

Dumfries and Galloway Council

Report to those charged with governance

Annual Report to Members and the Controller of Audit for the year
ended 31 March 2014

Government and
Public Sector

September 2014

Contents

Code of Audit Practice

In May 2011 Audit Scotland issued a revised version of the 'Code of Audit Practice'. 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 Code. 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.

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An audit of the Statement of Accounts 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.

Executive summary

Background

This report tells you about the significant findings from our audit. We presented our audit plan to you in February 2014; we have reviewed the plan and concluded that it remains appropriate.

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts on 23 September 2014. The key outstanding matters, where our work has commenced but is not yet finalised, are:

- Whole of Government Accounts;
- Completion procedures including subsequent events review; and
- Approval of the Statement of Accounts and letters of representation.

Financial Statements

We expect to issue an unqualified audit opinion on the financial statements for the year ended 31 March 2014.

We proposed a number of adjustments during the audit relating to disclosure matters in the 2013/14 financial statements. These have been processed by management in the final version of the financial statements. There are no unadjusted misstatements.

Management responsibility

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

- selecting suitable accounting policies and applying them consistently;
- making reasonable and prudent judgements and estimates;
- maintaining proper accounting records; and

- preparing financial statements timeously which give a true and fair view of the financial position of the Council and its expenditure and income for the year ended 31 March 2014 and which comply with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14 (the Code).

Auditors' responsibilities

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion the financial statements and the part of the Remuneration Report to be audited:

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

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

Financial performance

The Council spending in 2013/14 was within its approved budget and the amount held in unallocated General Fund Balances at the end of the year was in line with the Council's agreed policy to seek to retain balances at a minimum of 2% of annual planned expenditure (£6.8m for 2013/14). This was deemed to be a positive financial performance for the Council given that Service budgets were reduced by £7.2m from 2012/13 levels in respect of agreed savings.

The Comprehensive Income & Expenditure Statement shows a Deficit on the Provision of Services of £14.1m and a Total Deficit for the year of £9.6m. The Deficit on the Provision of Services has been impacted by a number of accounting entries including a downward revaluation of non-current assets (£12.8m Cr) and a reduction in the pension scheme's net liability (£8.1m Dr).

The Council's General Fund balance decreased from £62.3m in 2012/13 to £58.4m in 2013/14. This reduction was largely a result of the need to fund the treatment, recycling and recovery requirements of the Waste (Scotland) Regulations 2012. This funding of £5.9m came from the Waste PFI Sinking Fund.

The Council has agreed savings of £7.5m for 2014/15. Further savings of £9.2m in 2015/16, £12.8m in 2016/17 and £10.8m in 2017/18 have been agreed as required in the upcoming financial years and it is likely that further reductions will be required beyond that period. The ongoing need to deliver savings is indicative of the challenging financial environment which all councils are facing.

Other Matters

Please note that this report will be sent to Audit Scotland in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 23 September 2014. Attending the meeting from PwC will be Engagement Leader Lindsey Paterson and Engagement Manager Claire Connor.



Audit approach

Our approach to the audit of the financial statements was set out in our Audit Plan which we presented to you in February 2014. This approach uses a range of techniques to obtain audit evidence and assurance and is based upon a thorough understanding of your activities. Our approach is risk based, informed by a good understanding of the operations of the Council and an assessment of the risks associated with the financial statements.



During the course of the audit, we have found no issues which have necessitated a change in our audit strategy as previously presented.

For all significant audit areas, we used a variety of audit techniques, including technology enabled audit techniques to drive quality and insight. We reviewed the accounting systems and management controls operated by the Council only to the extent we consider necessary for the effective performance of our audit. However, where we have uncovered any significant deficiencies we have reported these to you within our recommendations for improvement.

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address them and an update on the outcome of our testing.

Risk	Risk Level per Audit Plan	Audit approach	Outcome	Conclusion
Management override of controls	Significant	<p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In any organisation, management may be in a position to override the financial controls that are in place. The current economic conditions may also increase fraud risk.</p> <p>In response to this risk we have:</p> <ul style="list-style-type: none"> • Applied Computer Assisted Audit Techniques (CAATs) and statistical sampling to undertake substantive testing of journals. This has provided the audit team with assurance over the level of manual and automated journals; • Incorporated elements of unpredictability in our selection of audit procedures. Such tests have included performing audit procedures related to accounts, disclosures and assertions that would not otherwise be tested based on their value or our risk assessment and selecting items for testing that have lower amounts or are otherwise outside customary selection parameters; • Reviewed accounting estimates for bias and evaluated whether circumstances producing any bias represent a risk of material misstatement due to fraud; and • Evaluated the business rationale underlying significant transactions. 	<p>From our review, we draw your attention to the significant audit and accounting issues on page 10 of this report which includes details of accounting estimates. We note however that none of the above are deemed to be significant issues or pose a significant level of risk. We have therefore achieved an appropriate level of audit assurance in relation to the risk of management override of controls within Dumfries and Galloway Council.</p>	 <p>Satisfactory</p>
Fraud in income and expenditure recognition	Significant	<p>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Council could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position.</p> <p>The risk was deemed to be in relation to material revenue journals.</p> <p>We have extended this presumption to the recognition of expenditure within Local Government bodies. There is a risk that the Council could adopt accounting policies or treat expenditure transactions in such a way as to lead</p>	<p>In respect of work performed in response to the risk of fraud in income and expenditure recognition, from the work that has been undertaken we have not identified any risks that need to be brought to your attention.</p>	 <p>Satisfactory</p>

Risk	Risk Level per Audit Plan	Audit approach	Outcome	Conclusion
		<p>to a material misstatement in the reported expenditure position. In particular, management may face pressure to deliver within a reduced budget or conversely may face pressure to utilise full budget allocations by year end, resulting in a material misstatement of year end expenditure.</p> <p>In response to this risk we have:</p> <ul style="list-style-type: none"> • Understood and evaluated controls relating to this risk; • Tested a sample of income journals recognized in 2013/14 to ensure income was appropriately included within the accounts; • Tested a sample of expenditure journals recognised in 2013/14 to ensure expenditure was appropriately included within the accounts; • Tested a sample of income and expenditure journals recognised post year end to ensure cut off recognition in 2013/14 was appropriate; • Examined and tested the underlying information supporting the income and expenditure recognition policies to ensure that they comply with current accounting standards; • Performed detailed testing of income and expenditure transactions and ensured that they are accounted for on an accurate basis and in the proper period; • Performed controls testing over payroll processing and standing data; and • Reviewed accounting estimates for income and expenditure, for example, accruals and provisions, to ensure that they are accounted for on an accurate basis and in the proper period. 		

Risk	Risk Level per Audit Plan	Audit approach	Outcome	Conclusion
Accounting treatment of equal pay claim	Elevated	<p>The Council has recognised the need to fund the ongoing commitments arising from the agreed equal pay compensation framework.</p> <p>As at 31 March 2014 the closing balance of the provision was £8.0m (31 March 2013 - £8.0m).</p> <p>In addition to the provision made in the financial statements for equal pay claims, the Council has identified a contingent liability in relation to other equal pay grievances and the potential costs.</p> <p>An incorrect estimate of the equal pay provision or the assessment of the contingent liability could result in a material misstatement in the accounts.</p> <p>In response to this risk we have:</p> <ul style="list-style-type: none"> • Updated our understanding of the Council's liability; • Considered the current status of legal actions and judgments; • Assessed whether the criteria for an accounting provision have been achieved; and • Assessed the basis for calculating the provision. 	From the work that has been undertaken, we have not identified any issues that need to be brought to your attention.	 <p>Satisfactory</p>
Accounting treatment of Police and Fire Transfer	Elevated	<p>Under the Police and Fire Reform (Scotland) Act the police and fire and rescue services in Scotland were combined into a single national police service and a single national fire and rescue service. This restructure took effect from 1 April 2013 at which point the Council was required to disaggregate Dumfries & Galloway police and fire balances from its accounting records to allow these to be transferred to the new forces. The Council is required to prepare restated opening balances as at 1 April 2013 within the 2013/14 financial statements.</p> <p>In response to this risk we have:</p> <ul style="list-style-type: none"> • Held discussions with management to understand the process for restating opening balances; and 	From the work that has been undertaken, we have not identified any issues that need to be brought to your attention.	 <p>Satisfactory</p>

Risk	Risk Level per Audit Plan	Audit approach	Outcome	Conclusion
		<ul style="list-style-type: none">Performed specific testing over the restatement and the associated disclosure requirements.		

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action and this report is part of that continuing communication with those charged with governance.

We have completed our audit, subject to the outstanding matters on page 2 above.

Subject to the satisfactory resolution of these matters, the finalisation of the Financial Statements and their approval we expect to issue an unqualified audit opinion.

As part of our work on the Financial Statements we have also examined the Whole of Government Accounts schedules submitted to the Scottish Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

Accounting issues

Pension assumptions

Employees of Dumfries and Galloway Council participate in the Dumfries and Galloway Council Pension Fund, which is part of the Local Government Pension Scheme, a defined benefit pension scheme. A full actuarial valuation in relation to the Scheme was last carried out at 31 March 2011 and has been updated at 31 March 2014 by Hymans Robertson (independent actuary). We understand that a full actuarial valuation based on data at 31 March 2014 will be performed during 2014.

During the year an amendment to IAS 19 became effective and has been adopted within the accounts for the year ended 31 March 2014. The effect of this amendment has resulted in the restatement of the 31 March 2013 accounts. We have reviewed the adjustments and the disclosure of the prior year restatement with no issues noted.

We have independently confirmed the pension assets and accuracy of the census data held by the pension funds as part of our audit procedures. We have also reviewed the key assumptions applied to the pension scheme's valuation of its liabilities and compared these with our own actuarial specialists' expectations. This included benchmarking the assumptions against a range of other schemes with March year ends. None of the assumptions used fell out with our expected range.

Valuation of property, plant and equipment

During the year officers from the Council's Property Services department, which includes MRICS qualified valuers, undertook a revaluation of aspects of the Council's property. All assets are formally revalued at least once every five years and the revised amount is then included in the Balance Sheet. The revaluation was prepared in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Changes in market prices resulted in a revaluation decrease in the Comprehensive Income and Expenditure Statement of £1.3m.

We have considered the Council's approach to this revaluation programme as part of our audit as follows:

Rolling valuation

The Council adopts a five year rolling programme for asset valuation. This approach is in line with guidance.

Assets valued in year

We have reviewed the assumptions used by the Council's Property Services department in relation to the assets that have been valued in year and consider, with reference to external benchmarks, that the basis and the assumptions used are reasonable.

Assets not valued in year

The Council has also considered the risk that the value of the assets not valued in the current year may have changed significantly and assurance was sought from its valuers that no such change has occurred. In addition, the Valuations Team works with the Finance department and architects where necessary to ensure they are aware of significant repair works being carried out or required on any given asset. The Finance department then considers whether impairment indicators are present for such assets. An impairment review of such assets would then be undertaken, regardless of whether the asset was expected to be reviewed as part of the five year rolling programme. No such instances were noted during 2013/14.

Accounting treatment

We agree with the way in which the Council has accounted for the impairment identified through the revaluation process.

Equal Pay Provision and Contingent Liability

At 31 March 2014 the Council had a provision of £8.0m (2012/13 £8.0m) in respect of the estimated further compensation payments to be made to groups of workers under the Equal Pay Act 1970 (As Amended).

At the time of the audit team's testing there had been no final ruling on the above matter. However the Supreme Court had overturned a previous claim in the employees' favour and has referred the case back to the employment tribunal.

From our discussions with management we understand that the Council is attempting to negotiate a settlement with the Trade Unions as opposed to returning to the tribunal process.

The financial statements also include a contingent liability relating to the risk that the extent of the compensation due to individual groups of workers could increase beyond the £8.0m provision included within the accounts and a further risk that groups of workers not currently included in this estimate may be successful in claiming compensation under the terms of the legislation. This is consistent with the prior year accounts.

We are satisfied that the Equal Pay Provision is not materially misstated and we are satisfied with the contingent liability included within the accounts in relation to this matter. We are satisfied that members have been provided with updates on equal pay and are advised on the adequacy of the provision. We are satisfied that the information above has been reported to the Policy and Resources Committee and the Full Council during the year.

Open Cast Mines

As at 31 March 2014 the Council received £8.2m of monies, in advance, in relation to a restoration bond attached to a planning permission for the Glenmuckloch open cast site. Following the liquidation of the site's previous operators, Aardvark TMC, the bond holders agreed to release bond monies to the Council for the restoration. This fund will be used during the course of 2014/15 for this specific purpose and the Council is not expected to contribute to the restoration works in any way.

Through discussions with the Council's Legal department and Planning and Environment Services as well as other Council management we understand that there are no other such active mining sites within Dumfries and Galloway Council.

From our discussions we understand that the Council was satisfied with the previous operators of the Glenmuckloch mine prior to liquidation, in relation to those operational aspects that were within the remit of Dumfries and Galloway Council. There were regular liaison meetings between the operators and the Planning and Environment Services department as well as with the local community. These meetings provided an opportunity for concerns to be raised, albeit no significant concerns were noted. Going forward the Council is monitoring the restoration of the mine site by the new operators, Hargreeves, in accordance with the restoration plan. For payment of restoration costs, Hargreeves must provide notes of work performed which are approved by the landowner's agent confirming that the restoration works claimed have been completed and are in accordance with the restoration plan. Planning officers are also visiting the site every 4-6 weeks.

We agree with the accounting treatment applied by the Council in relation to the bond and we agree that there are no further financial liabilities that would fall to be borne by the Council and hence might require to be provided for or disclosed in the financial statements.

The Council has confirmed that other performance bonds are held by the Council. These are in relation to a number of projects for which planning consent is required such as roads projects (in accordance with the Roads Act 1984) and large scale wind farms and quarry sites.

Purchase Ledger

It was noted during the year end audit that for the main purchase ledger control account, the year end listing was not run and saved from the Council's General Ledger system and therefore had to be recreated by the finance team post year end during the audit process.

Action Point 1: Going forward we recommend that all standard year end listings are extracted and saved from the General Ledger system prior to the year end audit process going forward.

Charitable Funds audit

For the first time in 2013/14 we are required as appointed auditors to provide an audit opinion on charitable Trusts registered with the Office of the Scottish Charities Regulator (OSCR) where the Council, or some members of the Council, act as sole Trustee. The Council currently acts as sole Trustee for 55 charities.

Regulation 7 of The Charities Accounts (Scotland) Regulations permits charities that have a common purpose or shared management to prepare a single set of 'connected charities' accounts. In line with this guidance, and with the approval of OSCR, management has prepared 4 sets of connected charities accounts as follows:

- Dumfries and Galloway Council Educational Endowments (1 charity);
- Nithsdale Connected Trust Funds (17 charities);
- Stewartry Connected Trust Funds (11 charities); and
- Wigtownshire Connected Trust Funds (26 charities).

We noted that the charitable activity across the majority of the 55 charities is low. The Dumfries and Galloway Council Educational Endowment is the only charity which receives grant income (for Summer Schools). For the remaining charities, the majority are dependent on investment income and due to low interest rates many of them do not generate sufficient income to allow them to issue grants. As a result of the low income levels noted, charitable expenditure in the year has been low, with expenditure only being noted in the Dumfries and Galloway Council Educational Endowments, 2 charities within the Stewartry Connected Trust Funds and 3 charities within Wigtownshire Connected Trust Funds.

Trust deeds for only 11 of the 55 charities were available for our review. The absence of such deeds which formally document the purpose of each of the Trusts creates the risk that funds could be expended for purposes that do not meet the charitable objects of the Trust. In addition, in the event of a challenge, the Trust may find it difficult to justify expenditure incurred.

Action Point 2: We are aware that as sole trustee of the 55 charities, the Council has liaised with the Office of the Scottish Charity Regulator (OSCR) to ascertain whether there is any possibility of rationalising the number of charities and agreeing their overall purpose. We recommend that the Council continue with their efforts in this matter as rationalising the number of charities and agreeing their overall purpose would allow such funds that are available to be used for charitable purposes.

Misstatements and significant audit adjustments

We are required to tell you about all uncorrected misstatements we found during the audit, other than those which are clearly trivial.

We are pleased to advise that there are no uncorrected misstatements to report.

We also bring to your attention that there were no misstatements which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 1.

Governance and Internal Control

Governance structure

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

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

The Code of Audit Practice requires us to review and report on the Council's Statement of Governance and Internal Control. The Council has outlined the processes it employed to identify and evaluate risks. Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Risk management

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

Risks are assessed in respect of one of three categories:

- **Leadership** – those requiring the involvement of the Chief Executive, at least in the initial stages of management response;
- **Common** – issues that have applicability across the Council as a whole or a very large part of it and require a central overview; and

- **Cascades** – service specific issues which are considered to have the potential to impact on other parts of the Council, not initially responsible for managing the activity.

The Council reviewed and updated its Corporate Risk Register in June 2013. The Council agreed at this time that the reporting on the Corporate Risk Register should be more frequent in order to create the opportunity to discuss the individual risks in more depth. In February 2014 members attended a seminar to further discuss the Corporate Risk Register and individual service risk registers have been presented at Audit and Risk Management Committee in February, April and June 2014.

Shared Risk Assessment

The Scottish Government's response to the Crerar report in 2007 was to simplify the approach to delivering local government scrutiny. As a result, scrutiny bodies that engage with local government established a shared risk assessment of the risks in each Council and developed a range of proportionate approaches in response to the risk assessment. A Local Area Network ("LAN") of local audit and inspection representatives undertake a shared risk assessment for each local authority in Scotland, to identify targeted, risk-based scrutiny. This results in each Council receiving an annual Assurance and Improvement Plan ("AIP").

In June 2014, Audit Scotland published the Council's most recent AIP. The report was largely positive however we note below two areas where it was concluded that further scrutiny is required:

- **Governance and accountability:** it was noted that overall the Council has a well-established committee structure that continues to be reviewed on an annual basis by full Council in order to ensure that it reflects the activities of the Council. However going forward, given the significance of the leadership role of elected members in relation to scrutiny and performance improvement it was proposed that PwC should undertake some targeted scrutiny activity in 2014 on the effectiveness of performance management and scrutiny arrangement in holding officers to account and driving improvement; and
- **Joint working and social care services:** it was noted that the Council has a good track record of working productively with strategic partners to improve services and deliver better outcomes. However given the significance of the inspection findings in relation to child services the Care Inspectorate will undertake a follow up inspection to review implementation of the improvement agenda in 2014.

As detailed above PwC undertook targeted scrutiny work on the effectiveness of performance management and scrutiny arrangements within the Council in relation to holding officers to account and driving improvement.

We noted the following during our review:

Council members

Elected members have received training in relation to their role. PwC has also noted through their attendance at Audit and Risk Committee during the year that committee members came to meetings having read the papers presented and had made links between the papers being reported and had questioned the consistency of the reporting on similar areas.

Reporting to Committee

A structured process is in place governing the reporting to committees. Timelines are in place for key stages in the reporting to committees, including agenda notification deadline, CMT date, business meeting date, 'Sign off' of papers deadline and print deadline. This process is maintained by Business Management, with the information being presented in a tabular format within e-genda. Aspects of this process form KPIs against which the department is measured.

From attendance at committee meetings, primarily the Audit and Risk Management Committee, we were able to observe the level of scrutiny applied by members and their detailed questioning of officers. We consider that the Audit and Risk Management Committee is robust in discharging its scrutiny function.

Follow up of committee matters

As part of the minute taking process for meetings, follow up actions are agreed and noted. The e-genda system allows for follow up action to be assigned to specific individuals. The administrator for the meeting is responsible for ensuring the follow up work is actually performed. Business Management monitor outstanding actions from all committee meetings taking place to ensure appropriate actions are taken.

We have also considered the Council's response to the Care Inspectorate report issued in April 2014 on services for children and young people.

Senior Management confirmed that the Council has identified a multi-agency Improvement Team. The Improvement Team, along with the Children's Services Executive Group, developed a SMART Improvement Action Plan. The action plan includes 6 main areas for improvement with a member of the Improvement Team holding lead responsibility for each area. A Risk Register for the Improvement Action Plan was also developed.

The Improvement Team meets weekly to update the Action Plan and the associated Risk Register. Children's Services Executive Group also meets weekly to monitor progress. The Improvement Team report monthly to the Children's Services Executive Group on their progress. In addition, the Improvement Team also report to the full Council Committee.

We noted a range of both short term and long term improvement actions and that the Council is in the process of addressing the inspection findings.

Accounting systems and systems of internal control

Management is responsible for developing and implementing systems of internal financial control and for putting in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Based on audit work performed we consider the systems of internal control in place appropriate for the needs of the Council.

Internal audit

International Standard on Auditing (UK and Ireland) 610: “The auditor’s consideration of the internal audit function” requires us to perform the following:

- Consider the activities of Internal Audit and the extent that their work can be relied upon for external audit procedures;
- Obtain sufficient understanding of internal audit activities and the effectiveness of the function to enable us to identify areas of risk and develop an effective and targeted audit approach; and
- Evaluate and test the quality and timeliness of internal audit work, where we seek to rely on the findings, in order to confirm its adequacy for our purposes.

We have liaised with Internal Audit during our interim and final audit visits to review their programme of work for the current financial year and to establish progress against the internal audit plan. We have also reviewed a summary of their completed reports to determine the main issues being reported to ensure that our audit takes account of any specific risks issues identified. As a result of the procedures performed, we have been able to rely on the work of Internal Audit in the following areas:

- Bus Service Operators grant claim;
- Education Maintenance Allowance; and
- Safety Camera Partnership grant claim.

We also intend to rely on the work of Internal Audit to complete work on the following grant claims:

- Criminal Justice Social Work grant claim;
- Non Domestic Rates Income grant claim; and
- Housing and Council Tax Benefit Subsidy.

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

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

Summary of significant internal control deficiencies

No significant deficiencies in internal control were found as a result of our audit procedures.

Other governance matters

There were a number of changes to the senior councillors' responsibilities following a change in administration of the Council in October 2013. In addition changes were noted in the Senior Employee roles of Director Community & Customer Services and Director Social Work Services during the year.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Based on our normal audit procedures, we do not disagree with the disclosures contained in the Annual Governance Statement. We consider that appropriate governance arrangements and reporting are in place.

Financial Standing

2013/14 Financial Performance

The Council achieved a deficit of £9.6m million on the provision of services in 2013/14, compared to £115.5 million deficit in 2012/13. This deficit reflects the impact of a number of technical accounting adjustments and a more informative indication of the Council's performance in the year is reflected in the movement in the General Fund.

The Council's General Fund balance decreased by £3.9 million during 2013/14. This decrease is due to a number of factors including the need to meet the treatment, recycling and recovery requirements of the Waste (Scotland) Regulations 2012. This required funding of £5.9m from the Waste PFI Sinking Fund.

The Council's General Fund financial performance for 2013/14 is summarised in the table below.

	2013/14 £000	2012/13 £000
Net Cost of Services	345,227	368,238
Taxation and Non-Specific Grant Income	(362,613)	(383,859)
Other operating expenditure	32	611
Financing and Investment Income and Expenditure	31,437	45,380
Deficit on Provision of Services	14,083	30,370
	General Fund	General Fund
Deficit on Provision of Services	14,083	30,370
Adjustments between accounting basis and funding basis under regulations.	(10,092)	(32,520)
Net (Increase)/Decrease before Transfers to Reserves	3,991	(2,150)

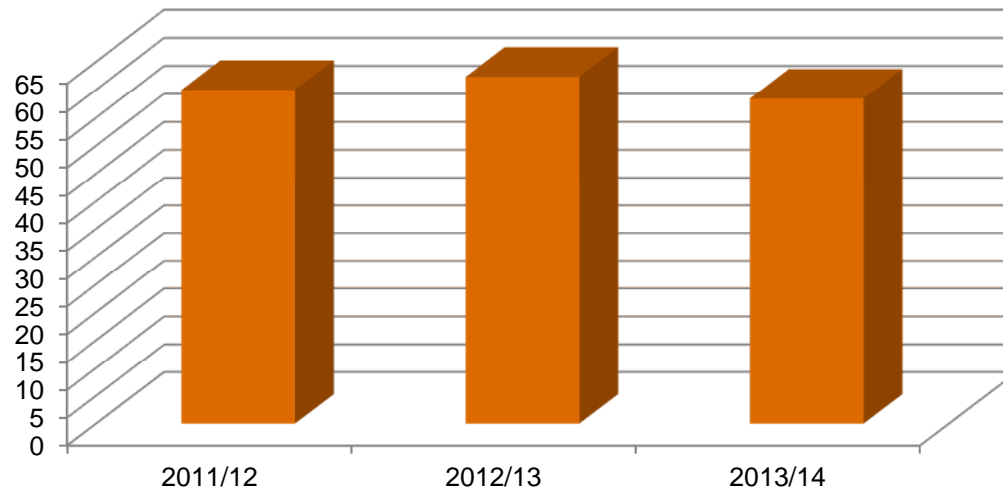
Transfers from Reserves	(112)	(1,644)
(Increase)/Decrease in Year	3,879	(3,794)
Opening Balance	<u>(63,752)</u>	<u>(59,958)</u>
Transfer re SPA & SFRS	1,449	-
Adjusted Opening balance	<u>(62,303)</u>	<u>(59,958)</u>
Closing Balance	<u>(58,424)</u>	<u>(63,752)</u>

The overall resource outturn for controllable expenditure in the year was an underspend of £0.2 million. Within this figure, we noted no individually material variations of the Council's resources from budget during the 2013/14 financial year.

It should be noted that the operational budget and actual outturn are calculated on a Service basis which reflects the Council's management structure whereas the figures reported in the Comprehensive Income and Expenditure Statement are calculated based on that prescribed by the Service Reporting Code of Practice (SeRCoP) and therefore the two are not directly comparable.

The movement in the general fund balance in recent years can be seen in the graph below.

Dumfries & Galloway Council General Fund balance £m



Savings

The Council is required to contribute annual savings towards the Scottish Government's Efficiency Targets. In 2013/14 the Council achieved £7.2 million of agreed savings (£8.4 million of savings in 2012/13). The Council considered 4 main areas of spend where savings could be achieved; Education, Planning and Environment, Community and Customer Services and Chief Executive Services. Key areas where savings were achieved are as follows:

- **Education**

- 1.2% reduction in controllable budgets in Secondary Schools. The reduction equated to 1FTE staff member per secondary schools however there was also the option that savings could be delivered through reductions in projects/other items in expenditure. Controllable expenditure included staffing, property, supplies and services, travel costs and administration costs (2013/14 savings - £0.6m).

- **Planning and Environment**
 - Additional capital investment of £1m per annum in 2013/14 and 2014/15 as agreed by the Policy and Resources Committee to support increased investment in Roads Infrastructure deemed to offset the £0.5m of budget reduction in this area as well as efficiencies being generated by the move towards permanent, more cost effective repair works as opposed to the temporary repairs previously seen (2013/14 savings - £0.5m).
- **Chief Executive Services**
 - A detailed review of all supplies and services and administrative costs across the all Council services was undertaken to identify areas for costs savings. Review was supported by the Council's Procurement Unit and identified savings through a combination of efficient and effective procurement arrangements combined with reductions in low priority areas of spending (2013/14 savings £0.7m).
 - Management and staffing reductions through review of service activities (2013/14 savings £0.6m).

Revenue budget 2014/15

The Council approved its 2014/15 revenue budget of £350.3 million (2013/14 budget £348.9 million) on 6th February 2014. As required the budget is set on a break-even position. The 2014/15 budget includes the following key assumptions:

Expenditure

- Provision has been made for anticipated inflation increases. COSLA has announced a 1% pay award for non-teaching staff for 2014/15 and the budget assumes a similar rise of 1% for teaching staff. A provision has also been included in the budget to accommodate for the increase in the Scottish Local Government Living Wage to £7.65;
- No inflationary uprating for supplies and services (Services, with the support of the Procurement Team currently tender on the basis of no inflationary uplifts for a number of products and services and this approach has proved effective to date).
- LGPS contributions at a rate of 21.5% (2013/14 21.5%). The last triennial valuation of the Pension Fund, covering the period 2012/13 to 2014/15, agreed that a 0.5% increase in the employer's contribution rate to 21.5% would be applied in 2012/13 and that no further increases would be required in the next 2 years of the actuarial valuation period;
- Additions to the budget are also made in respect of new duties to the Council which will be funded through Scottish Government, totalling £1.9million. This primarily consists of the implementation of the Children and Young People Bill (estimated cost of £1.5 in 2014/15); and
- £3million has been allocated in the 2014/15 budget for specific budget pressures including £0.5m for the SWAN Vanguard (Broadband) project, Waste PFI shortfall of £0.6m and £0.5m in relation to increased electricity and gas costs.

Income

- £281.4m of agreed Scottish Government Grant; and
- £61.3m of Council Tax Income.

In order for the Council to receive all of the Scottish Government Grant income of £281.4m, the Council must agree to maintain a council tax freeze and maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme.

The agreed savings for 2014/15 amount to £7.5m, with savings planned to be achieved as follows:

- £0.9m of efficiencies already secured;
- £1.5m across Planning and Environment Services;
- £1.1m across Community and Customer Services;
- £1.3m across Chief Executive Services;
- £1.7m across Education Services; and
- £1.0m across Social Work Services.

Capital Expenditure

The 2013/14 capital expenditure was £47.0 million (2012/13 - £38.3m). This capital expenditure was funded from a variety of sources as follows:

	Funding £'000
Capital receipts	1,042
Government grants and other contributions	14,774
Loans Fund principal	13,204
Direct revenue contributions	9,860
Prudential borrowing	8,070
TOTAL	<u>46,950</u>

Of the £47.0 million of capital expenditure in 2013/14, £45.2 million related to non-PFI Property, Plant and Equipment.

The Council's capital plans are determined by an assessment of the level of required investment that is considered to be prudent, affordable and sustainable. The Council developed a Capital Investment Strategy during 2013/14 and through the active management of this programme £0.5 million of works from the 2014/15 programme were accelerated during the year.

Going forward, the Council has planned that the £2.3 million held in the Capital Fund as at 31 March 2014 will be used to support the Theatrical Provision in Dumfries (£0.4 million), DG One remedial works (£0.8 million) and Road Maintenance operations (£0.2 million).

The Council has a capital budget of £37.3m for 2014/15 which is largely due to:

- Priority projects amounting to £9.2m including
 - Dalbeattie Learning Campus;
 - Next Generation Broadband;
 - Economic Development; and
 - Dumfries Learning Town.

- Other capital expenditure works amounting to £27.1m including the following areas:
 - School property and buildings;
 - Non -school property and buildings;
 - Infrastructure;
 - Land; and
 - IT and business systems.

Welfare Reform

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 should ensure that it puts in place specific arrangements to address the implications of the Act.

The Council established a Welfare Reform subcommittee in 2013 to consider strategic and policy issues arising from Welfare Reform including powers to determine policy and expenditure on all matters relating to Welfare Reform. The subcommittee is led by the Head of Strategic Housing, Welfare Reform, Revenues and Benefits. Services report action plans to their respective Committees to assess the potential impact of Welfare Reform on their respective customers and propose appropriate responses to meet their needs.

Financial standing

Based on our audit work performed, we have no concerns over the financial standing of the Council.

Best Value and Performance

Performance management

The Council's Policy and Resources Committee determines how and when the Council officers will report performance as part of Business Planning by setting a Performance Reporting Timetable. The Council's Scrutiny and Performance Committee then review and scrutinise its effectiveness and report on their assessment of effectiveness to Full Council for improvement. Other ways in which the Council manages and measures performance as well as providing information to its residents is through Statutory Performance Indicators, external audits and community plans.

Statutory Performance indicators

The Accounts Commission has a statutory responsibility to specify information that all councils must publish about their performance in the form of statutory performance indicators. For 2013/14, the Accounts Commission required Councils to report on a wide range of indicators set out in the Local Government Benchmarking Framework.

Auditors are required to review the arrangements in place for collecting, recording and publishing performance data. Based on our work performed the Council was able to demonstrate the basis for the SPIs reported.

We did not identify any issues in relation to the arrangements in place for gathering and reporting performance data.

National Performance Audits

On a periodic basis, Audit Scotland publishes National Performance Audit Reports on subject areas of relevance to local authorities. We have a duty to follow up with Councils on the extent to which they have considered and responded to relevant reports. Whilst some recommendations have a national application, there are many which can be implemented at a local level.

As part of our 2013/14 audit procedures we have reviewed the Council's response to the following reports:

- Major Capital Investment in Councils (March 2013); and
- Arm's-Length External Organisations: Are you getting it right? (June 2011)

Major Capital Investment in Councils (March 2013)

We noted during our review that while the Council's arrangements for monitoring capital investment reflect a number of the recommendations made in the report, these recommendations have not yet been formally responded to by the Council and PwC reported as such to Audit Scotland.

Arms –Length External Organisations: Are you getting it right? (June 2011)

As the Council has no Arm's Length External Organisations, this report was not formally considered by the Council.

Action Point 3: Going forward, the Council should ensure that members are made aware of all National Performance Audit Reports in order that members can assess whether they wish reports to be formally considered at the appropriate Committee's. Action Plans should then be created and implemented in response to the reports deemed relevant to Dumfries and Galloway Council.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised in Appendix 6.

We discussed with you your understanding of the risk of fraud and corruption and any reported instances when presenting our plan.

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Prevention and detection of fraud and corruption

Based on audit work performed we consider controls in place to prevent and detect fraud or corruption to be suitable for the operations of the Council, including:

- A confidential reporting (whistle blowing) policy;
- Financial Regulations and Procurement Standing Orders in place which were reviewed in 2012 and revised in 2013;
- Policy for employees and members to address any personal interests noted;
- A Code of Conduct for local authority employees which details the behaviours expected of all staff;
- A dedicated fraud team for Housing and Council tax benefit; and
- Policy to combat fraud and corruption.

National Fraud Initiative

The Council has participated in the 2013/14 National Fraud Initiative (NFI) data matching programme. The Section 95 Officer is the responsible officer for NFI in the Council. All required data and submissions were made by the Council as part of the NFI exercise. At the time of the PwC review in December 2013, of the 741 matches requiring investigation by the Council, only 21 were noted as still being outstanding for further investigation, with all other matches having been investigated and closed by the Council. It was concluded that the Council was completing their follow up in a reasonable timescale and reported as such to Audit Scotland.

As part of our review of the NFI programme, we identified two red ratings during the review of the programme: firstly, NFI has not been built into the Council's corporate policy and strategy for preventing and detecting fraud and error; and secondly that NFI progress and outcome reports are not reported regularly to Committee.

Action Point 4: Going forward we recommend that NFI is built into the Council's corporate policy and strategy for preventing and detecting fraud and error. We also recommend that the NFI progress and outcome reports are reported to the Committee.

Appendix 1: Letter of representation

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

Dear Sirs

Representation letter – audit of Dumfries and Galloway Council’s (the Authority) Statement of Accounts for the year ended 31 March 2014

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2014 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14.

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

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

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

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.

- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Statement of Accounts as a whole. No uncorrected misstatements were noted during the course of the audit.
- The Statement of Accounts disclose all matters of which we are aware that are relevant to the Authority's ability to continue as a going concern, including all significant conditions and events, mitigating factors and the Authority's plans. The Authority also has the intent and ability to take actions necessary to continue as a going concern.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
 - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

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

Fraud and non-compliance with laws and regulations

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

I have disclosed to you:

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

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

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

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

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

Related party transactions

I confirm that we have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

Employee Benefits

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

Contractual arrangements/agreements

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

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Taxation

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

In particular:

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

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2014, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2014 have been properly valued and that valuation incorporated into the Statement of Accounts.

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

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

Pension fund registered status

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

Bank accounts

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

Equal Pay Provision

In respect of the Equal Pay Provision, an accounting estimate that was recognised in the Statement of Accounts and for which a contingent liability has also been disclosed within the accounts:

- I confirm the Authority has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14;
- Measurement processes were consistently applied from year to year;
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the authority, where relevant to the accounting estimates and disclosures;
- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14; and

- No subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

Open Cast Mine

In respect of the liability Grants Received in Advance, an accounting estimate that was recognised in the Statement of Accounts relating to planning permission bond for reinstatement of Glenmuckloch open cast mine;

- I confirm the Authority has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14;
- Measurement processes were consistently applied from year to year;
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the authority, where relevant to the accounting estimates and disclosures;
- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14; and
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

Using the work of experts

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

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

Assessment of indication of impairment regarding assets outside of the Property Services department's formal review of assets during 2013/14

I confirm that we have conducted an appropriate assessment of whether or not there was any indication that the assets which were not formally reviewed by the Property Services department during 2013/14, items which do not mandate an annual impairment test, may be impaired. Our assessment did not reveal any impairment indicators.

Retirement benefits

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

	Local Government Pension Scheme 31 March 2014
Financial assumptions:	
Discount rate	4.3%
Rate of increase in salaries	5.1%
Rate of increase in pensions	2.8%
RPI assumption	3.6%
Long term expected rate of return on assets in the scheme:	
Equity investments	4.3%
Bonds	4.3%

Property	4.3%
Cash	4.3%
Mortality assumptions:	
<i>Longevity at 65 for current pensioners:</i>	
Men	23.0
Women	25.6
<i>Longevity at 65 for future pensioners:</i>	
Men	24.9
Women	27.7

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

Litigation

- I am not aware of any pending or threatened litigation, proceedings, hearings or claims negotiations which may result in significant loss to the Authority.

Transactions with members/officers

- Except as disclosed in the statement of accounts, no transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 have been entered into.

Items specific to Local Government

- The Authority does not have plans to enter into any further Private Finance Initiative schemes which might affect the Statement of Accounts for the year.
- I confirm that the Authority does not have plans to implement any redundancy/early retirement programmes for which we should have made provision in the Statement of Accounts.
- I confirm that the Authority has determined a prudent amount of revenue provision for the year under the Prudential Framework.
- I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of Single Status provisions on the General Fund balance
- I confirm that the Authority has determined a proper application of the statutory provisions for the deferral of the impact of impairment losses in relation to investments held in Icelandic Banks on the General Fund balance.
- I confirm that the Authority has determined a proper application of the statutory provisions for the treatment of leases that have changed status on transition to IFRS.
- I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

Subsequent events

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

As minuted by the Council at its meeting on 23 September 2014

.....

Head of Finance/Section 95 Officer

For and on behalf of

Date

Appendix 2: Audit independence

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

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

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers’ teams whose work we intend to use when forming our opinion on the truth and fairness of the Statement of Accounts.

Relationships between PwC and the Authority

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit is subject to internal PwC quality control procedures such as peer reviews by other offices.

Fees

The analysis of our audit fees for the year ended 31 March 2014 is detailed below. Please note that no non-audit services were provided by PwC during 2013/14.

	Fee (£'000)
Dumfries and Galloway Council Audit	390
Charitable Funds Audit	18
TOTAL	408

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's executive, senior management or staff.

Conclusion

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

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

We would ask the Audit and Risk Management Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Appendix 3: Risk of Fraud

Auditors' responsibility

Our objectives are:

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

Management's responsibility

Management's responsibilities in relation to fraud are:

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

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

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

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure

Why commit fraud?

Opportunity	Rationalisation/attitude
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls	Culture or environment enables management to rationalize committing fraud – attitude or values of those involved, or pressure that enables them to rationalize committing a dishonest act

Appendix 4: Action Points

Action Point

Management response/Responsible Officer/Due Date

Action Point 1:

It was noted during the year end audit that for the main purchase ledger control account, the year end listing was not run and saved from the Council's General Ledger system and therefore had to be recreated by the finance team post year end during the audit process, resulting in the audit team being delayed in performing their detail testing of the purchase ledger.

Recommendation:

Going forward we recommend that all standard year end listings are extracted and saved from the General Ledger system prior to the year end audit process going forward.

Management Response

A process has been put in place within the Purchase Ledger Team to ensure that an Aged Creditor Report, showing invoices still to be paid at 31 March is run on 1 April. The procedure requires that the report should be sent to Finance Officer responsible for Year End/Annual Accounts. PLT should also save report for future audit reference.

Responsible Officer: Service Manager – Business Performance & Development, CES Finance

Implementation Date: 15 August 2014

Action Point 2:

We noted a low level of charitable activity across the 55 connected trust funds for which Dumfries and Galloway Council is sole trustee and noted that 44 of trust funds do not have supporting trust deeds

Recommendation:

Dumfries and Galloway Council has liaised with the Office of the Scottish Charity Regulator (OSCR) to ascertain whether there is any possibility of rationalising the number of charities and agreeing their overall purpose. We recommend that the Council continue with their efforts in this matter as rationalising the number of charities and agreeing their overall purpose would allow such funds that are available to be used for charitable purposes.

Management Response

Discussions have been taking place with OSCR to transfer the assets of 45 Council trusts to other local trusts with similar objectives. It is hoped that this can be done by the end of 2014/15. Work is also continuing on rationalising the other trusts.

Responsible Officer: Head of Finance

Implementation Date: some trusts ceasing to exist by 31/3/15 & work continuing on the remainder until agreement can be reached with OSCR

Action Point 3:

On a periodic basis, Audit Scotland publishes National Performance Audit Reports on subject areas of relevance to local authorities. Councils are expected to consider and responded to relevant reports.

Recommendation:

Going forward, the Council should ensure that members are made aware of all National Performance Audit Reports in order that members can assess whether they wish reports to be formally considered at the appropriate Committee's. Action Plans should then be created and implemented in response to the reports deemed relevant to Dumfries and Galloway Council.

Management response:

The Council regularly reviews the range of Audit Scotland publications and Best Value reports and is using these routinely to inform improvements and build capacity. Reports are considered by Elected Members relevant to their work plans and a number of the publications have been reported to Committee including: Modernising the Planning System, Protecting Consumers, Roles and Working Relationships and Managing Early Departures from the Scottish Public Sector.

An improved approach to informing Members of reports published and recording their consideration at appropriate Committees will be established.

**Responsible Officer:
Business Improvement Manager**

**Implementation Date:
December 2014**

Action Point 4:

As part of our review of the NFI programme, we identified two red ratings during the review of the programme: firstly, NFI has not been built into the Council's corporate policy and strategy for preventing and detecting fraud and error and secondly that NFI progress and outcome reports are not reported regularly to Committee.

Recommendation:

Going forward we recommend that NFI is built into the Council's corporate policy and strategy for preventing and detecting fraud and error. We also recommend that the NFI progress and outcome reports are reported to the Committee.

Management Response

Financial Code 8 Internal Audit will be updated to reflect NFI. Consideration will also be given to reporting NFI progress & outcomes to the appropriate committee.

Responsible Officer: Head of Finance

Implementation Date: 31 October 2014 and ongoing



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