise as possible.</p>	<p>Officers continue to work with Elected Members to understand their views on committee reporting, including feedback from Chairs, Vice-Chairs and political group business managers on any issues on the extent of information within Committee reports required to support decision making. This process will continue to look to develop and enhance the level of information provided to Members.</p>

Best Value Conclusion

Overall the Council has sufficient arrangements in place to secure Best Value. The Council demonstrates a clear strategic focus and continues to transform its services and ways of working to deliver these within resources available. The Council continues to make progress in implementing the findings from the 2018 BVAR. We will continue to follow up the extent to which these are embedded at the Council in 2020/21. The Council continues to refine its performance management arrangements and there opportunities to enhance these going forward.

Appendices

- Audit adjustments
- External Audit 2019/20 Action Plan
- Follow up of prior year recommendations
- Audit fees and independence
- Fraud arrangements
- Communication of audit matters

Audit adjustments

Uncorrected and corrected misstatements

We are pleased to report that there were no material uncorrected misstatements to the primary financial statements.

There was one corrected misstatement to the financial statements:

Item	Dr (£'000)	(Cr) (£'000)	Description
1		3,513	Actuarial gains / losses
	3,513		Pension Liability
			<i>Being adjustment to recognise the reduction in defined benefit obligations reflecting the revised IAS 19 actuarial valuation for McCloud</i>

During the course of our audit work we identified a number of disclosure adjustments required to the draft financial statements. The following are those adjustments that have been amended in the signed financial statements.

Item	Description	Adjusted
1	Accounting Policies	Amendments to remove reference to SRCOP which is not suitable basis of preparation
2	PFI / PPP disclosures	Disclosures updated to ensure the fair value of PPP / PFI models are appropriately disclosed in the disclosure note as these were disclosed at current value in the unaudited accounts
3	Valuation of PPE	Amending measurement basis from fair value to current value in accordance with the Code and wording that the valuation basis of PPE would be materially consistent with the value of those assets had all been valued at the balance sheet date
4	Material valuation uncertainty	Critical estimates note in the draft accounts updated to reflect material valuation uncertainty surrounding the valuation of land and buildings as at 31 March 2020
5	CIES 2018/19 restatement	Additional disclosures required to show the impact of the restatement of 2018/19 CIES following reorganisation of services
6	Related party	Minor updates to disclosure in the financial statements

Disclosure misstatements – uncorrected

The following disclosure misstatements have not been corrected by Officers. We do not consider these to be material to the accounts and Officers have agreed to review during the preparation of next years financial statements:

Significant estimates and critical judgements: The Council's unaudited financial statements included the following areas of significant risk of material adjustment in the forthcoming financial year: property, plant and equipment; LGPS pensions liability; debtor provisions; and Council tax provisions. From review of the disclosure, we do not consider debtors or Council tax provision as major sources of estimation uncertainty on the ground of materiality and considering their current carrying value we do not consider these balances to be of significant risk of material misstatement in 2020/21.

Similarly, the Council has disclosed critical judgments around the classification of lease arrangements; provisions and contingent liabilities; and uncertainty around future levels of funding for local government. We consider certain disclosures here to be application of accounting policy and not critical judgements as defined by the ISA's.

External Audit 2019/20 Action Plan

We have set out below, based on our audit work undertaken in 2019/20, the five significant recommendations arising from our audit work.

Recommendation

1. Valuation of property, plant and equipment

The Council's valuation of property, plant and equipment in year was based on forecast BCIS data (published in June 2019) rather than actual market data as at 31 March 2020. As a result there is a risk that the underlying price information may be out of date. While Officers were able to demonstrate that the valuations were not materially misstated, to avoid potential error in future valuations, the Council should ensure that current market data is used in the valuations to ensure compliance with the code that assets are valued at current value as at 31 March 2020. In addition, the Council use an in-house valuer to undertake the valuation of land and buildings held. However, the valuer does not provide the Council with a formal valuation report containing key judgements and assumptions and confirmation of valuation methodology. In accordance with the Code, the Council should obtain a formal valuation report each year to enable them to scrutinise the suitability and reasonableness of the assumptions made by the valuer in year and that these are consistent with wide knowledge and understanding of the Council.

Agreed Officer response

Officer response: The Council now subscribe to the RICS BCIS online service and have access to up to date price data. This will negate the need to forecast values to the same degree as that in the previous financial year. Looking forward the Council are investigating the possibility of outsourcing the valuations work currently being carried out by the one qualified in house valuer. The RICS "Red Book" "RICS Valuation – Global Standards" states that Firms should have a rotation policy and the same valuer should not carry out valuations for a number of years, and the valuer should be rotated within the firm.

Action owner: Head of Economy & Development

Timescale for implementation: March 2021

2. Governance Statement

There are opportunities to enhance the Council's Governance Statement. Currently, the Governance Statement contains a significant number of references to other published documents or Council papers. While references to published information can add further information to the reader of the accounts it should not replace disclosure of key information to inform the reader of the accounts, particularly where these may be read in paper format without access to the links. In addition, an important element of assurance informing the Governance Statement is the work of Internal Audit. Currently, the Statement does not include the overall Internal Audit opinion. Lastly the Governance statement is an opportunity to capture improvements planned within internal control and future actions.

Officer response: The Council's Governance Statement and opportunities for further improvement and development, including reference to the internal audit opinion will be subject to ongoing review prior to being submitted to the Audit, Risk & Scrutiny Committee for review and approval prior to inclusion in the Council's 2021/22 final accounts.

Action owner: Interim Head of Democratic Services

Timescale for implementation: 30 June 2021

Recommendation

3. Financial sustainability

Like many public bodies, the Council, face significant financial and operational challenges. Over the Council has forecast a budget gap of £16.254 million for 2021/22 rising to £33.009 million in 2022/23. Alongside the identified budget pressures, the Council face challenges with regards the impact of Covid-19. Given the level of uncertainty surrounding the medium to longer term implications of Covid-19, including demand on Council services as well as the Council's ability to implement planned transformation during period in which the Council is managing its response to the pandemic, it is critical that the Council continue to reassess the medium to longer term impact of Covid-19 on the Council to ensure that there remains focus on the need to deliver strategic transformation while recognising the immediate pressure on resources.

Agreed Officer response

Officer response: Both the ongoing financial implications of Covid-19 and developments at a national level in relation to future Scottish Government funding settlements will continue to be subject to close monitoring and reporting to Members as further information becomes available. Work is currently progressing to assess the current position in relation to the level and timing of savings available through the agreed transformation projects and also in relation to other savings options with details of potential spending reductions to be provided to Full Council in December 2020. The impact of COVID-19, and the associated changes to service requirements, provides the opportunity for a fundamental reassessment of service priorities and this is being undertaken to support the ongoing development of the Council's financial strategy.

Action owner: Head of Finance and Procurement

Timescale for implementation: 31 March 2021

4. Waste Management PFI

As the new Waste Management operating model becomes operational, it is important that the Council objectively reviews the actual costs incurred in service delivery as well as operational performance against those forecast in the options paper and waste strategy to ensure that the Council realises planned benefits, demonstrating value for money in service delivery.

Officer response: A further review of the costs will be carried out at each stage of the implementation process. The changes to collection will be undertaken in two stages, Wigtown in Q4 2020 and rest of region in Q2 2021. The purchase of refuse collection vehicles (RCVs) and bins has already been undertaken.

Delivery of the Dumfries Zero Waste Park, which will process dry recyclates is not scheduled for operation until Q2 2022.

Strategy for waste treatment and disposal through current Ecodeco MBT Facility is still under development and timescales for demonstrating value for money in service delivery at this time cannot be determined.

The process will therefore be ongoing for the next few years

Action owner: Head of Infrastructure & Transportation

Timescale for implementation: As per above.

Recommendation

5. Statutory Performance Indicators

The Council publishes a range of performance information through the Council's website. This includes: financial reports; performance benchmarking information; council priorities and commitments; business plans and performance reports; as well as best value information. However, there are opportunities to enhance the current reporting arrangements. In particular, under SPI 2:

Demonstrating best value, the Council should look to report on audit assessments of its performance against Best Value duty, and how it has responded to these. The BVAR report and follow up are not documented with the Council's wider performance information. In addition, we found some of the performance information to be dated with the Council's latest report on performance against the Council Priorities and Commitments being 2016/17. While we acknowledge that performance is reported to Service Committees on a six monthly basis this does not provide a strategic overview of the Council's performance. The Council should consider collating the information, including its own performance as well as that in working in conjunction with partners and communities into a central report to enable the public to obtain an understanding of the Council's overall performance against these statutory areas.

Agreed management response

Officer response: The Council is currently finalising a report on the Council Plan performance to date. This will be reported to Full Council in September. The Council Plan mid-term review is scheduled to be complete by December 2020 and this will consider any Restart and Recovery impacts on commitments. The Corporate Management Team are currently reviewing their Performance Indicators and performance information – this work will include the recommendations above.

Action owner: Head of People and Transformation

Timescale for implementation: March 2021

Follow up of 2018/19 recommendations

Recommendation

1. Valuation of property, plant and equipment

To comply with the requirements of the 2018/19 Code, items of property, plant and equipment are required to be held at their current value. For assets subject to valuation, this requires valuations to be undertaken with sufficient frequency to ensure that the carrying value of PPE is not materially different to its current value i.e. the value of the assets if they had been revalued as at 31 March 2019. During our audit further work was required from Officers and the internal valuer to demonstrate that those items of PPE not subject to revaluation in the year were not materially misstated. Through consideration of Officers' assessment, we are satisfied that PPE is not materially misstated. However, we recommend that Officers, working with in-house valuers review the rolling programme of valuations to ensure these are conducted with sufficient regularity to ensure not materially misstated.

Initial Officer response

The frequency of valuations will be continually reviewed to ensure they are completed with sufficient regularity and reduce the potential for material misstatement.

Follow up - Superseded

See action plan point 1

2. Trunk Road Maintenance Contract

During 2018/19 the Council had a dispute with Scotland TranServ around revenue due to the Council regarding a Trunk Road Maintenance Contract. Due to the position with the contract, the Council is having to reverse previous accrued income. The deficit recognised during 2018/19 amounts to £2.899m. The Council has initiated an internal investigation as to how this issue arose and wider implications for contractual management at the Council. It is critical that the Council consider how effective contract agreements and contract management arrangements are, including internal monitoring and reporting of performance, to ensure the Council has a clear understanding of contractual revenue due.

Initial Officer response

Council now has in place a Contract & Supplier Management Strategy which includes improved reporting to Members on tendering and delivery of external contracts to provide information to demonstrate costs and benefits, related to income and the wider economy, and an assessment of commercial viability for the Council.

Follow up – Closed

Council has revised member reporting arrangements for Contract and Supplier Management to enhance scrutiny and oversight in place at the Council. The Council commissioned an independent review of the Trunk Roads Maintenance Contract arrangement, and has sought to implement revised internal control arrangements to prevent similar incidents arising in the future.

3. Learning Lessons with supplier management

In recent years, the Council has experienced a number of high profile issues with suppliers including design and construction issues on the DG One contract and the North West Community Campus, a £28 million development which was closed for a prolonged period of time during the year due to safety concerns. In both these cases, the Council has undertaken assessments of the root cause of the issues and in the case of DG One, an Independent Inquiry reported in April 2018 on the construction of the complex. With an ambitious capital investment programme, including a planned £200 million investment over the next five years, it is critical that the Council ensure that lessons from these developments are taken forward into future programme

Initial Officer response

The Council are developing a cross Council Project and Programme Management Office (PMO). The PMO will be a centralised, co-ordinating body internal to the Council that will provide a management hub and centre of expertise for the field of construction project management. It will identify and address project management issues to support and facilitate the achievement of organisational project outcomes. The PMO will also be responsible for the physical delivery of works either through internal or external contractors

Follow up – Complete

The establishment of the Council's PMO function should support the Council in ensuring effective project management principles are followed across the council consistently. It is too early to conclude on the effectiveness of the new function. However, the Council envisage it will support the organisation deliver its ambitious capital investment programme.

4. Transformational savings

Under the revised governance arrangements, established by the Council in June 2019, the Finance, Procurement and Transformation sub-committee will now have oversight of the Council's transformation programme. This should provide greater oversight over the identification and delivery of transformation programmes and associated savings. It is critical that the Council's transformational activity and modernisation of council services supports the delivery of the Council's strategic goals, while at the same time addressing short term financial pressures.

Initial Officer response

The agreed purpose and themes of the Transformation Programme are focussed on the delivery of the Council's priorities, transformation of how Council services are delivered and on the identification of required savings aligned to these objectives. Progress against the programme will be continually monitored through the Finance, Procurement and Transformation Committee and through Full Council.

Follow up – Complete

Transformational programme and planned areas of savings are monitored through the Senior Leadership Team and through Council committee to ensure there continues to be alignment between the transformation activity and Council priorities.

5. Governance Arrangements

Officers and Members have recognised opportunities to enhance governance arrangements both to enhance oversight and scrutiny as well as ensuring a continued focus on local issues and priorities and the Council has implemented new committee structures and remits. As the new structures embed it is important that the Council continue to self assess the adequacy and effectiveness of these committees in supporting governance and decision making. As part of this process consideration should be given to the type, format and content of reports provided to Committees to ensure that they support them discharge their responsibilities.

Initial Officer Response

There is an existing action on reports detailed in the Best Value Improvement Plan that officers are addressing. Members agreed to review the new committee arrangements after six months and this will report before next summer recess. More robust agenda management, increased scrutiny of draft reports, as well as more frequent committee business meetings with Chairs and Vice Chairs, are already in place and the impact of these arrangements will be monitored by Senior Leadership Team.

Follow up – Complete

Members have undertaken a review of committee arrangements and during 2019/20 these were revised to provide enhance oversight and scrutiny of Council business. This has included more effective agenda management to enable more timely review of draft reports. We note that adhoc arrangements were implemented as a result of the measures taken in response to Covid-19. However, the Council has sought to continue the principles of clear oversight and scrutiny of key Council business.

6. Risk Management

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. The Audit, Risk and Scrutiny Committee's remit includes: Independent assurance of the adequacy of the risk management framework and the associated control environment within the Council to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations. While we recognise that the Council receive assurances from Internal Audit and Officers over the design and operating effectiveness of controls over risks, we have observed limited consideration of Council risks or level of assurances over these. We recognise that as part of the revised governance arrangements, the membership and remit of the committee has been refreshed. There is an opportunity for enhancing the level of oversight and scrutiny of risk management arrangements at the Committee

Initial Officer response

Council has a corporate risk register, held on Pentana, which continues to be updated by risk owners and reviewed by the Corporate Management Team. Further, the Council has within the last 12 months updated its risk management policy and provides resources to support its implementation. There has also been significant focus on strategic risks through Directorate business plans, half-yearly update reports to Service Committees and the new Service Plans. Members as a whole will therefore be fully apprised of the strategic risks facing the Council and the Audit, Risk and Scrutiny Committee will enhance its role in seeking and obtaining assurance on the risk management process and its effectiveness as required under the refreshed Risk Management framework.

Follow up – Ongoing

The Council, through the Audit, Risk and Scrutiny Committee, receive assurances from Internal Audit and Officers over the design and operating effectiveness of controls over risks. However, we have observed limited consideration of Council risks or level of assurances over these. We also recognise that the Audit, Risk and Scrutiny Committee has undertaken targeted areas of scrutiny at the Council which incorporates consideration around how services are managing risks. However, this does not provide a holistic or strategic review of the Council's risks. There are opportunities to enhance the risk management and risk oversight arrangements at the Council through enhancing the level of oversight through the Audit, Risk and Scrutiny committee over risks.

Updated Officer comment: The Council agreed three Risk Registers on 25 June 2020 – an updated Corporate Risk Register; a COVID Response Risk Register and a UK exiting the EU Risk Register; and a Sub Group of the Corporate Management Team has been established to drive through improvements. A weekly 'SitRep' report for Elected Members details the risk assessment and narrative for each risk and the Corporate Risk Register is going to the Audit Risk and Scrutiny Committee on 10 December 2020.

Action owner: Interim Head of Democratic Services

Timescale for implementation: December 2020

Recommendation

7. Waste Management PFI

The Council is currently in the process of establishing its waste management strategy, recognising its statutory obligations while considering strategic priorities and costs. A number of options have been considered by the Council with regards potential delivery models. It is likely that these will have significant financial implications (revenue and capital) on the Council to ensure waste management infrastructure support the delivery of strategy. A new wastes sub-committee has been established to oversee the development and delivery of the Council's waste strategy and transition of arrangements inhouse. It is important that there is clear oversight and management of the service and costs incurred in delivering it. The Council is effectively transitioning a former externally driven service inhouse and it is important that this has sufficient oversight and scrutiny to ensure effectively delivered.

Initial Officer response

The Council has implemented a Waste Services Development Programme to review the Council's Waste Strategy and develop a new operating model of waste management to provide a single Waste Service that is effective, efficient and economically sustainable for collection, treatment, recycling and disposal. This must meet statutory requirements and ensure that all aspects of the service optimise operational practice to ensure this is seamless, maximises use of investment in assets, reduces external costs to the Council and meets the needs of the customer. Future decisions on the development and implementation of the Waste Services Development Programme will be presented to the Council's Waste Strategy Implementation Sub Committee for review prior to being presented to the Communities Committee for agreement. In addition the Finance, Procurement and Transformation Committee shall oversee the decisions on the funding of the Programme.

Follow up – Superseded 2019/20 Action Plan Point - 4

The Council established governance arrangements to oversee the development of the Waste Strategy including option appraisal over how services will be delivered going forward. This included consideration of costed models of delivery as well as consideration of required capital investment.

Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	201,540
Pooled costs	19,610
Contribution to Audit Scotland costs	12,110
Contribution to Performance Audit and Best Value	97,090
2019/20 Audit Fee	330,350
Audit of Nithsdale Connected Trust Fund	1,000
Total 2019/20 Fee	331,350

Fees for other services

Service	Fees £
We confirm there are no non-audit fees	Nil

As part of our ongoing independence and ethics checks we undertake regular reviews of potential conflicts. Due to changes in ethical standards since the date of our appointment there was no previously identified conflict of interest which was deemed to be significant.

During the course of our ongoing independence checks in the current year, we identified a relationship in respect of a historic VAT advice provided by Grant Thornton UK LLP to the Council in 2009 whereby GT would receive 4% of any Vat repayment following VAT advice. As the advice was provided on a contingent fee basis, which would no longer be permitted regardless of materiality, we determined there would potentially be a perceived conflict of interest on the remote possibility the council would be due to make a payment under the arrangement at some point in the future. Once the issue was detected we have agreed to terminate any potential arrangement with the Council and, in discussion with our ethics function, concluded that there was no threat to our audit independence and objectivity.

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

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 Financial Reporting Council'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 Financial Reporting Council'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.

Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is 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 relations to management override of controls.
- Leading a discussion with those charged of governance (for Dumfries and Galloway Council this is assumed to be the Audit, Risk and Scrutiny Committee) on their view of fraud. Typically we do 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.

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.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if He knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Dumfries and Galloway Council we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

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 work with Dumfries and Galloway Council to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing the Council's arrangements in response to the National Fraud Initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Communication of audit matters

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 below.

Our communication plan	Audit Plan	Annual Report
Respective responsibilities of auditor and management/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 Confirmed, no matters to report.	•	•
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	•	•
Significant matters in relation to going concern None identified although commentary included on financial sustainability alongside going concern commentary.	•	•
Views about the qualitative aspects of Dumfries and Galloway Council's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures Included within the report.		•
Significant findings from the audit Included within the report		•
Significant matters and issues arising during the audit and written representations that have been sought Included in this report and letter of representation obtained at date of signing.		•
Significant difficulties encountered during the audit None identified.		•
Significant deficiencies in internal control identified during the audit None identified.		•
Significant matters arising in connection with related parties None identified.		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements. None identified.		•
Non-compliance with laws and regulations None identified		•
Unadjusted misstatements and material disclosure omissions Reported in Appendix 1 of this report.		•
Expected modifications to the auditor's report, or emphasis of matter. Emphasis of Matter on the material valuation uncertainty in the valuation of property, plant and equipment.		•



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit reporting process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the entity or all weaknesses in your internal controls.

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