# Dumfries and Galloway Council

## Annual Audit Plan 2025/26

Prepared for Dumfries and Galloway Council

March 2026

# Contents



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# Introduction

## Purpose of the Annual Audit Plan

**1.** The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of Dumfries and Galloway Council's annual accounts. It outlines the audit work planned to meet the audit requirements set out in auditing standards and the Code of Audit Practice, including supplementary guidance.

## Appointed auditor and independence

**2.** Fiona Mitchell-Knight, of Audit Scotland, was appointed by the Accounts Commission as external auditor of Dumfries and Galloway Council for 2025/26, the fourth of the five-year audit appointment. She is soon to be replaced by Louisa Yule of Audit Scotland.

**3.** Fiona Mitchell-Knight, Louisa Yule and the audit team are independent of Dumfries and Galloway Council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**4.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of Dumfries and Galloway Council to communicate.

# Audit scope and responsibilities

## Scope of the audit

**5.** The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, the Management Commentary, and the Annual Governance Statement, and an opinion on the audited part of the Remuneration Report.
- Conclusions on Dumfries and Galloway Council's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on Dumfries and Galloway Council's arrangements for securing Best Value.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.

## Responsibilities

**6.** The Code of Audit Practice sets out the respective responsibilities of Dumfries and Galloway Council and the auditor. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

**7.** The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts, and concluding on Dumfries and Galloway Council's arrangements in place for the wider scope areas.

### Dumfries and Galloway Council's responsibilities

**8.** Dumfries and Galloway Council has primary responsibility for ensuring 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. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

**9.** 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 Audit, Risk and Scrutiny Committee 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.

# Audit of the annual accounts

## Introduction

**10.** The audit of the annual accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

## Materiality

**11.** The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

**12.** Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

**13.** The materiality levels determined for the audit of Dumfries and Galloway Council are outlined in Exhibit 1.

### Exhibit 1
**2025/26 Materiality levels for Dumfries and Galloway Council**

| Materiality | Council | Group |
|---|---|---|
| **Materiality** – based on an assessment of the needs of users of the financial statements and the nature of Dumfries and Galloway Council's operations, the benchmark used to determine materiality is gross expenditure (less IJB contributions of £99.436 million) based on the audited 2024/25 financial statements. Materiality has been set at 2% of the benchmark. | £12.527 million | £12.553 million |

| Materiality | Council | Group |
|---|---|---|
| **Performance materiality** – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 70% of planning materiality. | £8.769 million | £8.787 million |
| **Reporting threshold –** all misstatements greater than the reporting threshold will be reported. | £0.600 million | £0.600 million |

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**14.** The risk assessment process draws on the audit team's cumulative knowledge of Dumfries and Galloway Council, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

**15.** Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in Exhibit 2, page 8. These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in Exhibit 2.

**16.** The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and Exhibit 2 may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to Dumfries and Galloway Council and those charged with governance, where relevant.

## Exhibit 2
### Significant risks of material misstatement to the financial statements

| Risk of material misstatement | Planned audit response |
|---|---|
| **Fraud caused by management override of controls**<br><br>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. | The audit team will:<br>• Evaluate the design and implementation of controls over journal entry processing.<br>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries.<br>• Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end.<br>• Evaluate significant transactions outside the normal course of business.<br>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.<br>• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.<br>• Carry out substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.<br>• Perform focussed testing of accruals and prepayments. |

| Risk of material misstatement | Planned audit response |
| --- | --- |
| **Valuation of property, plant and equipment**<br>Dumfries and Galloway Council held £954.8 million of property, plant, and equipment (PPE) at 31 March 2025, of which £697.4 million was land and building assets.<br>Dumfries and Galloway Council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.<br>The Code of Practice on Local Authority Accounting in the UK 2025/26 introduced a requirement for local authorities to revalue each class of property, plant and equipment using one of three options, one of which is a rolling programme of revaluations over a five-year cycle, with annual indexation applied to assets during the intervening four years. Given the council has a rolling programme of revaluations over a five-year cycle, officers will be required to apply indexation to those assets not subject to a formal revaluation in 2025/26. Auditing standards require auditors to obtain sufficient appropriate audit evidence that indexation movements are not materially misstated. | The audit team will:<br>• Evaluate the design and implementation of controls over the valuation process.<br>• Review the information provided to the valuer and assess this for completeness and accuracy.<br>• Evaluate the competence, capabilities, and objectivity of the valuer.<br>• Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.<br>• Review the appropriateness of the key data and assumptions used in the 2025/26 valuation process, and challenge these where required.<br>• Review the indices applied by management to assets not subject to valuation in 2025/26 and assess if these are reasonable and have been correctly applied. |

Source: Audit Scotland

## Key audit matters

**17.** The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

**18.** In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

**19.** The matters determined to be key audit matters will be communicated in the Annual Audit Report. Exhibit 2 outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

## Group audit

**20.** Dumfries and Galloway Council is part of a group and prepares group financial statements. The group is made up of three components, including Dumfries and Galloway Council which is the parent of the group. Risk assessment procedures have been performed on the group audit to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in Exhibit 3.

### Exhibit 3
**Outcome of risk assessment procedures on the group audit**

| Group component | Accounting treatment | Risk of material misstatement | Audit procedures required | Auditor |
|---|---|---|---|---|
| Dumfries and Galloway Council | Consolidated on a line-by-line basis | Yes – Exhibit 2 | Yes – full scope audit | Audit Scotland |
| SWestrans | Consolidated on a line-by-line basis | No – not material | Yes – analytical procedures at group level | Audit Scotland |
| Dumfries and Galloway Integration Joint Board | Accounted for on equity basis | No - not material | Yes – analytical procedures at group level | Audit Scotland |

Source: Audit Scotland

**21.** Where audit procedures are required on a component's financial statements, and the component auditor is different to Dumfries and Galloway Council's appointed auditor, group audit instructions will be issued to the component auditor outlining expectations and requirements in performing these audit procedures.

# Wider scope and Best Value

## Introduction

**22.** Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on Dumfries and Galloway Council's being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering Dumfries and Galloway Council's medium- to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering Dumfries and Galloway Council's arrangements for ensuing resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

**23.** A conclusion on the effectiveness and appropriateness of arrangements Dumfries and Galloway Council has in place for each of the wider scope areas will be reported in the Annual Audit Report.

## Best Value

**24.** Under the 2021 Code of Audit Practice, the audit of Best Value in councils is fully integrated within our annual audit work.

**25.** 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 were reported to members at the March 2024 Council meeting. We reported progress with the council's improvement actions from the Best Value 2022/23 audit work in our 2023/24 and 2024/25 Annual Audit Reports.

**26.** In addition, we will be reporting on the 2025/26 Best Value thematic review covering asset management. We will consider how well the council is managing its assets to achieve its corporate objectives and responding to challenges around financial sustainability and climate change. 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 previous years on our work on workforce innovation and transformation to assess the council's pace and depth of improvement.

**27.** Consideration of the arrangements Dumfries and Galloway Council has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements Dumfries and Galloway Council has in place will be reported in the Annual Audit Report.

## Significant wider scope and Best Value risks

**28.** No significant risks in the wider scope areas or Best Value were identified from the risk assessment process.

## Financial sustainability

**29.** 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 2025/26 financial outturn, 2026/27 budget and its medium-term financial plan.

## Internal Audit

**30.** In our 2023/24 Annual Audit Report we highlighted that the report on the External Quality Assessment (EQA) of Internal Audit contained nineteen recommendations for improvement, to be implemented to conform to internal audit quality standards. We recommended that the Council Management Team (CMT) should ensure that the Interim Internal Audit Manager is supported and has sufficient resources to meet the requirements of the Public Sector Internal Audit Standards. Management agreed that a review of Internal Audit would be carried out by 1 April 2025 and would include consideration of the needs of the council in terms of the Internal Audit function and appropriate resourcing to meet those needs. Our 2024/25 Annual Audit Report highlighted that the review had not been completed by the due date and was currently in progress, considering the needs of the council in terms of the Internal Audit function and the appropriate resourcing to meet those needs. We will report an update in our 2025/26 Annual Audit Report.

## Shared risk assessment and joint scrutiny

**31.** The Shared Risk Assessment process is the vehicle for scrutiny bodies to share intelligence and agree scrutiny risks at councils. Appointed auditors have a role in co-ordinating scrutiny through Local Area Networks (LAN). As part of our audit work, we engage with contacts in other scrutiny bodies through LAN meetings to understand information on performed and planned scrutiny to facilitate engagement with the council and inform risk assessment discussions.

**32.** The LAN meeting for the council took place at the end of January 2026, and we will incorporate the outcome of the meeting into our ongoing risk assessment procedures. The outcome of the meeting will be communicated to the council's Chief Executive.

# Reporting arrangements, timetable and audit fee

## Audit outputs

**33.** The outputs from the 2025/26 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to Dumfries and Galloway Council and the Accounts Commission setting out opinions on the annual accounts.
- An Annual Audit Report to Dumfries and Galloway Council and the Accounts Commission setting out significant matters identified from the audit of the annual accounts, conclusions from the wider scope and Best Value audit, and recommendations, where required.

**34.** The matters to be reported in the outputs will be discussed with Dumfries and Galloway Council for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited annual accounts.

**35.** Target dates for the audit outputs are set by the Accounts Commission for Scotland, which is 30 September 2026 for local government. The audit team will be unable to achieve the target date of 30 September 2026 for issuing the Independent Auditor's Report and Annual Audit Report.

**36.** The audit team will not be able to deliver the audit within the target dates within the five-year audit appointment. We are working towards completion of the audit by the later date of 24 November 2026. This timeline results from workforce planning priorities.

## Audit timetable

**37.** Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. Exhibit 4 overleaf includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with Dumfries and Galloway Council and reported to those charged with governance, where required.

## Exhibit 4
### 2025/26 audit timetable

| Audit activity | Dumfries and Galloway Council target date | Audit team target date | Audit, Risk and Scrutiny Committee date |
|---|---|---|---|
| Issue of Annual Audit Plan | | 31 March 2026 | 14 May 2026 |
| **Annual accounts:** | | | |
| • Consideration of unaudited annual accounts by those charged with governance | 25 June 2026 | | 25 June 2026 ** |
| • Submission of unaudited annual accounts and all working papers to audit team | By 30 June 2026 | | |
| • Latest date for audit clearance meeting | 14 October 2026 | 14 October 2026 | |
| • Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report | | 30 October 2026 | 24 November 2026 |
| • Agreement of audited and unsigned annual accounts | 30 October 2026 | 30 October 2026 | |
| • Approval by those charged with governance and signing of audited annual accounts | 24 November 2026 | | 24 November 2026 |
| • Signing of Independent Auditor's Report and issue of Annual Audit Report | | 24 November 2026 | |

** - the unaudited 2025/26 accounts will be presented to the meeting of the Full Council.

Source: Audit Scotland

## Audit fee

**38.** Dumfries and Galloway Council's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2025/26 audit is £438,860 (2024/25: £420,610).

**39.** In setting the audit fee, it is assumed that Dumfries and Galloway Council has effective governance arrangements in place and the complete annual accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

# Other matters

## Internal audit

**40.** Dumfries and Galloway Council is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

**41.** While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. We will review the internal audit plan for 2025/26 and the results of internal audit's work. While we are not planning to place formal reliance on the work of internal audit in 2025/26, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Audit quality

**42.** Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the Audit Scotland website.

**43.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.

- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

**44.** To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

**45.** Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitors on a regular basis by Audit Scotland's Quality and Ethics Committee.

**46.** Audit Scotland may periodically seek the views of Dumfries and Galloway Council on the quality of audit services provided. The audit team would also welcome feedback at any time.

# Dumfries and Galloway Council

**Annual Audit Plan 2025/26**

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