Dumfries & Galloway Council

Annual report to those Charged with Governance and the Controller of Audit

Year ended 31 March 2015

September 2015

PricewaterhouseCoopers
141 Bothwell Street
Glasgow
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The Audit and Risk Management Committee
Dumfries & Galloway Council
English Street
Dumfries
DG1 2DD

24 September 2015

Ladies and Gentleman,

We are pleased to enclose our report to the Audit and Risk Management Committee in respect of our audit for the year ended 31 March 2015. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit and Risk Management Committee in March 2015. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 24 September 2015. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are;

- Final review of financial statements and disclosures;
- Final audit review and completion procedures by Engagement Manager and Leader;
- Subsequent events review; and
- Approval of the financial statements and receipt of management letter of representation.

We will provide an oral update on these matters at the meeting on 24 September 2015.

We look forward to discussing our report with you on 24 September 2015. Attending the meeting from PwC will be Lindsey Paterson and Claire Connor.

Yours faithfully

PricewaterhouseCoopers LLP

Contents

Section 1. Executive summary

Introduction

This report sets out the significant findings arising from our audit of Dumfries & Galloway Council ("the Council") for the year ended 31 March 2015. We presented our plan to you in March 2015, setting out the focus of our audit; we have reviewed that plan and have concluded that it remains appropriate.

Framework for Our Audit

Our audit is conducted in accordance with Auditing Standards (International Standards on Auditing ('ISAs') (UK and Ireland)) and the Code of Audit Practice ('the Code').

The Code explains how external auditors should carry out their functions under the Local Government (Scotland) Act 1973. The audit of all financial statements is covered by engagement and ethical standards issued by the UK Auditing Practices Board (APB), meaning the Code focuses more on the wider role of public sector auditors.

Management responsibility

It is the responsibility of the Council and the Responsible Financial Officer to prepare the financial statements in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003. This means:

- selecting suitable accounting policies and applying them consistently;
- making reasonable and prudent judgements and estimates;
- maintaining proper accounting records; and
- preparing financial statements timeously which give a true and fair view of the financial position of the Council and its expenditure and income for the year ending 31 March 2015 and which comply with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15 (the Code).

Auditors' responsibilities

Our statutory responsibilities require us to provide you with an audit report stating whether, in our opinion the financial statements and the part of the remuneration report to be audited:

- give a true and fair view of the financial position of the Council and its expenditure and income for the year;
- were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- the information which comprises the management commentary included with the financial statements is consistent with the financial statements.

We are also required to review and report as necessary on other information published with the financial statements, including the annual governance statement and the remuneration report.

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 24 September 2015. However, our opinion will be modified to report on the fact that the Road's Statutory Trading Operation did not achieve its statutory financial target to break even – this primarily due to the technical accounting adjustment required in relation to pension charges.

The key outstanding matters, where our work has commenced but is not yet finalised, are:

- Final review of financial statements and disclosures;
- Final audit review and completion procedures by Engagement Manager and Leader;
- Subsequent events review; and
- Approval of the financial statements and receipt of management letter of representation.

Financial Statements

Overall, we found that the draft financial statements and accompanying working papers were of a good standard and accounting records were appropriately maintained.

We identified two issues during the course of our audit which we have resulted in financial adjustments: one in relation to the Equal Pay Provision and an impairment adjustment in relation to the DG One facility. Both issues have been fully adjusted for by management and as a result there is no impact upon our audit opinion.

Financial performance

The Council's service budget for 2014/15 was £328.4 million and the Council achieved actual net expenditure of £328.6 million, resulting in an overspend of £0.2 million against budget.

The amount held in overall General Fund Balances as at 31 March 2015 was £57.8 million (2013/14: £58.4 million). This represents 17.5% of the annual planned expenditure for 2014/15. This includes an amount held in the unallocated fund of £6.8 million (2013/14: £6.8 million). This meets the Council's agreed policy to seek to retain unallocated balances at a minimum 2% of annual planned expenditure.

The Council achieved savings of £6.2 million against a target of £6.6 million. The key areas where the savings target was not achieved was in relation to the integration of community facilities and non-schools property rationalisation.

Other Matters

In Section 2 of the report we have included our response to the areas of audit focus identified in our audit plan, namely the risk of management override of controls, the risk of fraud in revenue and expenditure recognition and the Equal Pay claims.

We have also included in Section 2 details of a number of other areas of focus, including the following:

- ***Significant Trading Operations*** – the statutory financial requirement for significant trading operations is to at least break even over a rolling 3 year period. The Roads Maintenance Statutory Trading Operation recorded a deficit of £0.4 million in 2014/15 and has achieved a cumulative deficit of £0.4 million over the last 3 years. As a result it has failed to meet its statutory financial target.
- ***DG One impairment review –***DG One closed in October 2014 for remedial works and as at 31 March 2015 it remained closed. Remedial works have yet to commence and once started are expected to take up to 18 months to complete. The identification of the additional remedial works indicated that a further impairment review was required and that the carrying value of the complex should be re-assessed. The Council, at the request of PwC, carried out an assessment of the carrying value of the facility in the year which concluded that further impairment was required to reflect the additional remedial costs identified. Management have made this impairment and following the adjustment we now agree with management's assessment of the carrying value of DG one.
- ***Equal Pay –*** the financial statements originally included a provision of £3.5 million (2014: £8.0 million) in relation to the expected cost of claims for compensation under the Equal Pay Act 1970 (as amended). During 2014/15 the Council agreed a settlement with the Trade Unions for the majority of the outstanding Equal Pay claims and as a result, has made payments of £4.5 million in the year to leave the remaining balance of £3.5 million. As part of the audit, we have considered whether this provision continues to be required given the level of settlement reached. As a result, we agreed with management that the provision was higher than required. Management has now reduced this provision accordingly.

In Section 3 of the report we have included details of the Council's performance during 2014/15, the efficiency savings the Council achieved and budgets for 2015/16-2017/18.

In Section 4 of the report we have included details of Best Value and the Council's performance.

In Section 5 of the report we have included details of our assessment of the Council's governance and internal control arrangements and in Section 6 of the report we have considered the Councils arrangements in response to the risk of fraud.

Please note that copies of this report will be sent to Audit Scotland in accordance with their requirements.

We would like to thank management and staff of the Council for their co-operation and assistance during the course of our work.

Section 2: Significant audit and accounting matters

Our audit approach to the audit of the financial statements was set out in our Audit Plan presented to you in March 2015. We have reviewed the risks set out in our Audit Plan and considered whether there is any change to our assessment of the risk of material misstatement. On the basis of this assessment, there have been no changes to our approach.

We have set out in this section the significant matters arising from our audit.

Matters identified in our audit plan

Set out below is a summary of our response to the significant risks identified in our audit plan:

Risk	Categorisation	Results of work performed
Management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant ●	To address this risk we have considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. In particular we performed procedures to : • test the appropriateness of high risk manual journals; • examined management's accounting estimates for bias and performed detailed testing over depreciation, impairment, bad debt provisions, accruals, equal pay provision and the LGPS pension liability; Considered if there were any transactions which were unusual in nature or outwith the normal course of business; and performed unpredictability testing over immaterial balances, with a particular focus upon provisions which had not moved year on year. ***Conclusion: We identified one misstatement in relation to the impairment of DG One which has been fully adjusted for by management. As a result, there is no impact on our audit opinion. Please see below for further details of work performed in relation to this matter.***

Risk	Categorisation	Results of work performed
Risk of fraud in revenue and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government, as there is arguably greater risk associated with the recognition of expenditure. There is a risk that the Council could adopt accounting policies or treat expenditure transactions in such a way to lead to material misstatement in the reported expenditure position to ensure budgets are achieved.	Significant ●	In response to the risk of fraud in revenue and expenditure recognition: • We tested high risk manual journals posted to revenue and expenditure accounts; • We evaluated and tested the accounting policy for revenue and expenditure recognition; • We performed substantive testing on a sample of revenue and expenditure transactions and confirmed with reference to supporting documentation that each was recorded at the correct value, in the correct accounting period and was posted correctly within the accounts; • We performed testing to ensure that transactions had been recorded in the correct accounting period, covering transactions recorded both pre and post year end; and • We reviewed estimates for income and expenditure (e.g. accruals and provisions) to ensure that they were accounted for on an accurate basis and in the correct accounting period. ***Conclusion: Our work did not highlight any issues that require to be brought to your attention.***
Accounting treatment of Equal Pay claims The Council has recognised the need to fund the ongoing commitments arising from the agreed equal pay compensation framework. There is a risk that the Council may incorrectly estimate the equal pay provision or the assessment of the contingent liability in the accounts.	Elevated ●	In response to this risk we have: • Updated our understanding of the Council's year end liability; • Considered the current status of legal actions and judgements; • Assessed whether the criteria for an accounting provision have been achieved; and • Assessed the basis for calculating the provision. ***Conclusion: Our work highlighted that following the settlement of the majority of equal pay claims during 2014/15 the equal pay provision in the draft set of accounts was overstated. Management has reduced the provision accordingly and as a result, there is no impact on our audit opinion. Please see below for further details of work performed in relation to this matter***

Materiality

	£
Overall materiality – This is the amount we have applied in assessing the overall impact on the group financial statements of potential adjustments	9,063,000
Performance materiality - We have applied this to direct the amount of work performed over each financial statement line item – for example in calculating sample sizes	6,797,000
De-minimus posting level - Under ISA (UK & I) 450, we are required to report to the Audit and Risk Management Committee on all unadjusted misstatements in excess of a 'de-minimus' or 'clearly trifling' amount	250,000

Materiality was set to direct the overall audit strategy and to assess the impact of any adjustments identified. Overall materiality was set at 2% of total expenditure for the year, which was calculated as the gross expenditure plus other operating expenditure.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do not expect to have a material effect on the financial statements even if accumulated. We have applied a de-minimus level of £250,000 which we have assessed as clearly trivial. This was agreed with the Audit and Risk Management Committee upon submission of our annual audit plan in March.

Our final overall materiality of £9,063,000 has increased from the amount of £8,799,000 communicated in our Audit Plan. This is due to fact that our final materiality calculation is based on the actual results for the year, rather than prior year.

Audit and Accounting matters

We identified the following matters during the course of our work that we wish to draw to your attention:

Significant Trading Operations

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their Significant Trading Operations such that income is not less than expenditure over each three year period.

The Council has put in place criteria for determining which of its trading units should be classified as Significant Trading Operations (STOs). Only the Roads Maintenance Service met all of the criteria for 2014/15 and therefore falls to be disclosed in the financial statements. An analysis of its 3 year cumulative position is set out below:

Table 1: Roads Maintenance Service STO 2012/13-2014/15

	2012/13 (Surplus)/Deficit £000	2013/14 (Surplus)/Deficit £000	2014/15 (Surplus)/Deficit £000	Cumulative 3 Year (Surplus)/Deficit £000
Income	(20,540)	(25,507)	(23,765)	(69,812)
Expenditure	20,422	25,602	24,170	70,214
Net (Surplus)/Deficit	**(98)**	**95**	**405**	**402**

As detailed above the Council's Roads Maintenance STO has not achieved a surplus over a three year period, with a cumulative deficit of £0.4 million. As a result the Council has not met the statutory financial target in relation to its STO.

A significant element of the deficit relates to pensions charges, which amount to £220,000 over the past 3 years, and which reflect the reduction in the discount rate applied to future pension liabilities. This discount rate and the associated pension charges are largely outwith management control. However, notwithstanding this fact, management is taking action address the financial position of the STO by looking at other areas where profitability can be improved to ensure an improvement in trading performance going forward.

Auditors are required by the Code of Audit Practice to report any failure of a Significant Trading Operation to break even over the three year period (2012/13 to 2014/15) in their report on the financial statements. As such this has been included within our Audit Opinion on the Financial Statements in the form of a matter to report by exception paragraph.

General ledger transactions

In accordance with *ISA (UK&I) 240 (revised): The Auditor's responsibilities relating to fraud in an audit of financial statements* an auditor is required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Our 2014/15 data auditing has been facilitated by 'Halo' – a next generation application that analyses and assures data using a suite of algorithms, allowing us to focus our work on the areas of greatest risk. In addition, we have also used this software to identify the following key trends in the Council's use of journal entries:

Table 2: 2014/15 journals analysis

Analysis	Results	PwC Commentary
Total number of journals	314,156	Total number of distinct journals posted during the year.
Journals < £10	60,265	We noted 60,265 journals with a value lower than £10.
Average lines per manual journal	56.6	We noted the average lines per manual journal posted by the Council to be 57 lines.
Number of duplicate manual journals	159	0.05% of manual journals posted during the year were found to be duplicates. Investigation of these found the majority of journals in relation to monthly payroll costs or the recognition of capital charges spread evenly across a set period.
Number of manual reversing journals	75	A reversing journal is one having exactly the opposite net reporting amounts posted to exactly the same accounts.

Our work on journals did not highlight any issues of concern.

Misstatements and significant audit adjustments

We report to you all misstatements that we have found during the course of our audit, other than those of a trivial nature, which have not been corrected by management in the financial statements. There are no unadjusted misstatements to report. However, management did make adjustments in relation to the equal pay provision and the carrying value of DG One, as described above.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask Management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the financial statements have been considered. Through our audit work performed we have identified no reason to conclude that accounting policies are not appropriate or applied incorrectly.

Judgements and accounting estimates

The Council is required to prepare its financial statements in accordance with the CIPFA Code of Practice for Local Authority Accounting. Nevertheless, there are still many areas where management needs to apply judgement in the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

- DG One impairment;
- Equal pay provision;
- Property, plant and equipment revaluations;
- Local Government Pension Scheme assumptions; and
- Open cast mining liabilities.

Please see details below.

DG One Impairment Review

DG One is Dumfries' largest sport, leisure and entertainment complex. The facility, which is operated by the Council, is currently closed for remedial works. The Council is currently in legal proceedings with the original contractors, Kier, to cover the cost of the remedial works required to bring the complex back into use.

The carrying value of the facility was originally impaired in 2012/13 by an amount which reflected the costs of the proposed remedial work as determined by the Council's Property and Architectural Services Department at that time. However, in 2014/15 the Council retendered for the remedial works required. During this process, which included further investigations of the facility by external parties, additional problems were identified requiring further remedial works and therefore the anticipated cost of these works increased.

The identification of the additional remedial works indicated that a further impairment review was required and that the carrying value of the complex should be re-assessed.

The Council, at the request of PwC, carried out an assessment of the carrying value of facility in the year which concluded that further impairment was required to reflect the additional remedial costs identified. The level of impairment identified by the Council has been fully adjusted for. As a result of this adjustment, we now agree with management's assessment of the carrying value of the DG One.

Action Point 1: going forward the Council should review the controls it has in place to ensure that all asset impairment triggers are identified by the Council's Estates and Finance department (i.e. not just those assets being formally revalued as part of its annual rolling revaluation exercise) to ensure that the value of the Council's assets have not been overstated in the financial statements at year end.

Equal Pay provision and contingent liability

The financial statements originally included a provision for equal pay amounting to £3.5 million (2014: £8.0 million). The purpose of the provision is to cover the expected cost of claims for compensation under the Equal Pay Act 1970 (as amended).

During 2014/15 the Council agreed a settlement with the Trade Unions for the majority of the outstanding Equal Pay claims and as a result, has made payments of £4.5 million in the year to leave the remaining balance of £3.5 million.

As part of the audit, we have considered whether this provision continues to be required given the fact that a settlement has been reached. We understand that as at 31 March 2015, ten cases remain outstanding and that the Legal Department considers the likely settlement to amount to circa £0.5 million. As a result, we agreed with management that the provision was higher than required, resulting in the release of £3 million to the general fund. However, due to the potential for future equal pay liabilities this amount has been earmarked for such claims in the general fund.

Valuation of property, plant and equipment

The Council's property portfolio is subject to a 5 year rolling revaluation programme which is undertaken by the Property and Architectural Services Department. Through this programme all assets are formally revalued on a five yearly basis.

The revaluation exercise in 2014/15 has been the main driver which has resulted in an overall increase of £42.6 million in the net book value of the property portfolio. This increase is primarily in relation to new build schools which have been revalued for the first time.

We have reviewed the assumptions used by the Council's Property and Architectural Services department in undertaking the revaluation exercise and consider, with reference to external benchmarks, that the basis and the assumptions used are reasonable.

Assets not valued in year
The Council has also considered the risk that assets not covered in the current year valuation exercise may require to be impaired. In particular, the Valuations Team works with the Finance department and architects to identify significant repair works being carried out or planned on any given asset and consider whether this gives rise to an indication of impairment. Where such assets are identified an impairment review is undertaken. No such instances were noted during 2014/15 with the exception of DG One as detailed above.

The Local Government Pension Scheme

Employees of the Council participate in the Dumfries & Galloway Council Pension Fund which is a local authority defined benefit pension scheme. In order to ascertain the value of scheme assets and liabilities attributable to the Council, an actuarial valuation is carried out on an annual basis by an independent firm of actuaries, Hymans Robertson LLP. In 2014/15 the Council recognised a year end net pension liability of £362.7 million (2013/14: £290.3 million), an increase of £72.4 million.

The pension liability held by the Council is based on a number of assumptions made by the actuary. We have set out below the principal assumptions applied in arriving at this estimate as well as a comparison with the expected range:

Table 3: Pension assumptions

Pension assumption	2014/15	PwC expected range/value	Assessment
Pension increase rate	2.4%	Linked with CPI inflation	The pension increase assumption is set relative to the CPI inflation assumption, with a 0.1% difference, which is deemed reasonable.
Salary increase rate	4.3%	3.00% - 4.30%	Within acceptable range.
Discount rate	3.2%	3.05% - 3.40%	Within acceptable range.
Longevity – current pensioners **Men** **Women**	22.7 years 24.0 years	22.2years 24.5years	This is a guide only and should be scheme specific. The assumptions used are deemed reasonable.
Longevity – future pensioners **Men** **Women**	24.5 years 26.7 years	23.5years 26.0years	This is a guide only and should be scheme specific. The assumptions used are deemed reasonable.
Long term expected rate of return on assets in the scheme	3.3%	3.20% - 3.55%	Within acceptable range.
RPI Inflation	3.2%	2.95%-3.4%	Within acceptable range.
CPI Inflation	2.3%	2%-2.5%(CPI figures expected to fall 0.7-1.2% below RPI assumption)	Within acceptable range.

We have reviewed the key assumptions applied to the pension scheme's valuation of its liabilities and compared these with our own actuarial specialists' expectations. This included benchmarking the assumptions against a range of other schemes with March year ends. None of the assumptions used fell out with our expected range.

Based on our work performed we have concluded that the assumptions applied are reasonable.

In addition, we have independently confirmed the pension assets and accuracy of the census data held by the pension funds as part of our audit procedures.

Open cast mining liabilities

The Council has recognised £2.0 million (31 March 2014: £8.2 million) of "Grants received in advance" in the annual accounts. This relates to a restoration bond received by the Council as part of planning permission for the Glenmucklock open cast site.

Following the liquidation of the site's previous operators, Aardvark TMC, the bond was drawn down for the purpose of the restoration works required on the land to bring it back to its original condition. During the year, £6.2 million has been expended on restoration works by the new operator, Hargreaves in accordance with the restoration plan.

We have considered whether there is any potential financial exposure for this Council in this area and on the basis of the work undertaken, we agree that no provision is required.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 2.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

It is a requirement of International Accounting Standard 24 that transactions with related parties are identified and disclosed in the financial statements. In the context of the Council, related parties would include Councillors, Senior Management and their close family members.

The Council maintains a Register of Interests for Councillors which is published on the Council's website. Councillors are required to disclose a range of information, including any non-financial interests which members of the public might reasonably think could influence their actions. In addition to this Register, senior management were required to complete a related parties declaration. Both the Register of Interests for Councillors and the Senior Management declaration have been used by the Council as the basis for identifying related party transactions.

As part of the audit process, we performed audit procedures to confirm that related party declarations were complete and that the related party disclosure within the accounts was also complete.

We are satisfied that the related party listing provided by the Council to the audit team is complete and that the related party transactions disclosure within the annual accounts is complete.

Annual Governance Statement

The CIPFA Code of Practice on Local Authority Accounting states the following in relation to Scottish Local Authorities and the preparation of an annual governance statement:

"Scottish local authorities, which are not required by legislation to conduct a review at least once in a year of the effectiveness of its system of internal control, shall consider doing so voluntarily and preparing an Annual Governance Statement. Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts."

The Council has chosen to voluntarily conduct a review during the year of the effectiveness of its system of internal control and has prepared an Annual Governance Statement within the 2014/15 annual accounts.

We have reviewed the Annual Governance Statement to consider whether it is consistent with the requirements set out in the Code, and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Accounting Matters for 2016/17

Transport infrastructure assets

The CIPFA Code 2016/17 Code is expected to adopt a new measurement requirement for infrastructure assets, namely the Code of Practice on Transport Infrastructure Assets (the "Transport Code") which requires measurement on a depreciated replacement cost basis.

This will have a significant impact on the value of the Dumfries & Galloway Council's balance sheet. It will represent a change in accounting policy from 1st April 2016 and will require full retrospective restatement including a restated balance sheet at 1st April 2015.

Audit Scotland guidance on this matter highlights that it is essential that finance staff, asset management practitioners and engineering professionals work together to develop and action a project plan as soon as possible in order to achieve successful implementation to this new method of measurement.

The Council has developed a project plan in relation to this change. The plan includes a timetable of actions required and also includes areas where additional guidance/information is currently being sought from CIPFA/LASAAC on how the adoption of this new requirement should be applied.
To date, work has been carried out to reclassify/split the affected assets between infrastructure and transport infrastructure assets. This exercise has given the Council an understanding of the changes which will come into effect in 2016/17.

Based on our work we have no concerns over the Council's preparedness for this change in accounting policy.

Other Matters

National Housing Trust

NHT is a partnership approach aimed at boosting the supply of affordable homes in Scotland and allows local authorities to work with developers to make available more new affordable homes. This is a national model developed by the Scottish Futures Trust, approved by the Scottish Government and is in operation in many local authority areas. The initiative is jointly funded by local authorities and their development partners, with the Scottish Government underwriting any shortfall in the repayment of local authority loans.

The Council is participating in the scheme and has entered into a Limited Liability Partnership with the SFT, and Robertson Homes, Marchfield NHT 2012 LLP.

With the approval of the Scottish Government, the Council borrowed the £6.5 million and subsequently lent this amount to Marchfield NHT 2012 LLP. As a result the transaction correctly sits as both a debtor and a creditor in the Council's balance sheet.

None of the properties funded through this arrangement can be sold without the full agreement of the LLP on which the Council sits as are an equal partner. The LLP itself is governed by contractual arrangements and a partnership agreement

Once a property is sold, the local authority loan is repaid. The Scottish Government has put in place a NHT Guarantee Agreement whereby, in the event of a Capital Payment Shortfall the Scottish Government will reimburse any unpaid element of the loan to the Council.

Dunmuir Park

Dunmuir Park is a residential facility operated by Dumfries & Galloway Council. It is owned by Dumfries and Galloway Housing Partnership (DGHP) and has been leased by the Council for a period of 20 years. It was opened in February 2014 and currently has 9 residents. It provides supported accommodation to adults with a variety of needs.

Since the facility opened, the Council has received correspondence from the family of one of the residents, raising a number of concerns. The concerns raised a number of issues and it was agreed with the Council and Audit Scotland that PwC would look into certain aspects of the concerns raised. In particular, it was agreed that our review would consider:

- The land transaction between the Council and DGHP; and
- The leasing arrangements in place.

A separate report on Dunmuir Park will be presented to the Audit and Risk Management Committee on 24 September 2015.

Audit Opinion

Subject to the finalisation of the financial statements and their approval we expect to issue an unqualified audit opinion. However, our opinion will be modified to report on the fact that the Council's Road's Statutory Trading Operation did not achieve its statutory financial target to break even.

Whole of Government Accounts

As part of our work on the financial statements we will also report on the Whole of Government Accounts Return submitted to the National Audit Office. This work will be submitted in accordance with the deadline of 30 September 2015.

Section 3. Financial standing

2014/15 Financial Performance

The Council delivered a deficit of £21.3 million on the Provision of Services in 2014/15, compared to a deficit of £14.1 million in 2013/14. This deficit reflects the impact of a number of technical accounting adjustments and a more informative indication of the Council's performance in the year is reflected in the movement in the General Fund.

The Council's financial performance for the General Fund for 2014/15 is summarised in the table below.

Table 4: Financial performance 2014/15

	2014/15 £000	2013/14 £000
Net Cost of Services	**356,960**	**345,227**
Taxation and Non-Specific Grant Income	(368,070)	(362,613)
Other operating expenditure	48	32
Other Income and Expenditure (Financing and Investment)	32,330	31,437
Deficit on Provision of Services	**21,268**	**14,083**
	General Fund	**General Fund**
Deficit on Provision of Services	**21,268**	**14,083**
Adjustments between accounting basis and funding basis under regulations.	(20,710)	(10,092)
Net Decrease before Transfers to Reserves	**558**	**3,991**
Transfers to/(from) Reserves	74	(112)
Decrease in Year	**632**	**3,879**
Opening Balance	**(58,424)**	**(62,303)**
Closing Balance	**(57,792)**	**(58,424)**

As detailed above, the General Fund balance reduced from £58.4 million at 31 March 2014 to £57.8 million at 31 March 2015 and follows a similar decrease in the prior year. The decrease was primarily due to the need to provide funding to meet the treatment, recycling and recovery requirements of the Waste (Scotland) Regulations 2012 (agreed by the Planning, Housing & Environment Committee in November 2012). This required funding of £3.2 million from the Waste PFI Sinking Fund. The full impact of this cost has been offset by releases from provisions during the year.

Performance against Budget

The table below provides a summary outturn statement which outlines net expenditure against budget for each of the Council's departments:

Table 5: Performance against budget 2014/15

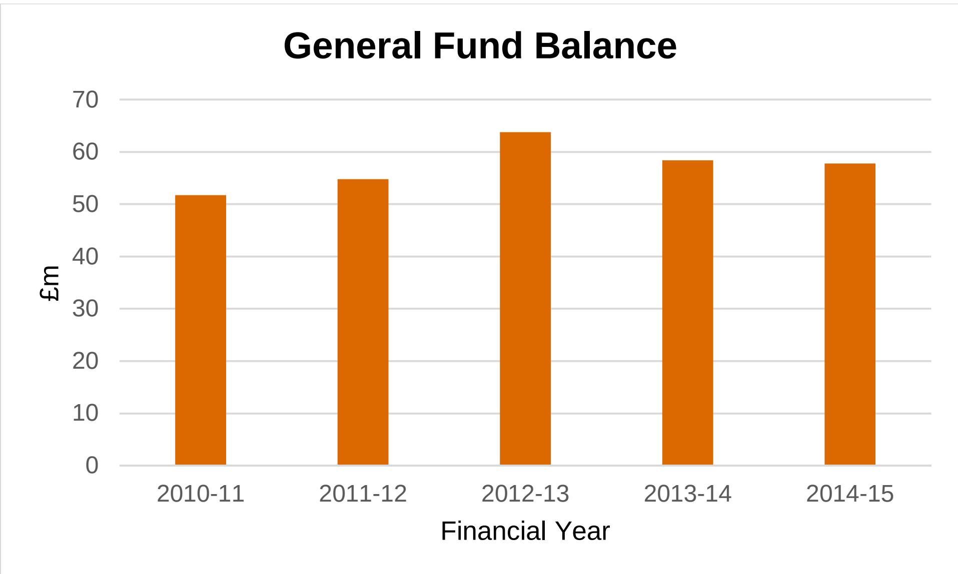
Description	2014/15 Budget £000	2014/15 Actual £000	Variance £000
Education	131,573	131,443	130
Social Work	81,162	81,143	19
Planning & Environment	28,437	28,618	(181)
DGFirst	33,265	33,218	47
Community & Customer Services	32,159	32,389	(230)
Chief Executive Services	21,868	21,827	41
Operational Budgets	**328,464**	**328,638**	**(174)**

As detailed above, no significant over or under spend was noted during 2014/15.

Reserves

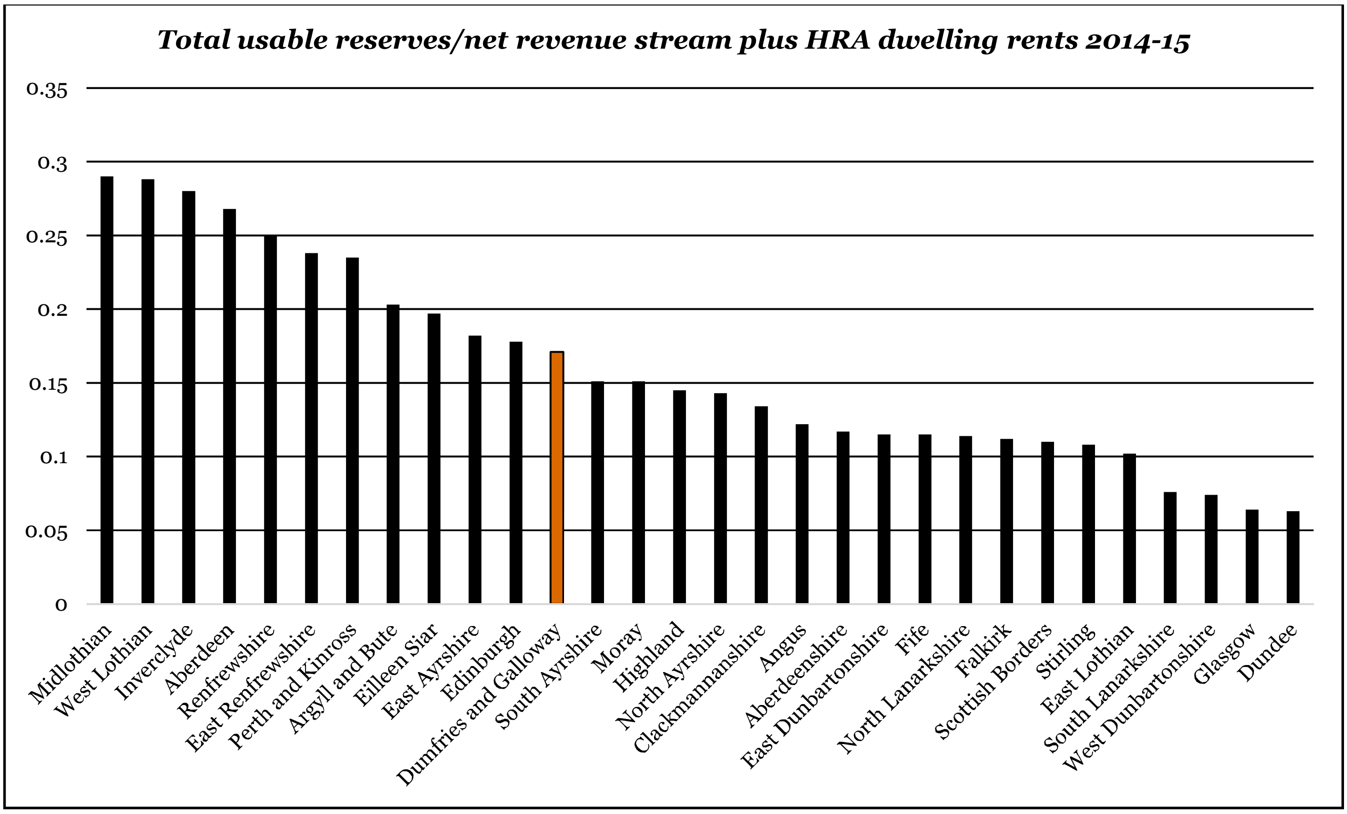
The Council's general fund balance has fallen by £0.6m in the current year. The graph below sets out the movements in the general fund over the last five years.

Table 6: General fund balance 2010/11 – 2014/15



The Council's level of general reserves relative to its revenue stream is shown in the graph below. This graph also shows how Dumfries & Galloway Council compares to other Scottish local authorities.

Table 7: General fund balances relative to Council size (excluding Orkney and Shetland Islands Council due to their unique reserves position)



Note: Dumfries & Galloway Council does not have a Housing Revenue Account and as such does not receive dwelling rents.

The General Fund balance of £57.8 million includes allocated/committed amounts as follows:

- £15.1 million being held in a Sinking Fund in order to be used for the Smarter Schools PPP Project;
- £7.3 million being held in a Sinking Fund to be used to meet future payments on the Waste Management/Recycling PFI project;
- £2.7 million being held in a Corporate Change Fund to support the delivery of change, savings and efficiencies over the upcoming financial year; and
- £3.0 million being held to fund affordable housing projects.

Capital Expenditure

The Council had a capital expenditure budget for 2014/15 of £39.42 million, against which £39.18 million of expenditure was delivered. Capital expenditure was made in relation to the following key projects:

Table 8: 2014/15 capital projects

Project	Capital Expenditure £m
KEY CAPITAL PROJECTS	
Dalbeattie Learning Campus	0.3
Dumfries Learning Town	1.2
Next Generation Broadband	4.2
Whitesands Flood Protection & Public Realm	0.5
Kirkcudbright Charter	0.1
NON PRIORITY PROJECTS	
Property/Buildings (Schools)	6.4
Property/Buildings (Non Schools)	4.0
Infrastructure	13.0
Economic Development	2.9
Land	1.4
ICT Business Systems	1.2
Vehicles/Fleet	0.6
Swestrans	0.4
CFCR	3.0
TOTAL	**39.2**

Capital expenditure in year was funded as follows:

Table 9: 2014/15 sources of capital funding

Source	Funding £m
General Capital Grant	20.6
Scottish Government Funding (severe weather)	0.5
Corporate Sales	0.3
Net CFCR	3.0
Capital Receipt Shortfall – Funded from revenue	0.4
Corporate Borrowing	14.4
Total	**39.2**

The Council's capital plans are determined on the basis of an assessment of the level of investment that is considered to be prudent, affordable and sustainable and was reported to the Policy and Resources Committee as part of the Corporate Capital Investment Strategy - Final Outturn 2014/15 report in June 2015.

Efficiency savings

The Council is required to contribute annual savings towards the Scottish Government's Efficiency Targets.

The table below provides an overview of the final savings reported to each Service Committee for 2014/15, showing a comparison between the savings target applied to the original budget and the savings achieved.

Table 10: Efficiency savings 2014/15

Source	Savings target £000	Savings achieved £000
Social Work	1,025	1,025*
Education	1,366	1,366
Planning and Environment Services	754	754
DGFirst	881	881
Community and Customer Services	1,086	889
Chief Executive Services	350	350
Corporate	1,136	911
Total reported	**6,598**	**6,176**

*Includes savings achieved and cost control measures.

The Council achieved savings of £6.2 million against a target of £6.6 million. The key area where the savings target was not achieved was in relation to Community and Customer Services and Corporate:

- The underachievement in Community and Customer Services was as a result of delays in the integration of service facilities; and
- The Corporate underachievement was a result of delays in the rationalisation of non-schools property.

2015/16 Budget

The 2015/16 Budget was presented to the Council and agreed in February 2015. The key points arising from the budget are as follows:

- 2015/16 net expenditure on services budget before savings amounts to £353.4 million (2014/15: £350.2 million);
- Key areas of spend aside from the routine delivery of Council services includes the following areas:
  - Economic Inclusion Programme - £0.5 million;
  - School Based Social Work Provision - £0.2 million;
  - Financial Assistance to Small Businesses - £0.2 million.
  - Taxi Card Scheme - £0.1 million and
  - Family Centres - £0.1 million.

The Council has identified the need for savings of £8.3 million for 2015/16.

2016/17 – 2017/18 Budget

The Council has also agreed indicative budgets for 2016/17 and 2017/2018. These show net budgets (before savings) of £365.3 million and £375.9 million respectively. In total, cumulative savings of £32.3 million (including £8.3 million identified for 2015/16) will be required to eliminate the budgeted deficit with savings to be achieved over the period 2015/16 to 2017/18 as follows:

- Operational/Identified Savings - £3.6 million;
- Further Identified Savings - £14.4 million;
- Future Service Reviews - £7.9 million;
- Future Efficiency Savings - £4.4 million; and
- Further Savings to be identified - £2.0 million.

Financial standing

The Council has plans to address the longer term financial sustainability through operational, service and efficiency savings amounting to the required £32.3 million. The achievement of these savings targets will be critical to the continued financial sustainability of the Council.

Health and social care integration

The Public Bodies (Joint Working) (Scotland) Act 2014 was passed in April 2014 as part of the Scottish Government's agenda to drive improvement in the provision of health and social care services. The Act details the integration models available to Health Boards and Local Authorities in developing their integration strategy as well as required documentation and timescales for delivery of integration schemes.

Dumfries & Galloway Council, on the 26 June 2014, and NHS Dumfries & Galloway, on the 4 August 2014, agreed to adopt the body corporate model allowed by the legislation and, therefore, to establish a shadow Integrated Joint Board (IJB). At the same meetings of the Full Council and NHS Board, it was agreed that the existing Community Health and Social Care Partnership Board (CHSCPB) would act as the shadow IJB. The CHSCPB had been set up in 2008 to strengthen planning and the delivery of health and social care services to adults across Dumfries and Galloway. Non-voting membership of this Board includes the Chief Officer of the IJB, the Chief Finance Officer of the IJB and the Chief Social Work Officer of the Council.

Dumfries & Galloway Council and NHS Dumfries and Galloway have also developed a Health and Social Care Integration Programme Board, membership of which includes:

- Chief Executives of Dumfries & Galloway Council and NHS Dumfries & Galloway;
- the Head of Finance and Director of Finance from Dumfries & Galloway Council and NHS Dumfries & Galloway respectively;
- the Chief Operating Officer of NHS Dumfries & Galloway;
- Elected Councilors and NHS Board Members; and
- the Chief Social Work Officer and Head of Adult Services from Dumfries & Galloway Council.

As reported to the Social Work Services Committee in February 2015, of the total Social Work revenue budget of £79 million, £52 million relates to services to be fully delegated to the IJB, with £21.6 million to be retained by the Council and the remaining £5.4 million to be subject to further consideration. In addition to the £52 million Social Work budget to be delegated to the IJB, further £8.5 million will be delegated from other Council departments.

During 2015/16 the Council has committed to ongoing stakeholder engagement and involvement as they develop and refine the detailed integration arrangements, particularly the production of the Strategic Plan and Locality Plans.

The timeline for integration sees all arrangements as being in place on 1st April 2016.

In conjunction with NHS Dumfries and Galloway, the Council commissioned PwC to undertake a review of the way in which the IJB and its budget was established. This review was in response to Scottish Government requirements in this area. The outcome of this review was a joint report to both the Council and the Board. This report remains in draft form at the date of this report and will be presented to an early meeting of the IJB which is now constituted.

Section 4. Best value and performance

Performance management

The Council's Policy and Resources Committee determines how and when the Council officers will report performance as part of the Business Planning process by setting a Performance Reporting Timetable. The Council's Scrutiny and Performance Committee then reviews and scrutinises the effectiveness of departments and reports on its assessment of effectiveness to Full Council.

In June 2015 the Council was presented with a year-end report on the Council's performance against its priorities and commitments for 2014/15. This report highlighted that the Council's original 7 priorities and 82 commitments agreed in October 2013 had been replaced in September 2014 with a new set of 4 priorities and 16 commitments

The 4 priorities agreed for the Council going forward, along with performance for the period October 2014 – 31 March 2015 and a summary of individual areas commitments is:

Table 11: Priorities and commitments summary

Priority	Performance status as reported by the Council	Summary
Priority 1 – Build the local economy	Significant progress	• 433 new start-up businesses created against a target of 400. • £15.7m investment in road network against a target of £10m • 20% of the regions workforce is educated to degree level compared to the Scottish average of just over 30%.
Priority 2 – Provide the best start in life for all our children	Good progress	• 99.28% take up of free entitlement of 600 hours of Early Leaning and Childcare by pre-school children aged 3 and 4 against a target of 95%. • 51.72% take up of free entitlement of 600 hours of Early Leaning and Childcare by pre-school children aged 2 against a target of 70%. • 80% of schools receiving positive inspection reports against a target of 100%.
Priority 3 – Protect our most vulnerable people	Significant progress	• 51% of homeless are housed into permanent accommodation against a target of 45%. • 92.6% of people feel safe in their neighbourhood (day-time and night-time) against a target of 78%.
Priority 4 – Be an inclusive council	Significant progress	• 93.38% of people who attended Area Committee (Community) Meetings felt that they had the opportunity to have their voices heard, against a target of 80%. • 94% of customers surveyed are satisfied with the level of service they receive from the Council, against a target of 80%.

Statutory performance indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish in the following financial year. In 2014/15 the Commission recognised the progress made by Councils in developing their performance data as set by the Local Government Benchmarking Framework (LGBF). Auditors are required to review the arrangements in place for collecting, recording and publishing performance data in accordance with the direction as set by the Accounts Commission.

Our overall assessment was that the Council had put in place appropriate arrangements in respect of the collection, recording and publication of performance information. We have flagged the need for management to ensure that it has sought feedback from the community regarding the type and format of performance information that it wants the Council to publish. Management has confirmed that this will be addressed through the implementation of its Public Involvement Strategy which is being developed and is due to be launched in 2016.

We did not identify any other issues in relation to the arrangements the Council has put in place for the collection, recording and publication of performance data.

Significant trading operations

Local authorities have a duty under Section 10 of the Local Government in Scotland Act 2003 to conduct each of their Significant Trading Operations (STO) such that income is not less than expenditure over each three year period.

The Council's Roads Maintenance STO, the only operation which meets the STO definition, has not achieved a surplus over a three year period, with a cumulative deficit of £0.4 million as at 31 March 2015. As a result the Council has not met the statutory financial target in relation to its STO.

Full details of the significant trading operations have been discussed in Section 2 of this report. Please see detail above.

Asset Management

The Council's Property Asset Management Plan (PAMP) was presented to the Resources Committee (now known as the Policy and Resources Committee) in February 2011. This, in conjunction with Council's 10 year Capital Investment Strategy, sets out the asset management strategy going forward. Property is split into two asset classes – schools and non-schools. The Non-Schools Property Asset Management Strategy is currently being updated and the bid for non-schools asset class funding will be incorporated into the updated strategy. The strategy for School Assets remains relevant.

Property data (condition, suitability, sufficiency, CO2 ratings, EPCs, floor plans, valuations, energy usage, building safety records etc.) for all Council property (including leased premises and those which are rented out) is all recorded in PMIS (Property Management Information System), and is used to inform the strategy.

Joint inspection of services for children, young people and families

An important aspect of the improvement agenda for 2014/15 was responding to the critical Joint Inspection of Service for Children, Young People and Families that took place across the Dumfries and Galloway Community Planning Partnership in January 2014 and February 2014. The inspection report which was published in April 2014 made recommendations for urgent action to improve the arrangements to protect children and young people in Dumfries and Galloway.

Given the significance of the Care Inspectorate's findings, a follow-up visit took place in late 2014 to assess progress in relation to the areas of improvement set out in the report. We were informed by management that the inspection team noted the gravity and the priority with which the partnership had responded to the first inspection and the resources that had been deployed to review processes and improve practice, giving appropriate priority to strengthening responses to concerns about children's safety.

A Children's Services Plan was submitted to Council for consideration and it is expected that continuous progress and improvement will be driven from this plan going forward.

Exit packages

The Council has incurred a total of £2.49 million in 2014/15 in respect of exit packages agreed for voluntary redundancies or other agreed departures as follows:

Table 12: Exit packages

Exit package cost band (including special payments)	Total number of exit packages by cost band		Total cash value of exit packages in each band £	
	2014/15	2013/14	2014/15	2013/14
£0 – £20,000	26	32	273,173	222,754
£20,001 - £40,000	25	28	681,444	764,319
£40,001 - £60,000	10	14	511,952	720,102
£60,001 - £80,000	6	3	390,834	232,471
£80,001 - £100,000	5	1	448,150	84,715
£100,001 - £150,000	0	2	0	245,552
>£150,000	1	0	189,111	0
Total	**73**	**80**	**2,494,664**	**2,269,913**

We have tested a sample of the exit packages agreed in 2014/15 and can confirm that all packages, which include payments above the statutory minimum, were approved in accordance with the Council's policies and procedures**.**

The Scottish Government issued statutory guidance which provides local authorities with financial flexibility to assist with meeting the costs associated with equal pay and severance (Finance circular 4/2015 Equal pay and severance) which permits authorities to:

- delay the financial impact of equal pay and severance until a cash payment is made
- use capital receipts to fund equal pay back pay settlements and severance payments.

The statutory guidance, which is not mandatory but gives authorities flexibility, applies from 1 April 2014 and will expire on 1 April 2018. The Council has not used this flexibility.

On the basis of the work we have undertaken for the purposes of our audit, we have no significant matters to bring to your attention in relation to exit packages approved by the Council during the year.

Borrowing and treasury management in Councils

In March 2015 Audit Scotland published its report "*Borrowing and Treasury Management in Councils*" which made recommendations in the following key areas of treasury management:

- Use of the treasury strategy by officers to present a wider strategic view of borrowing and treasury management, and the preparation of longer term analysis in relation to treasury management;
- Sharing of strategies and joint planning with other Councils;
- Review of annual reports to ensure that a review of the effectiveness of the borrowing and treasury management activities is conducted;
- Review of governance arrangements in relation to borrowing and treasury management to ensure these are appropriate; and
- Consideration of the training arrangements to support Councillors to ensure that scrutiny arrangements are sufficiently robust.

This report has not yet been considered by the Council.

The Council's Treasury Management Strategy for 2015/16 was agreed by the Council in March 2015. As part of the approval process it was noted by the Council that the treasury management activities would be subject to continual monitoring and, where appropriate, amendment during the course of the upcoming financial year.

On agreement of the Treasury Management Strategy, the Council also agreed the Prudential Indicators which, in conjunction with the Treasury Management Strategy clearly set out the Council's borrowing and investment arrangements and guidelines for the day to day management of its cash flow activities.

Action Point 2: We recommend that the Council consider the "Borrowing and Treasury Management in Councils" report and assess its controls against the recommendations raised within it.

Scottish Government Guidance on Management Commentary

The Scottish Government has issued guidance on the preparation of a management commentary which the accounts regulations require to be included in the annual accounts from 2014/15. Finance circular 5/2015 '*The Local Authority Accounts (Scotland) Regulations 2014*' provides statutory guidance on the content of the management commentary within Local Authority accounts.

The statutory guidance interprets the content of the strategic report required by the Companies Act in a local authority context requiring commentary on areas including performance in the year, a description of the principal risks and uncertainties facing the authority and financial key performance indicators.

We reviewed the Council's Management Commentary against the Finance Circular 5/2015 guidance and considered that it required enhanced commentary on a number of areas, such as the Council's main activities during the year, in order to meet the requirements. As a result, the Council updated the management commentary and we now consider management to have made the necessary disclosures. We also consider the management commentary to be consistent with the financial statements.

Section 5. Governance and internal control

Governance arrangements

Dumfries and Galloway Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and accounted for properly. In discharging this overall responsibility the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. The Council's governance arrangements are consistent with CIPFA/SOLACE good practice guidance and the following Committees are part of its overall governance structure:

- Policy and Resources Committee;
- Community and Customer Services Committee;
- Scrutiny and Performance Committee; and
- Audit and Risk Management Committee.

The Council has reviewed the governance arrangements during the year and this was reported with minor recommendations to the Ad Hoc Sub Committee Review of Schemes in February 2015.

We consider that the governance arrangements in place are appropriate.

Accounting systems and systems of internal control

Management is responsible for developing and implementing systems of internal financial control and for putting in place proper arrangements to monitor their adequacy and effectiveness in practice. Weaknesses or risks identified by auditors are only those which have come to our attention during the normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Control deficiencies

There were no significant control deficiencies that, in our professional judgement, we believe should be brought to your attention.

Based on our work performed we consider the systems of internal control to be appropriate.

Risk management

The Council's corporate risk register sets out the strategic-level risks identified by the Council's most senior managers and is formally updated annually. The Corporate Risks register is developed by the Heads of Services and Directors and endorsed by the Corporate Management Team. It is considered by the Audit and Risk Management Committee as part of its role to oversee the Council's risk management arrangements. At an operational level, risk registers are prepared and considered by the Council at a committee level for each of the business plans that are approved.

The Council reviewed and updated its Corporate Risk Register in October 2014. At this meeting it was agreed that an additional column would be added to the register in order to show an update on progress against each of the 9 corporate risks as a means to help ensure risks were being appropriately managed.

Internal Audit

The internal audit team within the Council operates to a plan agreed at the beginning of each financial year. The 2014/15 plan was approved by the Audit & Risk Management Committee at its meetings on 22 April 2014 and 12 June 2014.

The audit plan was delivered as planned with the exception of two reviews - Kinship Care Payments audit and a Performance Management audit. Both of these reviews have been rescheduled for 2015/16.

We have liaised with Internal Audit during out interim visit and final year end audit to review their programme of work for the current financial year and to establish progress against the Internal Audit plan. We have also reviewed a summary of their reports to determine the main issues being reported to ensure that our audit takes account of any specific risks identified. In addition, we have relied on the work of Internal Audit in relation to our grant claim certification work in the year.

Based on audit work performed we consider the Internal Audit function to be appropriate for the needs of the Council.

We would like to take this opportunity to thank the Chief Internal Auditor and his team for their assistance throughout the year.

Section 6. Fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance in respect of fraud are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit and Risk Management Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

National Fraud Initiative (NFI) Prevention and detection of fraud

The Council participates in the National Fraud Initiative (NFI). The Council has identified 335 matches for the 2014/15 year and as at 24 June 2015 had investigated 77 (23%) of these and uploaded all results on to the national NFI system.

In accordance with our responsibilities as your appointed auditor, we have completed the NFI questionnaire for 2014/15 and overall, we noted that progress in the NFI exercise had been slower than expected. This has been attributed to a change in the key NFI contact during the year, with the role being covered on a temporary basis until corporate responsibilities for NFI co-ordination have been formalised. This change coincided with the move of the Council's Benefit Fraud Team to the National Agency. Going forward the role of NFI co-ordinator has been assigned to the Senior Manager – Business Management.

In addition to the above we noted a number of other areas where action is required in respect of NFI as follows:

- The self-appraisal checklist included in the 2014 NFI Report was not considered by the Audit & Risk Management Committee. This is a key way in which governance is exercised over the NFI process;
- There is still no dedicated resource to investigate non housing benefit or corporate fraud.
- Not all required data sets had been submitted by the Council in time with the NFI deadlines; and
- No formal reporting on NFI progress has been made within the Council.

Action Point 3: We recommend that the Council reviews the procedures and resources it has put in place to deal with NFI to ensure that the issues identified above are resolved

Standards of conduct and prevention and detection of corruption

As part of our audit work we identified the following in relation to the Council's arrangements to ensure appropriate standards of conduct and the prevention and detection of corruption.

The Council's Code of Corporate Governance sets out the overarching principles of good governance and standards expected of Council employees and members. Below this, the Council has a Code of Conduct for employees and members. This sets out in detail acceptable business practice and standards of ethical behaviour.

The Council also has a whistleblowing policy to allow employees to report unethical behaviour in a secure and confidential manner.

Based on audit work performed we consider that the arrangements in place to govern standards of conduct and prevention and detection of corruption to be suitable for the Council.

Section 7. Independence

Independence and objectivity

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Council that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this engagement we have made enquiries to determine any other services being provided to you.

In addition to our external audit services, during the year, PwC was engaged by both Dumfries & Galloway Council and NHS Dumfries & Galloway to review the governance arrangements in place in relation to Health and Social Care Integration. The Council’s fee associated with this piece of work was £9,000.

At the time of agreeing to the delivery of this additional work, we assessed the potential threats to our independence and concluded that no such threat was posed by the work with our assessment set out below:

Table 13: Assessment of additional work

Service provided by PwC	Value	Threats to independence and safeguards in place
Review of governance arrangements in place in relation to Health and Social Care Integration – Dumfries & Galloway Council and NHS Dumfries & Galloway.	£9,000	Self Review – No independence threats identified. In particular the work will not link into the financial statements. Self Interest - No independence threats identified. The total fee level is not deemed to be material to Dumfries & Galloway Council or PwC. Management – No independence threats identified. The work does not involve making any decisions on behalf of management. Advocacy – No independence threats identified. Our discussions and correspondence will be conducted and documented using behaviour and language which reflect our advisory role and the client’s decision-making role. Familiarity – No independence threats identified. Work is not deemed to give rise to a familiarity threat in that a separate team from audit team is used. Intimidation – No independence threats identified. The nature of the work does not give rise to any intimidation threat.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

Appendix 1: Action plan

Control Recommendation	Deficiency	Recommendation	Management's response
1	**Consideration of asset impairment**	The Council, at the request of PwC, carried out an assessment of the carrying value of the DG One facility. This review concluded that an impairment was required to reflect the additional remedial costs identified as part of the current DG One closure. **Going forward the Council should review the controls it has in place to ensure that all asset impairment triggers are identified by the Council's Estates and Finance department (i.e. not just those assets being formally revalued as part of its annual rolling revaluation exercise) to ensure that the value of the Council's assets have not been overstated in the financial statements at the year end.**	The impairment for DG One has recently been reviewed; this was a complicated issue due to the nature of the remedial work at DG One. Going forward, the Service Leader Estate Management will ensure that the annual revaluation procedures also take into consideration any properties which might need to be subject to impairment, and a revaluation carried out where required. **Implementation date: December 2015**
2	**Borrowing and Treasury Management in Councils Report**	In March 2015 Audit Scotland published its report "Borrowing and Treasury Management in Councils", which made recommendations in the area of Treasury Management. This report has not yet been considered by the Council. **We recommend that the Council consider the "Borrowing and Treasury Management in Councils" report and assess its controls against the recommendations raised within it.**	A review will be conducted and reported within the next Treasury Management Half Yearly Update Report to the Policy and Resources Committee. **Implementation date: January 2016**

3	**Management of the National Fraud Initiative (NFI)**	We noted a number of areas where action is required in relation to the NFI exercise including the following: • The self-appraisal checklist included in the 2014 NFI Report was not presented to the Audit & Risk Management Committee as a means of monitoring the body's planning and progress with the 2014/15 NFI exercise; • There is a lack of dedicated resource to investigate non housing benefit or corporate fraud. • Not all required data sets had been submitted by the Council in time with the NFI deadlines; and • No formal reporting on NFI progress has been made within the Council. **We recommend that the Council reviews the procedures and resources it has put in place to deal with NFI to ensure that the issues identified above are resolved.**	As a result of the recent transfer of the Benefit Fraud Team to the National Agency, a new management approach has been put in place to ensure agreed requirements will be met. This includes the self-appraisal checklist and ensuring that adequate resources are dedicated to undertake investigations. The creation of a small NFI Programme Board will monitor a systematic approach to the audit year to ensure important submission deadlines are adhered to. This internal NFI Board will also submit a formal annual report on NFI related activity. **Implementation date: January 2016**

Appendix 2: Letter of representation

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

Dear Sirs

Representation letter – audit of Dumfries and Galloway Council's (the Authority) Statement of Accounts for the year ended 31 March 2015

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2015 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15.

I acknowledge my responsibilities as Head of Finance for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15; in particular the Statement of Accounts give a true and fair view in accordance therewith.

- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.

- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.

- The Statement of Accounts disclose all matters of which we are aware that are relevant to the Authority's ability to continue as a going concern, including all significant conditions and events, mitigating factors and the Authority's plans. The Authority also has the intent and ability to take actions necessary to continue as a going concern.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.

- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the Statement of Accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

The Authority pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the payment schedule/schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Related party transactions
I confirm that we have disclosed to you the identity of the Authority's related parties with which there have been material transactions with during the financial year (see appendix). I confirm that there are no other transactions with related parties that are required to be disclosed.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

I confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits
I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements
All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims
I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Taxation
I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Pension fund assets and liabilities
All known assets and liabilities including contingent liabilities, as at the 31 March 2015, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2015 have been properly valued and that valuation incorporated into the Statement of Accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.

Pension fund registered status
I confirm that the Dumfries and Galloway Pension Fund, a Local Government Pension Scheme (LGPS) and the Teachers' Pension Scheme are Registered Pension Schemes. We are not aware of any reason why the tax status of the schemes should change.

Retirement benefits

- All retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.
- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

	Local Government Pension Scheme 31 March 2015
Financial assumptions:	

Discount rate	3.2%
Rate of increase in salaries	4.3%
Rate of increase in pensions	2.4%
RPI assumption	3.2%
Long term expected rate of return on assets in the scheme:	
Equity investments	3.3%
Bonds	3.3%
Property	3.3%
Cash	3.3%
Mortality assumptions:	
Longevity at 65 for current pensioners:	
Men	22.7 years
Women	24.0 years
Longevity at 65 for future pensioners	
Men	24.5 years
Women	26.7 years

- The authority participates in the Teachers' Pension Scheme that is a defined benefit scheme. I confirm that the authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.

Transactions with members/officers

- Except as disclosed in the statement of accounts, no transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 have been entered into.

Bank accounts

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Using the work of experts
I agree with the findings of Dumfries and Galloway Council's Property Services Department, which includes MRICS qualified valuers, experts in evaluating the Council's estate and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

I agree with the findings of Hymans Robertson LLP in evaluating the Dumfries and Galloway Council Pension Fund and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Assessment of indication of impairment regarding assets reviewed part way through the year and those outside of the Property Services Department's formal review of assets during 2014/15

I confirm that we have conducted an appropriate assessment of whether or not there was any indication of impairment for those assets that were reviewed part way through the year or those not formally reviewed by the Property Services department during 2014/15. Our assessment did not reveal any impairment indicators.

Assets and liabilities

- The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the statement of accounts. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the Statement of Accounts

Items specific to Local Government

- The Authority does not have plans to enter into any further Private Finance Initiative schemes which might affect the Statement of Accounts for the year.
- I confirm that the Authority does not have plans to implement any redundancy/early retirement programmes for which we should have made provision in the Statement of Accounts.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

As minuted by the Council at its meeting on 24 September 2015

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Head of Finance

For and on behalf of Dumfries and Galloway Council

24 September 2015

Appendix 1 to Letter of representation – Related parties and related party transactions

Related parties with whom the Authority has materially transacted with in the year:

Scottish Government
NHS Dumfries & Galloway
South West Scotland Transport Partnership (Swestrans)
Marchfield LLP
Dumfries & Galloway Pension Fund

In the event that, pursuant to a request which Dumfries & Galloway Council has received under the Freedom of Information Scotland Act 2002, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Dumfries & Galloway Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Dumfries & Galloway Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Dumfries and Galloway Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This report has been prepared for Dumfries & Galloway Council and the Controller of Audit in accordance with the terms of our appointment with Audit Scotland. We accept no liability (including for negligence) to anyone else in connection with this document.

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