

Dumfries and Galloway Council

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Dumfries and Galloway Council

March 2024

Contents

Introduction	3
Annual Accounts audit planning	5
Wider Scope and Best Value	11
Reporting arrangements, timetable, and audit fee	13
Other matters	15

Introduction

Audit Appointment

1. Fiona Mitchell-Knight, Audit Scotland, has been appointed by the Accounts Commission as external auditor of Dumfries and Galloway Council for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of the five-year audit appointment.

Summary of planned audit work

2. This document summarises the work plan for our 2023/24 external audit of Dumfries and Galloway Council (the council). The main elements of our work include:

- evaluation of the design and implementation of the key controls within the main accounting systems
- an audit of the Annual Accounts, and provision of an independent auditor's report
- an audit opinion on other statutory information published within the Annual Accounts including the Management Commentary, the Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership, and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- review the council's arrangements for preparing and publishing statutory performance information.
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return.

Respective responsibilities of the auditor and the council

3. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the council. Key responsibilities are summarised below.

Auditor responsibilities

4. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the Annual Accounts. We also review and report on the arrangements within the council to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

The council's responsibilities

6. The council is responsible for maintaining accounting records and preparing Annual Accounts that give a true and fair view. They are also required to produce other reports in the Annual Accounts in accordance with statutory requirements.

7. The council has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives.

Communication of fraud or suspected fraud

8. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Audit, Risk and Scrutiny Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the council have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

Adding value

9. We aim to add value to the council through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the council promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit, Risk and Scrutiny Committee and actively participate in discussions.

Annual Accounts audit planning

Introduction

10. The Annual Accounts are an essential part of demonstrating Dumfries and Galloway Council's (the council) stewardship of resources and its performance in the use of those resources.

11. As appointed auditors we are required to perform an audit of the financial statements, consider other information within the Annual Accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements in the Annual Accounts.

Materiality

13. Materiality is an expression of the relative significance of a matter in the context of the Annual Accounts. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the Annual Accounts are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit of the council and its group

14. The materiality levels for the council and its group are set out in [Exhibit 1](#) overleaf.

Exhibit 1

2023/24 materiality levels for the council and its group

Materiality	Council	Group
Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the council's operations. It has been set at 2% of gross expenditure (less IJB contributions of £95.377 million) based on the latest audited annual accounts for 2022/23.	£11.465 million	£11.485 million
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the Annual Accounts audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£7.452 million	£7.465 million
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.500 million	£0.500 million

Source: Audit Scotland

Significant risks of material misstatement to the Annual Accounts

15. Our risk assessment draws on our knowledge of the council, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management and internal audit, attendance at committees and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the Annual Accounts. These risks have the greatest impact on our planned audit procedures. [Exhibit 2](#) overleaf summarises the nature of the risks, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2023/24 significant risks of material misstatement to the Annual Accounts

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240 (<i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>), management is in a unique position to perpetrate fraud because of their ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

Other area of audit focus

18. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial

statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

19. The areas of specific audit focus are:

- **Estimations and judgements - valuation of other land and buildings:** This is an area of audit focus, reflecting the degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. These assets are revalued on a five-year rolling basis by a specialist valuer. The council have a process in place to review the valuation movements of properties not revalued in year. We will review the arrangements in place to assess whether the valuation of land and buildings is complete and is free from material misstatement.
- **Estimations and judgements – pension balance:** This an area of audit focus due to the material value and significant assumptions used in the calculation of the balance. We will review the work of the actuary, including reviewing the appropriateness of actuarial assumptions and management’s assessment of these.

Consideration of the risks of fraud in the recognition of revenue and expenditure

20. As set out in ISA (UK) 240 (*The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*), there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2023/24 as, while the possibility of fraud exists, we do not judge it to be a significant risk due to the nature of the majority of the council’s income streams, namely government funding and grants.

21. In line with Practice Note 10 (*Audit of financial statements and regularity of public sector bodies in the United Kingdom*), as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have considered each of the council’s expenditure streams, and based on our knowledge of the council, prior year considerations and our risk assessment to date, we do not consider these to be susceptible to material misstatement due to fraud. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements. We have therefore rebutted the risk of material misstatement due to fraud in expenditure recognition for 2023/24.

22. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Audit of the Management Commentary, Annual Governance Statement and Remuneration Report

23. In addition to the appointed auditor's opinion of the financial statements, the Accounts Commission prescribes that the appointed auditor should provide opinions as to whether the Management Commentary, Annual Governance Statement, and the audited part of the Remuneration Report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

24. To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance, and confirm that relevant information reflects the contents of the financial statements and other supporting documentation, including:

- **Management Commentary:** Consideration of performance information reported to council committee's and published during the year.
- **Annual Governance Statement:** Reviewing the Local Code of Corporate Governance, considering the annual assurance statements completed, and prepared by Senior Officers to provide assurances to the Chief Executive, and Internal Audit's annual assurance statement.
- **Remuneration Report:** Obtaining and reviewing payroll data and HR reports.

25. Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be communicated to those charged with governance in relation to the audit of the Management Commentary, Annual Governance Statement, and audited part of the Remuneration Report.

Group consideration

26. As group auditors, we are required under ISA (UK) 600 (*Audits of group financial statements (including the work of component auditors)*) to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group accounts.

27. The council has a group which comprises of component entities including a subsidiary and a joint venture. Based on our discussions with management and assessment of the group, the only significant group component is the council, which accounts for over 99% of the consolidated net cost of services and 98% of the group's net assets. At this stage, it has been assessed that there are no other significant components, other than the council. All non-significant components will be covered by an analytical review at the group level.

28. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Audit of the trusts registered as Scottish charities

29. The 2006 Regulations require charities to prepare Annual Accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the council are sole trustees, irrespective of the size of the charity.

30. Dumfries and Galloway Council administered six such registered charities, disclosed in a single set of annual accounts (Nithsdale Connected Trust Funds), with total assets of £0.185 million at 31 March 2023. This is in accordance with the connected charities rules. The preparation and audit of annual accounts of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

31. The trustees have agreed to release the funds/investments to another local charity with the transfer being legally executed in January 2024. The council has been in contact with the Office of the Scottish Charity Regulator (OSCR), who have confirmed that accounts for the year 2023/24 will not be required subject to the completion of a winding up application and evidence of the transfer being provided.

32. Therefore, an audit of these charities for the year 2023/24 will not be required subject to these conditions being met.

Wider Scope and Best Value

Introduction

33. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

34. In summary, the four wider scope areas cover the following:

- **Financial management:** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities. This will include reviewing the council's progress with investigating the matches identified by the National Fraud Initiative exercise.
- **Financial sustainability:** as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium-term (two to five years) and longer-term (longer than five years).
- **Vision, leadership, and governance:** we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the council. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** we will consider how the council demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Significant wider scope risks

35. Our risk assessment has not identified any significant risks in respect of the above wider scope areas.

Financial sustainability

36. Whilst not a significant audit risk, the challenging financial environment in which the council, along with other public sector bodies, is operating in, has been identified as an area of audit focus. There are challenges to the medium and longer-term financial sustainability due to the uncertainty over future Scottish Government funding allocations, the rising cost of inflation and the cost of implementing future pay settlements. Our Annual Audit Report will include comment on the council's 2023/24 financial outturn, 2024/25 budget and its medium-term financial plan.

37. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector.

Best Value

38. Under the 2021 [Code of Audit Practice](#), the audit of Best Value in councils is fully integrated within our annual audit work.

39. Best Value at the council is assessed comprehensively over the period of the audit appointment and includes an annual evaluation of the council's approach to demonstrating improvement in the effective use of resources and public performance reporting. At least once every five years, the Controller of Audit will report to the Accounts Commission on the council's performance in meeting its Best Value duties. The [Controller of Audit report](#) on the council was presented to the Accounts Commission in December 2023. The Accounts Commission's findings are due to be considered by members at the March 2024 Council meeting. We will report progress with the council's improvement actions from the Best Value 2022/23 audit work.

40. In addition, we will be reporting on the 2023/24 Best Value thematic review covering workforce innovation. We will consider how the council is responding to the current workforce challenge through building capacity, increasing productivity, and innovation. Our conclusions and judgements will be reported in a separate report and summarised in our Annual Audit Report. Additionally, we will follow up on our findings reported in our June 2023 [Best Value thematic report](#) on leadership to assess the council's pace and depth of improvement.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

41. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs, as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

42. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy.

43. We will provide an independent auditor's report to Dumfries and Galloway Council and the Accounts Commission setting out our opinions on the Annual Accounts. We will provide the council and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

44. [Exhibit 3](#) outlines the target dates for our audit outputs:

Exhibit 3

2023/24 Audit outputs

Audit output	Target date	Audit, Risk and Scrutiny Committee date
Annual Audit Plan	31 March 2024	16 April 2024
Best Value Thematic Report	30 September 2024	16 April 2024
Independent Auditor's Report	30 September 2024	29 October 2024
Annual Audit Report	30 September 2024	29 October 2024

Source: Audit Scotland



Audit timetable

45. To support an efficient audit, it is critical that the timetable for producing the Annual Accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed and agreed with management.

46. We intend to take a hybrid approach to the 2023/24 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach and will keep timeframes for the completion of the audit under review. Progress will be discussed with management over the course of the audit.

Exhibit 4

Proposed Annual Accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited Annual Accounts by those charged with governance.	27 June 2024
Latest submission date for the receipt of the unaudited accounts with complete working papers package.	28 June 2024
Latest date for final clearance meeting with the Head of Finance and Procurement, agreement of the audited and unsigned Annual Accounts and the proposed Annual Audit Report.	11 October 2024
Issue of proposed annual audit report, letter of management representation and proposed independent auditor's report to those charged with governance.	To be confirmed
Presentation of proposed Annual Audit Report to those charged with governance. Approval of the Dumfries and Galloway Council annual accounts by those charged with governance, independent auditor's report signed electronically following this approval and the final annual audit report issued.	29 October 2024

Audit fee

47. In setting the fee for 2023/24 we have assumed that the council has effective governance arrangements and will prepare comprehensive and accurate Annual Accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied. The audit fee for 2023/24 is £412,720 (£389,370 in 2022/23).

Other matters

Internal audit

48. It is the responsibility of the council to establish adequate internal audit arrangements. The council's internal audit function is provided by its internal audit section led by the Internal Audit Manager.

49. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our Annual Accounts and wider scope audit responsibilities.

Independence and objectivity

50. Auditors appointed by the Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the Annual Accounts, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

51. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

52. The appointed auditor for Dumfries and Galloway Council is Fiona Mitchell-Knight, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the council.

Audit Quality

53. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives.

54. Audit Scotland are committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality, and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England

and Wales (ICAEW) have been commissioned to carry out external quality reviews.

55. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

The audit team

56. Key contacts in the audit team are:

- Fiona Mitchell-Knight FCA, Audit Director
- Peter Lindsay CPFA, Senior Audit Manager
- Gordon McAllister CPFA, Senior Auditor

57. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Dumfries and Galloway Council

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk