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# *Dumfries and Galloway Council*

Annual Report to Members and the  
Controller of Audit for the year  
ended 31 March 2012

October 2012

2011/12 Audit

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## ***Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies***

*In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*



# *Executive summary*

## Introduction – Section 1

Our overall responsibility as external auditor of Dumfries and Galloway Council (“the Council”) is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice (“the Code”), revised and published in March 2011. We have a dual reporting responsibility for the audit: to the Members of the Council and to the Controller of Audit.

Under the Auditing Practices Board’s International Auditing Standard (UK and Ireland) 260 “ISA (UK&I) 260” - “Communication of audit matters with those charged with governance” we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of Dumfries and Galloway Council (‘the Council’).

This Annual Audit Report to Members and our presentation to the November 2012 Full Council, together with previous reports to the Audit and Risk Management Committee throughout the year, discharges the requirements of ISA 260. It contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

## Financial Statements and Audit Opinion – Section 2

We are pleased to report that our opinion on the financial statements for the year ended 31 March 2012 is **unqualified**.

We proposed a number of adjustments during the audit. All of these adjustments have been processed by management in the final version of the 2011/12 financial statements.

We have examined the accounting treatment for the Council’s Equal Pay provision and contingent liability. We are satisfied with the Council’s accounting treatment for both its provision and its contingent liability.

On 23 August 2012, we received an objection to the accounts from Loreburn Community Council on the basis that the assets disclosed in the Dumfries Common Good Fund have been misstated. It is our view that any potential misstatement is not material to the financial statements and as such has not impacted our audit opinion. We will continue to monitor the position of the Dumfries Common Good Fund as part of our 2012/13 audit.

## 2011/12 Financial Management and Performance – Section 3

The Council budgeted for a breakeven position in 2011/12 and managed to return an underspend. Total General Fund Balances were increased by £8.237 million in respect of specific commitments, resulting in a General Fund carry forward of £59.958 million

The Efficiency Statement, submitted by the Council to CoSLA and the Scottish Government, reflecting efficiency savings across all Resources for 2011/2012 totalled £11.2 million.

The Council operates an approved Reserves Strategy as part of its medium term financial planning to help ensure financial stability over the next spending review period. It is the Council’s agreed policy to retain an unallocated General Fund balance at a minimum of 2% of annual planned expenditure, equivalent to a minimum £7.5 million for 2011/12. Therefore, £52.433 million of the general fund balance as at 31 March 2012 has been committed in future years.

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## Financial Outlook – Section 4

The Council has acknowledged the financial challenges which exist in its 2012/13 revenue budgets and 2012 to 2015 medium term financial plans.

A breakeven budget has been approved for 2012/13, with revenue expenditure of £376.7 million. To achieve this position an efficiency plan is in place for savings of £8.4 million. All savings required have been detailed, agreed and reported to both relevant Service Committees and to Full Council.

In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012. The Council must ensure that it has arrangements in place to implement the Act.

The Police & Fire Reform (Scotland) Act was given Royal Assent on 7 August 2012. Assets and liabilities in relation to Police and Fire services currently operating within Dumfries and Galloway Council will be transferred to the single forces at their carrying amounts.

This will be a more complicated process for Dumfries and Galloway as the Police and Fire service is currently provided by the Council rather than as separate Police and Fire Authorities. The Council should ensure that arrangements are in place to ensure all relevant assets and liabilities can be transferred over to the single Police and Fire Authorities.

## Governance and Control – Section 5

We have assessed the Council's overall governance arrangements including a review of Council and key Committee structures and minutes, financial reporting to Committees, and the risk management framework. We consider that appropriately structured arrangements and reporting are in place. We have also considered key areas of risk to the Council including partnership working; service sustainability; performance management; and people management.

The Code of Audit Practice requires us to review and report on the Council's Statement of Governance and Internal Control. We reviewed the Statement to consider whether it complied with the CIPFA / SOLACE framework and whether it was misleading or inconsistent with other information known to us from our audit work. Based on our normal audit procedures, we **do not disagree** with the disclosures contained in the Statement.

The Council has however opted not to include the full Corporate Governance Statement for 2011/12 which, although not mandatory in Scotland, is considered best practice. The Council should consider including an Annual Governance Statement in its annual accounts for 2012/13.

# 1. Introduction

## Purpose of this Report

- 1.01 Our Annual Audit Report is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct the Council's attention to matters of significance that have arisen out of the 2011/12 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

## Scope, nature and extent of our audit

- 1.02 Our overall responsibility as external auditor of the Council is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2011. In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor", the Auditor General for Scotland and other auditors such as Audit Scotland's Public Reporting Group. Our audit has been planned and conducted to take account of these wider perspectives.
- 1.03 Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "Communication of audit matters to those charged with governance", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Report to Members and our presentation to the September 2012 Audit and Risk Management Committee, together with previous reports to the Audit and Risk Management Committee throughout the year, discharges the requirements of ISA 260.
- 1.04 Our audit work during the year was performed in accordance with the plan that we presented to the Audit and Risk Committee in February 2012. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix 2 to this report.

## Acknowledgement

- 1.05 We would like to formally extend our thanks to the Council's managers and staff for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP  
Glasgow  
October 2012

## 2. Financial Statements and Audit Opinion

### Audit Opinion

- 2.01 We have completed the audit of the Council's accounts in line with current International Auditing Standards and have given an **unqualified** opinion that the financial statements of the Council for 2011/12 give a true and fair view of the financial position and expenditure and income of the Council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
- 2.02 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is **unqualified**. Our audit opinion does not extend to any other part of the Remuneration Report.
- 2.03 On 23 August 2012, we received an objection to the accounts from Loreburn Community Council on the basis that the assets disclosed in the Dumfries Common Good Fund have been misstated. It is our view that any potential misstatement is not material to the financial statements and as such has not impacted our audit opinion. We will continue to monitor the position of the Dumfries Common Good Fund as part of our 2012/13 audit.

**Action 1**

### Audit Approach

- 2.04 Our audit approach was set out in our Annual Audit Plan as presented to the Audit and Risk Management Committee in February 2012. There have been no changes to our audit plan.

### Audit Process

- 2.05 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. However supporting schedules were not as detailed as required and arrangements put in place for our audit process have not been as efficient or effective as we would have expected. **A plan of action will be agreed with Council officers for necessary improvements to be implemented for 2012/13.**

**Action 2**

### Basis of Preparation

- 2.06 The financial statements were prepared in accordance with the accounting requirements contained in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS).

### Misstatements and significant audit adjustments

- 2.07 We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature.
- 2.08 A number of adjustments to the format of, and figures within, the financial statements have been discussed during the course of our audit. **All audit adjustments have been processed** in the final financial statements.

### Significant Accounting Issues Identified and Reporting

- 2.09 During the course of our audit we have identified a number of issues that we are required to report upon formally. The most significant of these audit areas are set out below.

### *Pension Liability*

- 2.10 Dumfries and Galloway Council, like most other public sector bodies, holds on its balance sheet a significant net liability in respect of future employee retirement benefits which at 31 March 2012 had risen to £536.064 million. This figure includes the Police and Fire pension schemes and excludes injury benefits.
- 2.11 We have obtained fund valuation information and verified the data against third party information, such as published equity prices, where possible. We used internal PwC actuarial specialists to assess the assumptions used by the Council's actuary, Hymans Robertson, and agreed contributions and benefits to payroll data.
- 2.12 This is an area of complexity and we are grateful for the open manner in which management has shared its workings, resulting in us jointly agreeing that an audit adjustment was necessary which increased the Council's disclosed future liability by £6.591 million.

### *Equal Pay*

- 2.13 The Council is subject to a number of ongoing equal pay claims. Where it is difficult to quantify values in terms of likelihood of success and value of final claims, the claims have been disclosed as a contingent liability.
- 2.14 Equal pay claims where the liability is more certain have been included as a provision. The Equal pay provision for 2011/12 is £7.985 million.
- 2.15 We are satisfied that any liability in relation to these specific equal pay claims would be difficult to value with any accuracy and that disclosure as a contingent liability is appropriate at this stage.
- 2.16 ***We have considered the provision and contingent liability against the criteria set out IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and the Code of Audit Practice on Local Authority Accounting and we are satisfied with management's accounting treatment for these equal pay claims***

**Action 3**

### *Management of Social Work Services*

- 2.17 We have conducted a review of the financial management and related business management arrangements that are adopted within Dumfries and Galloway Council (the Council) Social Work Services (SWS).
- 2.18 Unexpected financial over and under spends in Dumfries and Galloway Council (the Council) Social Work Services (SWS) outturn for the year ending 31 March 2012 put a spotlight on the budgeting and related business management and reporting arrangements in place within Social Work Services. Our review has identified a number of areas requiring improvement in the design and operation of SWS processes concerning:
- Business Planning
  - Business Management
  - Budget Setting
  - Budget Monitoring
  - Information Management
- 2.19 ***This current review of financial management and related business arrangements raises concerns around a number of the matters noted above. The next steps for the Council require clear leadership and commitment to implement both improvements in the existing arrangements and deliver strengthened arrangements to the longer term Social Work strategy of the Council.***

**Action 4**



## 3. 2011/12 Financial Performance

### 2011/12 Financial Performance

- 3.01 The Council's General Fund financial performance for 2011/12 is summarised in the table below with 2010/11 comparatives included. The Council achieved a positive General Fund outturn of £8.237 million against a breakeven budget.

	2011/12 £,000	2010/11 £,000
<b>Net Cost of Services</b>	<b>(365,243)</b>	<b>(297,841)</b>
Taxation and Non-Specific Grant Income	385,547	385,877
Other Income and Expenditure (Financing and Investment)	(38,682)	(42,985)
<b>Surplus / (Deficit) on Provision of Services</b>	<b>(18,378)</b>	<b>45,051</b>
Adjustments between accounting basis and funding basis under regulations	25,142	(49,952)
<b>Net Increase before Transfers to Reserves</b>	<b>6,764</b>	<b>(4,901)</b>
Transfers (to)/from Reserves	1,473	4,179
<b>Increase/(Decrease) in Year</b>	<b>8,237</b>	<b>(722)</b>
<b>Opening Balance</b>	<b>51,721</b>	<b>52,443</b>
<b>Closing Balance</b>	<b>59,958</b>	<b>51,721</b>

### Reserves Strategy

- 3.02 The Council operates an approved Reserves Strategy as part of its medium term financial planning to help ensure financial stability over the next spending review period. It is the Council's agreed policy to retain an unallocated General Fund balance at a minimum of 2% of annual planned expenditure, equivalent to a minimum £7.5 million for 2011/12. £52.433 million of the general fund balance as at 31 March 2012 has been categorised by the Council as committed, leaving an unallocated balance of £7.525 million in line with policy.
- 3.03 The Total Usable Reserves of the Council as at 31 March 2012 are £69.593 million, an increase of £8.877 million from the 2010/11 closing position of £60.716 million.

Reserves at 31 March 2012	£'000	Function
General Fund Balance	59,958	£9.850 million transferred in and £1.613 million transferred out.
Capital Receipts Reserve	700	The Capital Receipts Reserve represents resources generated through the sale of capital assets which are available to the Council to be spent on capital projects and approved expenses.
Capital Fund	4,412	The Capital Fund represents the amount set aside by the Council to fund expenditure on fixed assets.
Repairs and Renewals Fund	1,674	The Renewal & Repairs Fund represents amounts set aside to fund expenditure incurred in repairing, maintaining, replacing and renewing non-current assets.

Insurance Fund	2,849	This is a self-insurance policy in respect of all liability claims intimated against the Council and all motor claims involving the Council's fleet (£47k transfer to the General Fund).
<b>Total Usable Reserves</b>	<b>69,593</b>	

### *Efficiency Savings*

- 3.04 The Council is required to contribute 2% savings towards the Scottish Governments Efficiency Targets annually.
- 3.05 The Efficiency Statement, submitted by the Council to CoSLA and the Scottish Government, reflecting efficiency savings across all Services for 2011/2012 totalled £11.2 million. Efficiency Savings totalling £3.8 million are presented over the headings of Procurement, Shared Services and Asset Management.

### *Trading Operations*

- 3.06 Dumfries & Galloway Council carried out an exercise reviewing all services to determine which were significant trading operations. Only 1 service (Roads Maintenance) met all the criteria and is included in the financial statements as a significant trading operation.
- 3.07 The trading operation achieved its statutory performance target of 'break-even', over a three year period. The total net surplus on trading services in 2011/12 was £334,000 (2010/11 £330,000), with a cumulative surplus of £1.304 million achieved over the latest three year period.

### *Capital Expenditure*

- 3.08 The Capital Investment Strategy Group is responsible for assessing improvements to project planning and delivery to ensure that approved capital allocations are appropriate and that the level of slippage incurred on individual projects is further reduced.
- 3.09 The Council had a revised general fund capital programme budget of £29.6 million for 2011/12, Additional specific grant supported and spend to save investment outwith the main programme increased actual expenditure to £33.2 million which was funded through capital grants, receipts from the sale of assets and other contributions totalling £18.0 million leaving £15.2 million to be funded through borrowing.

### *Statutory Performance Indicators*

- 3.10 The Accounts Commission has a statutory responsibility to specify information that Councils must publish about their performance in the form of statutory performance indicators. For 2011/2012, the Accounts Commission stipulated the publication of 25 Statutory Performance Indicator (SPIs).
- 3.11 Auditors are required to review those arrangements in place for collecting, recording and publishing performance data. Based on our work performed and review of the procedures undertaken by the Research function of the Council's Finance and IT Resource, the Council was able to demonstrate the basis for the SPIs reported.

## 4. Financial Outlook

### *Financial Outlook of 2012/13 – 2014/15*

- 4.01 The Scottish Government Local Government Financial Settlement has provided Councils with funding details for each of the three years 2012/13 to 2014/15 with the latter two years being on an indicative basis. This has allowed Dumfries and Galloway Council to develop a three year financial plan which is particularly important given the extent of the financial challenges facing local authorities over the upcoming period.
- 4.03 The Council approved its 2012/13 revenue budget of £376.7 million in February 2012, which provided for a break-even position. The 2012/13 budget reflects agreed savings of £8.4 Million.”
- 4.04 The Council has identified the following further savings requirements for the period 2013/14 to 2015/16:
- 2013/14 - £8.438 Million
  - 2014/15 - £17.961 Million (i.e. a further £9.523 Million)
  - 2015/16 - £27.000 Million (i.e. a further £9.039 Million)

***These savings requirements are more challenging to achieve but it is essential that these savings plans are developed and decisions to proceed are made early in order to maximise the Council's ability to secure the savings required for 2013/14 to 2015/16.***

#### **Action 5**

### *Welfare Reforms*

- 4.05 In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012.
- 4.06 Amongst the key proposals set out in the Act are:
- Universal Credit will be introduced, replacing many existing benefits such as Job Seekers Allowance and Tax Credits.
  - Restrictions to the value of the amount of benefits individuals can receive.
  - Stricter rules regarding the awarding of benefits to people with disabilities
  - Housing Benefit will be subsumed within Universal Credit with local authorities no longer involved in its administration.
  - Council's may no longer receive the grant received currently for administering benefits (in the case of Dumfries and Galloway this totals £2.4 million)
  - Council Tax Benefit will be abolished and replaced by local schemes of assistance.
  - Councils will only receive around 90% of the current level of Council Tax Benefit claimed.
- 4.07 At present Universal Credit will be introduced for new claimants from October 2013. Thereafter there will be a 2 year programme of migration of existing claimants to Universal Credit, as they go through changes in their basis of claim. Remaining claimants will then (from October 2015) begin to be moved to Universal Credit.
- 4.08 Council Tax benefit will no longer be paid to Councils from the Department for Work Pensions (DWP). In Scotland, an amount for Council Tax support, is being passed from DWP to the Scottish Government as part of the block grant settlement. A 10% cut will be made by DWP in passing this sum to the Scottish Government.

- 4.09 For year 2013/2014, this is likely to mean a shortfall of around £40 million for Scottish Councils. This will be bridged by a £23 million contribution from the Scottish Government, with the gap being met by Councils. This funding package will allow a scheme of Council Tax support to be established, mirroring the existing scheme. At present there would only appear to be a commitment to a scheme and a package of funding support for year 2013/14. However, significant changes to Council Tax Benefit systems and software are required to enable the continuation of a form of this benefit into next financial year.
- 4.10 In April 2013, the Social Fund Community Care Grants and Crisis loans for living expenses will be abolished and the funding transferred to Scottish Ministers. CoSLA has been working with the Scottish Government on an interim local government delivery scheme (Scottish Community Support Grants) while a longer term delivery arrangement is being developed. Funding of £25-30 million will be transferred to Scottish Ministers, on the basis of the equivalent Social Fund spend for 2012/13.
- 4.11 Given the scale and importance of the changes around Welfare Reform, a number of engagement processes have been commenced across the Scottish public sector. The DWP have embarked upon a business impact analysis exercise with Councils and will run a conference jointly with CoSLA on Welfare Reform. The Council continues to participate fully in these engagements. DWP are also establishing a series of district based meetings with local authorities on Welfare Reform.
- 4.12 ***The Council should put specific arrangements in place to ensure that Welfare Reform impacts, can be planned, coordinated, monitored and successfully implemented.***

***Action 6***

### ***Police and Fire Reform Scotland Act***

- 4.13 The Police & Fire Reform (Scotland) Act was given Royal Assent on 7 August 2012. Assets and liabilities in relation to Police and Fire services currently operating within Dumfries and Galloway Council will be transferred to the single forces at their carrying amounts.
- 4.14 This will be a more complicated process for Dumfries and Galloway as the Police and Fire service is currently provided by the Council rather than as separate Police and Fire Authorities. ***The Council should ensure that arrangements are in place to ensure all relevant assets and liabilities can be transferred over to the single Police and Fire Authorities.***

***Action 7***

## 5. Governance and Control

### Overall Governance Arrangements

- 5.01 Dumfries and Galloway Council has a well established committee structure that continues to be reviewed on an annual basis by the full Council in order to ensure that it reflects the activity of the Council. In addition there are Standing Orders, and a Scheme of Delegation in place which sets out the governance and accountability arrangements. These documents are available to all staff within the organisation and are reviewed on an annual basis.
- 5.02 The Council has a target of providing Members with reports and committee papers seven days prior to the committee. This target has proved to be challenging in the past but has been improving in recent months, with all February committee papers being issued within this target. All Council reports are prepared using a standard template which ensures that Members can become familiar with the structure of the reports even if the content is on an unfamiliar subject, which helps with the overall understanding of the paper.
- 5.03 There have been no significant changes to the overall governance arrangements operating at the Council during 2011/12 and overall governance structures and activities are as expected. Following the local elections in May 2012, new committee members have been introduced to reflect the current political landscape within the Council.

### Statement of Governance and Internal Control

- 5.04 The Council is required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The Council has included a Statement of Internal Financial Control in its financial statements.
- 5.05 We reviewed the Statement to consider whether it complied with the CIPFA / SOLACE framework and whether it was misleading or inconsistent with other information known to us from our audit work. Based on our normal audit procedures, we **do not disagree** with the disclosures contained in the Statement.
- 5.06 The Council has however opted not to include the full Corporate Governance Statement for 2011/12 which, although not mandatory in Scotland, is considered best practice.
- 5.07 ***The Council should consider including an Annual Governance Statement in its annual accounts for 2012/13.***

**Action 8**

### Accounting Systems and Systems of Internal Control

- 5.08 It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.
- 5.09 The results of our work on systems of internal control were communicated to the Audit and Risk Management Committee in our Interim Management Letter dated May 2012. The report contained eleven recommendations to improve controls, two of which were graded as higher risk relating to IT Change Control and User Access. Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.

## *Performance Management*

- 5.10 Over the past 18 months the Council has focussed significant time and resources towards developing its performance management arrangements, following criticism in the Audit Scotland Best Value report. Performance Management is now becoming more embedded within the organisation with an example being that Performance Indicators are included in Business Plans as a measure to evidence the success of the delivery of the plan.
- 5.11 The Service Committees receive a performance report every six months detailing the Key Performance Indicators (KPIs) for their service in a traffic light format, with explanations for where targets are not being met. In addition, Area Committees receive a performance report every six months, based on the performance across all services in their geographic location, which is in the same format as Service Committee Reports. For the first time, the Statutory Performance Indicators (SPIs) for 2010/11 went to the Scrutiny and Performance Committee where they were discussed, with Members questioning Directors and Heads of Service on their departments' performance based on the SPIs.
- 5.12 The Council has a corporate-wide performance management system in place which acts as a database for capturing all 227 KPIs that are used across the organisation. This allows corporate management to obtain up to date performance management information for the purposes of reporting to management and committees throughout the organisation. Further development of the Performance Management approach and performance information is a focus for the new 3 year Business Plans.

## *Follow up of outstanding recommendations*

- 5.13 Good progress has been made by the Council on the 11 recommendations made by Audit Scotland in 2010/11. At August 2012, only two items remained in progress:
- Review of the financial codes/policies (high risk) – the Council has reviewed and updated 16 of the 23 financial codes and plans are in place to review the remaining 5 during 2012/13
  - Review of Non Domestic Rates billing and collection system (high risk) – the target date for this review has been delayed to March 2013 due to available resource commitments being devoted to the implementation of a new financial management system during April-July 2012.
- 5.14 We are satisfied that due to the nature of the actions, acceptable progress is being made to achieve the recommendations.

## *Prevention of Fraud and Corruption arrangements*

- 5.15 As reported in our Interim Management Letter, we have considered the Council's arrangements for the prevention and detection of fraud and corruption. This was performed through discussion of key risk areas with senior management and review of selected controls and documentation. We do not believe that the control weaknesses identified in the Councils arrangements during our fieldwork have directly contributed to any fraudulent activity that has been uncovered. We nevertheless recommend that the agreed actions are undertaken to further reduce the opportunity and likelihood of fraudulent or corrupt activity.
- 5.16 The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The findings of the most recent NFI exercise were reported by Audit Scotland in May 2012.
- 5.17 The Council must complete the next NFI exercise by March 2013; investigating and concluding on its matches. The Council continues to demonstrate a commitment to the NFI process and has taken steps to review its NFI arrangements.

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## *Internal Audit*

- 5.18 As recommended by the International Standards on Auditing Standard (ISA) 610, “Using the Work of Internal Auditors”, we have liaised with Internal Audit during our interim audit visit to review their programme of work for the current financial year to establish progress against the internal audit plan and review a summary of their completed reports to determine the main issues being reported. Where appropriate, this information has been used to tailor our approach and to allow us to focus on areas of greatest risk.
- 5.19 We are grateful for the support given this year and will be liaising with Internal Audit to place greater reliance on their work, in particular in relation to the operation of the key financial controls and key performance indicators in future years.

## *National Performance Audits*

- 5.20 At the request of Audit Scotland, we were required to perform targeted follow up work on their National Performance Reports: *Maintaining Scotland’s Roads – A follow-up Report* (published February 20011).

### **Maintaining Scotland’s Roads**

- 5.21 Overall, the Council was able to demonstrate it had considered the report at the appropriate level and had taken the original recommendations into account.
- 5.22 The assessment team did note that the Council’s approach to addressing the road maintenance backlog through user surveys was highlighted by the report and a key focus of their efforts since publication of the report has been on delivering the Roads Investment Plan.

## *Local Impact Returns*

- 5.23 Local Impact Return questionnaires provide a template to assist auditors in making an assessment as to how the Council has responded to National Performance Reports from Audit Scotland. During the year the following Returns were submitted to Audit Scotland:
- Modernising the Planning System
  - Scotland’s Finances 2 – Addressing the Challenges
  - Transport for Health & Social Care
  - A Review of Community Health Partnerships

# *Appendices*



## Appendix 1 – Action Plan

	Paragraph Reference	Recommendation	Response
1	2.03	<p><b>Objection to Accounts</b></p> <p>The Council should work with Loreburn Community Council to ensure that all assets owned by the Council which were part of the Common Good of the former Royal Burgh of Dumfries are disclosed in the Accounts as being held under the Dumfries Common Good Fund.</p>	<p><b>Management Response:</b> The Council is currently working through the Dumfries Common Good Fund Sub-Committee to identify assets which were part of the Common Good of the former Royal Burgh of Dumfries. This work will require considerable research into title deeds, historic records and will also require to take account of legislation following upon two reorganisations of Local Government in Scotland in 1975 and 1996.</p> <p>The work will be ongoing and the Accounts for future years will be updated accordingly.</p> <p><b>Responsible Officer:</b> Director Chief Executive Service</p> <p><b>Implementation Date:</b> Immediate</p>
2	2.05	<p><b>Audit Process</b></p> <p>The Council should ensure that arrangements are in place to ensure that auditors are effectively and efficiently supported during our interim and final audit visits.</p>	<p><b>Management Response:</b> A post-audit debrief meeting has been arranged between the auditors and Council officers to discuss necessary improvements to the process and to ensure that improved supporting arrangements are in place for the 2012/13 audit.</p> <p><b>Responsible Officer:</b> Head of Finance</p> <p><b>Implementation Date:</b> March 2013</p>
3	2.16	<p><b>Equal pay claims</b></p> <p>Due to the potential risk to the Council, Management should continue to actively management any developments in respect of equal pay claims.</p> <p>This should include regular briefings to Members.</p>	<p><b>Management Response:</b> The Council continue to review the status of remaining claims and also monitor developments in case law as they may impact these. A briefing on remaining claims is currently being prepared for Corporate Management Team and subsequently to provide a</p>

			<p>briefing to Members. This will be part of a series of regular briefings and updates to CMT and Members. Members are routinely updated as part of reports on budget development and financial statements.</p> <p><b>Responsible Officer:</b> Head of Organisational Development &amp; HR</p> <p><b>Implementation Date:</b> Continue ongoing monitoring and put regular (quarterly) briefings in place by 31 January 2013</p>
4	2.19	<p><b>Management of Social Work Services</b></p> <p>The Council should implement appropriate processes to provide clear leadership and commitment to carry out both improvements in the existing arrangements and deliver strengthened Business and Financial Management arrangements to the longer term Social Work Strategy of the Council.</p>	<p><b>Management Response:</b> The operational implications of this recommendation are currently being considered and will be submitted to the Social Work Services Committee in December 2012/January 2013.</p> <p><b>Responsible Officer:</b> Director of Social Work Services</p> <p><b>Implementation Date:</b> Immediate</p>
5	4.05	<p><b>Required Savings</b></p> <p>During 2012/13 the Council should agree those additional required savings to balance the 2013/14 budget and identify further savings measures for the subsequent 2 financial years.</p>	<p><b>Management Response:</b> The Council has agreed a revised budget process reflecting the arrangements and timetable for the identification, development, scrutiny and agreement of required savings for the 3 year period 2013/14 – 2015/16.</p> <p><b>Responsible Officer:</b> Head of Finance</p> <p><b>Implementation Date:</b> February 2013</p>
6	4.13	<p><b>Welfare Reforms</b></p> <p>In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012.</p>	<p><b>Management Response:</b> An Officer/Member Working Group meet bi-monthly to discuss progress and consider policy implications of Welfare Reform. A number of internal Working Groups are considering the impact and service delivery implications of Welfare Reform. We are one of three Local</p>

		<p>The Council should put specific arrangements in place to ensure that Welfare Reform impacts, can be planned, coordinated, monitored and successfully implemented.</p>	<p>Authorities in Scotland running a Universal Credit Pilot Scheme that relates to digitalisation and will inform future delivery. Currently developing a Financial Inclusion Strategy in order to improve the effectiveness of services.</p> <p><b>Responsible Officer:</b> Head of Strategic Planning &amp; Customer Services</p> <p><b>Implementation Date:</b> April 2013 &amp; ongoing</p>
7	4.15	<p><b>Police and Fire Reform Scotland Act</b></p> <p>The Council should ensure that arrangements are in place to ensure all relevant assets and liabilities can be transferred over to the single Police and Fire Authorities.</p>	<p><b>Management Response:</b> A Project Board has been established for the Council to progress reform issues including the technical and operational details of the transition to the new arrangements including financial, employment and property matters. The work of the Project Board is supported by a risk log and communication plan.</p> <p>The Project Board has had its first meeting on 19<sup>th</sup> September and established 6 non decision making work streams. Through these workstreams the Council will ensure the transfer of all relevant assets and liabilities.</p> <p>The six work streams are (1)Police Asset Transfer Order and Scheme (2) Fire Asset Transfer Order and Scheme (3) Police Staff Transfer Order and Scheme (4) Fire and Rescue Staff Transfer Order and Scheme (5) Rights Liabilities and Obligations and (6) Governance, Performance Management, Community Engagement and Planning</p> <p><b>Responsible Officer:</b> Co-ordinator for Police and Fire &amp; Rescue Pathfinder Project/ Head of Finance</p> <p><b>Implementation Date:</b> 30 September 2013</p>

8	5.07	<b>Annual Governance Statement</b> In order to comply with best practice, the Council should consider including an Annual Governance Statement in its annual accounts for 2012/13.	<b>Management Response:</b> A review is being carried out on the possible inclusion of an Annual Governance Statement in the 2012/13 Accounts.  <b>Responsible Officer:</b> Director Chief Executive Service  <b>Implementation Date:</b> March 2013
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## ***Appendix 2 - Audit reports issued in 2011/12***

<b>Report Name</b>	<b>Report Date</b>
External Audit Plan 2011/12	February 2012
Interim Management Letter 2011/12	April 2012
Follow up of Prior Year Recommendations during the 2011/12 Audit	April 2012
Annual Report to Members and the Controller of Audit	October 2012
Maintaining Scotland's Roads – A Follow Up Report	October 2012

## ***Appendix 3 – ISA 260 Communications to those charged with governance***

<b>Communication Required under ISA 260</b>	<b>Reference/Comment</b>
Engagement Letters	✓ Signed Engagements Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	✓ Audit Planning document report to Audit and Risk Management Committee 21 February 2012 and confirmed no member of audit team has any direct interest, financial or otherwise, in Dumfries and Galloway Council
Audit Approach and Scope	✓ Audit Planning document (reported to Audit and Risk Management Committee 21 February 2012 )
Materiality	✓ Audit planning document (reported to Audit and Risk Management Committee 21 February 2012).
Form and Timing of Communications	✓ Audit Planning document (reported to Audit and Risk Management Committee 21 February 2012)
Accounting Policies/Estimates/Disclosures	✓ Significant matters are included within this report
Correspondence with management on significant matters	✓ Discussed and resolved matters arising with management throughout audit process.
Letter of Representation	✓ Signed by the Director of Finance and Corporate Resources on 25 September 2012.
Other matters significant to the oversight of financial reporting process and material Uncertainties relating to Going Concern	✓ None identified.
Related Parties	✓ Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.
Fraud	✓ Discussed fraud arrangements with the Audit and Risk Management Committee and management throughout audit process.
Material Weaknesses in Internal Controls	✓ Internal Controls findings reported separately in our 'Interim Management Letter 2011/12' and 'Follow up of Prior Year recommendations 2011/12' reports.

*In the event that, pursuant to a request which Dumfries and Galloway Council has received under the Freedom of Information Act 2000, 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 and Galloway Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Dumfries and 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.*

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