



Grant Thornton

# Dumfries and Galloway Council

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**External Audit Annual Report to Members and the Controller of Audit  
For the financial year ended 31 March 2019**

30 September 2019

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# Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2019.

Our work has been undertaken in accordance with International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to the Members of Dumfries and Galloway Council. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Controller of Audit. Once finalised this report will be made publically available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).

Our report was presented as a draft to Dumfries and Galloway Council (“the Council”) Audit, Risk and Scrutiny Committee on 24 September 2019. Once all outstanding matters were completed the report was updated and finalised.

We would like to thank the Council’s Officers for all their support and assistance in the audit process during the year.

## Structure of this report

In accordance with the Audit Scotland Code of Practice 2016, in addition to our core financial statements audit we provide conclusions on the four dimensions of wider-scope public audit, alongside considering the Accounts Commission strategic priorities. Our report is structured as follows:

Financial statements – Section 1

Financial management – Section 2

Financial sustainability – Section 3

Governance and transparency – Section 4

Value for money – Section 5

## Wider scope

Our audit the four dimensions of wider-scope public audit incorporated Audit Scotland’s best value guidance and the Accounts Commission’s priorities. Our Wider Scope audit work in 2018/19 follows up on the findings from the Council’s BVAR published in November 2018, including the Account Commission’s overarching findings on the Council.

The Accounts Commission reported that the Council has maintained clear priorities and direction in the face of challenges associated with being a relatively expansive and predominately rural area which has a low wage economy and faces depopulation. Our follow up of the BVAR findings has found the Council demonstrates good pace in implementing the findings and recommendations of the BVAR.



## Our Opinion

For the financial year ended 31 March 2019 we have issued an **unqualified** audit opinion on the financial statements and that:

- They give a true and fair view of the financial statements in accordance with applicable law and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 2018/19 Code);
- They have been prepared in accordance with IFRSs as adopted by the EU, as interpreted and adapted by the 2018/19 Code and in accordance with applicable legislation;
- The information given in the Management Commentary is consistent with the financial statements and in accordance with the Local Government in Scotland Act 2003;
- The information given in the Annual Governance Statement for the financial year is consistent with the financial statements and prepared in accordance with the Delivering Good governance in Local government: Framework (2016); and
- The audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We have included an “except for” paragraph in our opinion related to the failure of the Council’s statutory trading services – Building maintenance to break-even over a rolling three year basis in line with the Local Government in Scotland Act 2003.

## The audit process

The unaudited accounts were presented for public inspection by 30 June 2019 in line with statutory requirements. Officers provided working papers and supporting documentation to support the audit process.

We identified no unadjusted differences to report to the Audit, Risk and Scrutiny Committee. There was two adjustments to the draft financial statements and these are included in Appendix 1.



# Our financial statements audit at a glance



We have fulfilled our responsibilities per International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to Members and the Controller of Audit.



We have agreed seven audit recommendations. These are detailed within appendix 2 along with follow up of prior year recommendations.



We have performed audit testing around our identified area of significant risk, including ISA identified risks, as set out in our audit plan: management override of controls; the risk of fraud in revenue recognition; the risk of fraud in expenditure recognition (in accordance with the Financial Reporting Council's Practice Note 10); and, PFI reversal accounting.

## Financial statements audit founded on ensuring audit quality



Materiality has been updated to reflect the 2018/19 unaudited financial statements. This has been set in line with our audit plan at 1.7% of gross expenditure (£8.204 million) (Group:£8.52 million). Reflecting the inherent risk of material misstatement, performance materiality has been set at 75% of overall materiality (£6.153 million) (Group:£6.39 million).



Following a court judgement impacting local government pension schemes (McCloud case) in June, Officers obtained a revised actuarial valuation and adjusted the net defined pension scheme liability. The actuary also revisited pension scheme asset values to reflect their valuation as at 31 March 2019. A number of disclosure adjustments were required to the financial statements. These are detailed in Appendix 1.



The financial statements presented for audit inspection in line with agreed requirements. We have included an "except for" paragraph in our opinion related to the failure of the Council's statutory trading services – Building maintenance to break-even over a rolling three year basis in line with the Local Government in Scotland Act 2003.

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# Financial statements audit



The financial statements include Dumfries and Galloway Council and its group. The group accounts consolidate the Highland Council with its subsidiary, the South West Transport Partnership (SWestrans) and joint arrangement with NHS Dumfries and Galloway: the Dumfries and Galloway Integration Joint Board. The Council administers Common Good Fund and Charitable Trust Funds and are included within the annual accounts. These are not considered material to the Group accounts and therefore excluded from consolidation.



Materiality was updated from our audit plan to reflect the 2018/19 unaudited annual accounts. Materiality has been set at 1.7% of gross expenditure (£8.204 million)(Group: £8.52 million) (expenditure excludes IJB contributions which are netted off). Our materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Therefore, performance materiality has been set at 75% of overall materiality (£6.153 million)(Group: £6.39 million) for 2018/19 as set out in our annual audit plan.



Testing provided assurance on areas of significant audit risks and there were no unadjusted audit differences arising in those areas of significant risk during the course of our audit.



We have issued a true and fair audit opinion on the financial statements. We have confirmed that the information contained in the annual report is not inconsistent with the financial statements. The audited parts of the Remuneration Report are free from error. We have included an “except for” paragraph in our opinion related to the failure of the Council’s statutory trading services – Building maintenance to break-even over a rolling three year basis in line with the Local Government in Scotland Act 2003.



Following a court judgement impacting local government pension schemes (McCloud case) in June, Officers obtained a revised actuarial valuation and adjusted the net defined pension scheme liability. The actuary also revisited pension scheme asset values to reflect their valuation as at 31 March 2019. The impact of the McCloud case was a net increase in liabilities of £5.39 million, offset by an increase in scheme assets of £10.51 million. This resulted in a decrease in the net pension liability of £5.12 million and is reflected in the signed financial statements.

## Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit and Scrutiny Committee on 27 March 2019. As set out in our plan, we have updated our materiality calculations to be based on the unaudited 2018/19 financial statements. Overall materiality has been set at £8.204 million (1.7% of gross expenditure excluding IJB expenditure) (Group: £8.52 million) and performance materiality is set at £6.153 (75% of materiality)(Group: £6.39 million). Our materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. We report to management any audit difference identified over £0.250 million (Trivial as defined within the Code of Audit Practice).

The unaudited financial statements were presented for public inspection by the required legislative date of 30th June 2019. After the initial inspection period, the financial statements were removed from the Council's website in error. Under the Local Authority Accounts (Scotland) Regulations (Regulation 8(8)) the unaudited annual accounts should remain on the Council's website until the audited versions are published. Officers have uploaded the unaudited accounts back on to the Council's website and have arrangements in place to prevent this from recurring.

Management provided working papers and supporting documentation in line with agreed audit timetable to support our audit process.

## Audit opinion

Based on our audit procedures performed we have issued an unqualified audit opinion on the financial statements including:

- they give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the body as at 31 March 2019 and of its income and expenditure for the year then ended;
- they have been properly prepared in accordance with International financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the 2018/18 Code;
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003;
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- audited parts of the Remuneration report have been prepared in accordance with applicable guidance

## Significant Trading Operations

The Council has one trading operation, Building Maintenance, which operates in a commercial environment. The Local Government (Scotland) Act 2003 requires significant trading operations to break even over a rolling three year period. The operations financial results are summarised below:

	2016/17 £'000	2017/18 £'000	2018/19 £'000	3 year rolling £'000
Surplus / (deficit)	156	(603)	(506)	<b>(953)</b>

The Council's STO has not achieved the statutory three year rolling breakeven position. We have included this as an other matter in our audit opinion. Achieving a recurring surplus position for the STOs continues to be a challenge for the Council. From 1 April the Building Maintenance Service is no longer an STO as the Council no longer undertakes the Loreburn Housing contract, an external commercial contract. We have included an "except for" paragraph in our opinion related to the failure of the Council's statutory trading services – Building maintenance to break-even over a rolling three year basis in line with the Local Government in Scotland Act 2003.

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## Internal control environment

During the year we sought to understand the Council's overall control environment (design) as related to the financial statements. In particular we have:

- Sought to understand procedures and controls around related parties and journal entries.
- Performed procedures around entity level controls and there are no significant matters that we wish to draw to your attention.
- Performed walkthrough procedures on key controls around identified audit risk areas including non-grant related service income, expenditure, and payroll expenditure.

No material weaknesses in the accounting and internal control systems were identified based on our work undertaken during the audit which could have an adverse impact on the Council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

We adopted a substantive based approach to the audit of the financial statements and therefore our review is limited to the design of controls rather than the operating effectiveness of controls.

## Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of the Council's Internal Audit function during 2018/19. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach. During 2018/19 no material control weaknesses have been identified in these arrangements. We also consider Internal Audit's annual Report and overall opinion on the Council's internal control environment and consider any potential impact on the assurances noted in the Annual Governance Statement.

## Key audit issues – Our response to significant audit risks

	Identified audit risk at planning	Work completed	Our conclusion
Risk of fraud in revenue	<p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. For annual grant funding we consider this to be well forecast and agreed directly to grant allocation letters. Likewise, for council tax and non-domestic rate income streams, we consider these revenue streams to be well forecast and not inherently at risk of manipulation. For these revenue streams, we therefore rebut the presumed risk of fraud in revenue recognition. We consider the risk to be prevalent in other service income with a focus around the year end transactions and balances where financial performance is scrutinised, including review of the published financial statements. Therefore we focus our testing on cut-off of service income.</p>	<ul style="list-style-type: none"> <li>Developed our understanding of the Council's material revenue streams including walkthrough of key transactions.</li> <li>Performed targeted review and testing of key revenue streams during the year, including analytical procedures and transaction testing</li> <li>Performed revenue cut off procedures and substantive testing over pre and post year end balances</li> <li>Tested the existence and recoverability of balances at the year end</li> </ul>	<p>From our audit procedures performed we are satisfied that revenue is not materially misstated. We are satisfied that revenue has been recognised in the appropriate financial year.</p>
Operating expenditure is not treated correctly	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. We consider the risk to be most prevalent in transactions and balances at the year end.</p>	<ul style="list-style-type: none"> <li>Developed our understanding of the Council's material expenditure streams including walkthrough of key transactions.</li> <li>Performed a targeted review and testing of key expenditure streams during the year, including analytical review of expenditure and targeted transaction testing.</li> <li>Performed cut-off testing of expenditure transactions around the year end to ensure these had been allocated to the appropriate financial year. Reviewed post year end payments for any potential unrecorded liabilities.</li> </ul>	<p>Assurance gained that expenditure has been recorded within the appropriate financial year and that payables are free from material misstatement.</p>



## Key audit issues – Our response to significant audit risks

	Identified audit risk at planning	Work completed	Our conclusion
PFI accounting (reversal)	<p>In September 2018, the Council agreed the early termination of the Waste Management PFI agreement with Renewi UK Services Limited. The services previously provided under the contract will subsequently be provided in-house by the Council following a short transition period. The termination of the agreement will be reflected in the 2018/19 financial statements. This will require the existing PFI liability to be removed from the accounts and the termination costs reflected appropriately in the accounts. The transactions involved are complex and therefore inherently of higher risk of material misstatement.</p>	<ul style="list-style-type: none"> <li>Reviewed the Council's proposed accounting treatment for the transaction including removal of PFI liabilities and recognition of any settlement cost paid (including external accounting guidance obtained)</li> <li>Reviewed the final settlement agreement, including payments made under the arrangement to ensure that these are reflected appropriately in the financial statements</li> <li>Reviewed the implications on existing PFI assets to ensure that the Council has appropriately reflected the contract termination within the financial statements.</li> </ul>	<p>We have reviewed the accounting treatment adopted in recognising the PFI contract termination and treatment of the underlying assets of the PFI arrangement. The Council retained the Waste management assets but incurred a termination cost of £6.87 million, the majority of which was funded through £6 million of Scottish Government funding. The termination payment was less than the outstanding PFI liability as at the date of termination and therefore the residual liability has been removed through the recognition of a donated asset. We are satisfied that the accounting treatment adopted is in accordance with the 2018/19 Code.</p>
Management override of controls	<p>As set out in ISA 240 there is a presumed fraud risk that management override of controls is present in all entities. Override of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>Developed our understanding of the entity level controls in place at the Council that reduce the risk of management override</li> <li>Performed a review of journal transactions for unusual transactions or balances.</li> <li>Evaluated key areas of judgement within the Financial statements and the basis for these judgements / application of accounting policies</li> <li>Reviewed unusual and/or significant transactions</li> <li>Considered reasonableness of key areas of estimate and judgement including IAS 19 pension liabilities, Council tax debtor recoverability and property, plant and equipment valuations.</li> </ul>	<p>We did not identify any significant areas of bias in key judgements by management. We have not identified any unusual or significant transactions during the course of the year that would indicate management manipulation. Key areas of judgement and estimation have been agreed to supporting evidence and accounting policies applied consistently. The Council has a number of material estimates at the year end including accruals and accounting for defined benefit pension scheme valuations. We have reviewed the key assumptions around these estimates and are satisfied that there is no indication of management bias in estimates. During our audit we identified that the defined benefit pension scheme estimates required updating to reflect the impact of the McCloud case (Page 9) on the scheme liabilities. We are satisfied that this misstatement was not indicative of fraud or management bias as it was primarily due to developments in an ongoing external legal case.</p>

## Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to officers judgements including estimates and where officers may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.

### Commentary:

The Council's Accounting policies are in accordance with IFRS as interpreted and adapted by the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom (the 2018/19 Code). These 2018/19 Code included the adoption of two new accounting standards this year: IFRS 9: *Financial Instruments*; and IFRS 15: *Revenue from contracts with customers*. While these resulted in minor disclosure changes to the accounts including accounting policies and financial instruments disclosures, there was no impact on the primary financial statements.

### Accounting estimates and judgements

The Council's significant accounting estimates and judgement impacting on the annual accounts were as follows:



### Valuation of property, plant and equipment:

The Council holds property, plant and equipment (PPE) of £876 million. In accordance with IAS 16, all assets are held at their fair value (infrastructure, community assets and assets under construction are held at depreciated historical costs). For land and buildings, including Council dwellings, this includes regular revaluation. To comply with the requirements of the 2018/19 Code, Officers revalue land and buildings under a five-year programme of professional valuations. Where there has been material capital expenditure on land and buildings or market movements that would materially impact on the value of land and buildings further revaluations would be undertaken in between the five year cycle. Valuations are undertaken as at 31 March each year.

The 2018/19 Code requires valuations to be undertaken with sufficient frequency to ensure that the carrying value of PPE is not materially different to its current value i.e. the value of the assets if they had been revalued as at 31 March 2019. During our audit further work was required from Officers and the internal valuer to demonstrate that its assets not subject to revaluation in the year were not materially misstated. Through consideration of Officers assessment, we are satisfied that PPE is not materially misstated. However, we recommend that Officers, working with in-house valuers, review the rolling programme of valuations to ensure these are conducted with sufficient regularity to ensure not materially misstated.

*Action Plan Point 1*

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## IAS 19 Defined Benefit Pension Scheme:

The Council operates the Dumfries and Galloway Council Pension Fund, a defined benefit pension scheme. The Council recognises its share of the net assets and liabilities of the pension scheme within the Council's accounts.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members of public sector pension schemes as part of reforms to those schemes amounts to unlawful discrimination ("McCloud/Sargeant"). This ruling was subject to potential right to appeal from the UK Government, leading the Pension Fund to exclude any potential impact from the IAS 19 valuation included in the unaudited accounts. On 27 June 2019, the Supreme Court ruled that the government had not raised an arguable point of law, the court of appeal ruling was upheld. Consequently, given the increased certainty around future economic output arising from the ruling, the McCloud/Sargeant Case should be incorporated into the IAS 19 valuation.

As the initial IAS 19 valuation included within the unaudited accounts did not incorporate the impact of the McCloud/Sargeant case, Officers have obtained a revised IAS 19 valuation from the scheme's actuary. The actuarial valuation reflected the impact of the McCloud case as well as revisiting scheme asset valuations as at 31 March 2019. The impact of the McCloud case was a net increase in liabilities of £5.39 million, offset by an increase in scheme assets of £10.51 million. This resulted in a decrease in the net pension liability of £5.12 million.

We are satisfied that following the adjustment (Appendix 1), the Council has appropriately disclosed its share of the defined benefit pension schemes assets and liabilities within the financial statements in accordance with IAS 19. We have reviewed the key assumptions used in the actuarial valuation and are satisfied that these are reasonable and appropriate for the Council. We have performed audit procedures around the underlying data used in the valuation to gain assurance around the reasonableness of the accounting estimate.

In 2016, the Government announced that Public Sector Pension Schemes needed to review pension data which linked LGPS benefits to contracted-out employment and the State Pension. This is known as the Guaranteed Minimum Pension (GMP) data reconciliation review. The purpose of this review is to ensure that records held by the scheme and HMRC are correct. Where the data is incorrect then this could result in an overpayment or underpayment in pension. The treatment of overpayments has yet to be finalised by Scottish Ministers and the Council has therefore excluded any potential impact from the IAS 19 defined benefit pension calculation. The Council has considered the impact to be immaterial to the pension scheme as a whole, expected to be between 0.2% and 0.3% of scheme liabilities. We agreed with Officer's assessment and do not identify any material issues with the pension entries in the financial statements.



## Provisions and Contingent liabilities

Remains consistent with prior year and based on professional legal advice from external counsel. We have reviewed these and discussed with Officers to understand the legal position with these cases and are satisfied they are appropriately disclosed in the financial statements. The Council has provided provisions for early retirement costs associated with individuals who are due to leave the Council after the 31st March and the estimated cost of holiday pay claims that have been lodged with the Employment Tribunal. We are satisfied that there is no indication of management bias in the Council's consideration of ongoing legal liabilities.

Contingent liabilities are disclosed in the financial statements for equal pay and the potential compensation payments due for childhood abuse in historic child abuse claims. At this stage, the Council is unable to quantify the potential impact this will have. However, Officers continue to monitor developments in this area.



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## Other key areas of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. These are areas of judgement, estimation, fundamental accounting principal or unusual transaction during the year.

### Going concern



The Council has an approved budget for 2019/20, which reflects the local government settlement from the Scottish Government. The Council has also approved a provisional budget for 2020/21 and 2021/22, covering the policy intentions over the three year period. While the Council faces significant financial challenges over the coming years, including actions to address budget gap of £10.161 million in 2019/20, we are satisfied that it has sufficient resources to continue to meet its obligations over at least the next 12 months as they fall due and continue to deliver statutory services. We therefore agree with the Council's conclusion that it continues to represent a going concern.

The Council will continue to receive Scottish Government funding and generate revenue through local taxes and fees and charges to deliver statutory services. Whilst we recognise that Officers anticipate that there will be reductions in Scottish Government Funding the Council is looking at cost containment and efficiencies initiatives. The Council recognises that significant savings are required over the coming years to remain financially sustainable.

### Consolidation

The Council has a number of subsidiaries, entities over which the Council is deemed to have control. These include: The Common Good Fund and the Charitable Trust Fund, whose accounts are included within the Council's financial statements. The impact of consolidating these is deemed to be immaterial therefore have been excluded from the Group Accounts.

The Group accounts do incorporate the South West of Scotland Transport Partnership (SWestrans). As the Council is able to influence significant influence over Swestrans, the organisation is considered a subsidiary of the Council and consolidated into the Group accounts. Similarly, the Dumfries and Galloway Integration Joint Board (IJB) is considered a joint venture and consolidated into the group accounts as such on an equity basis.



We are satisfied that the group financial statements have been consolidated correctly.

### Prior year reclassification



The 2018/19 Code and subsequent LASAAC advisory note, prohibited the inclusion of income and expenditure on a trading basis between segments in the CIES. This represents a change from prior year where Council's had the options of including internal recharges within individual service lines (and removing as a single adjustment in the CIES). The 2017/18 figures within the unaudited accounts have therefore been restated to remove £11.429 million from services' gross expenditure and income lines. We note this did not impact on the Net Cost of Services.

During the course of the 2017/18 it was identified that a system error going back to 2012 with the fixed asset system resulted in an error whereby the annual release from the revaluation reserve to the capital adjustment account was not being released correctly. The Council investigated along with Capita (the system provider) to resolve the issue. A corrective release off £52.667 million was recognised during the year from the revaluation reserve to the Capital Adjustment Account. Note these are both restricted reserves and therefore there is no impact on the primary statements.



## Trust Funds

The Council administers a number of education, welfare and charitable trusts, usually provided from legacies of former school pupils, donations to Social Work Services children's homes and other centres, as well as local residents of particular areas.

In accordance with Section 106 of the Local Government (Scotland) Act 1973, we are appointed auditors to provide an audit opinion on charitable trusts which are registered with the Office of Scottish Charities Regulator (OSCR) where the Council, or some members of the Council, act as sole Trustee. The Council has one council charitable fund: Nithsdale Connected Trust Fund. We have undertaken audit procedures for the Nithsdale Connected Trust Fund and provided the Council with a separate audit opinion. No issues arose during the audit of the audit of the Nithsdale Connected Trust Fund that we wish to draw Members attention to.

## Common Good Funds

Dumfries and Galloway Council administers the Common Good Funds of the former Burghs of Kirkcudbright, Castle Douglas, Gatehouse of Fleet, Annan, Lochmaben, Lockerbie, Stranraer, Whithorn, Wigtown, Sanquhar, and Dumfries.

As at 31 March 2019 the Common good funds held total net assets of £8.822 million, primarily in land and buildings and long term investments. Funds are held for the benefit of the residents of those former burghs and must be used in the first instance to maintain the assets of the Common Good. Thereafter, funds can be used for purposes which are in the interests of the community for which the Common Good Fund was established. The Council continues to explore opportunities to utilising the funds for the purposes intended.



## Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

### Management Commentary

The Management Commentary provides a key summary of the Council's financial and non-financial performance during the year.

The Management Commentary identifies key risks, challenges and priorities for the Council.

The report makes use of infographics to highlight key performance information during the year.

### Overall observations

The 'front end' of the Annual Report and Accounts aims to tell the story of the organisation including strategic priorities, risks and challenges. The Annual Report provides details of performance during the year and progress made the Council in delivering corporate objectives.

The report is clear and concise. In particular, the use of infographics to support summary financial performance helps the user of the accounts understanding of the Council's financial position. There are opportunities to streamline the annual governance statement to enhance the readability of the accounts.

### Annual Report and accounts

### Remuneration report

The Remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014. The disclosures in the report are in accordance with statutory requirements and consistent with the Council's underlying records.

### Annual Governance Statement

Has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014.

While the governance statement complies with regulatory requirements and disclosures, there is an opportunity to enhance the disclosures to improve readability for the user of the accounts. This could include streamlining the report and focusing on key governance messages.

## Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of the Council's arrangements, sharing relevant practices with the Audit, Risk and Scrutiny Committee and Officers. This is reflected in our audit recommendations which allow you to address gaps in your arrangements, and to continually improve.

We have continued to build on our working relationship with officers and our understanding of the Council as an organisation. We have met with the Chief Executive and Director of Economy and Resources to continue to develop our knowledge and understanding of the Council and opportunities and risks faced.

As auditors of NHS Dumfries & Galloway and Dumfries & Galloway Integration Joint Board, we have sought to utilise our knowledge and understanding of these entities when undertaking our audit work, including feeding into our wider scope commentary. We continue to explore with senior management across the organisations, opportunities to coordinate joined up assurance reporting across the entities, to share knowledge and practice, while fulfilling our audit reporting responsibilities.



# Our wider scope audit work, including Accounts Commission strategic priorities

In accordance with the Audit Scotland Code of Audit Practice (2016), our audit responsibilities extend beyond the audit of the financial statements. Our wider scope audit work is a risk based approach informed through our understanding of the Council as well as consideration of the following areas:

## Wider scope audit dimensions

Audit Dimensions	The Code sets out a framework for all audit work conducted for the Auditor General for Scotland and the Accounts Commission covering: financial management; financial sustainability; governance and transparency; and best value.
Accounts Commissions strategic Audit Priorities	The Accounts Commission's Strategy sets out an overall aim of holding Councils to account for their pace, depth and continuity of improvement facilitated by effectiveness governance. The Council sets out five Strategic Audit Priorities: <ul style="list-style-type: none"> <li>• Having clear priorities with a focus on outcomes, supported by effective long term planning</li> <li>• Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities</li> <li>• Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future</li> <li>• Empowering local communities and involving them in the design and delivery of local services and planning for their local area</li> <li>• Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.</li> </ul>
Local Area Networks	We consider the work being undertaken by other scrutiny bodies to inform our audit planning and wider scope conclusions.
Best Value	The Accounts Commission refreshed the approach to auditing Best Value in council's in 2016. Best Value is assessed over a five-year period, building on the work performed by external auditors as part of the annual audit process. The Council's best value assurance report was published by the Auditor General for Scotland and the Accounts Commission in November 2018. A key focus of our wider scope audit work this year has been following up on the key recommendations made.
Statutory Performance Indicators	The Accounts Commission's Statutory Performance Information (SPI) Direction (2015) requires Council's to report a range of information in accordance with, but not confined to, the requirements of the Local Government Benchmarking Framework. We have considered these arrangements during 2018/19.

### Audit response

Through our wider scope audit work we consider each of these areas as well as our wider understanding of the Council's priorities and risks. Our audit report concludes on the key areas identified during our audit work.



We have fulfilled our responsibilities the Audit Scotland Code of Audit Practice throughout our work across financial management; financial sustainability; governance and transparency; and value for money. The Council has demonstrated good pace in implementing the recommendations raised in the BVAR, including seeking to deliver the transformational change to meet the financial and operational challenges faced.



The Council faces significant financial challenges over the coming years. The Council has established a Transformation Programme to support the delivery of savings needed to meet a forecast budget gap of £47 million over the next three years. The Council has restructured governance over this programme enhancing focus and oversight of delivery.



Council service departments reported an overspend of £726,00 for the year ended 31 March 2019. This position was contained within the overall resources available to the Council, with funding of £2.67 Million released to the Change Fund at the end of the financial year (to support the delivery of savings requirements in 2019/20). The service overspend was due to operational costs pressures in year, particularly around Economy, Environment, and Infrastructure Services. This was primarily due to previously accrued income on a significant contract (trunk road) no longer being recoverable.

## Wider scope work based on areas of key risk to the Council



In September 2018, the Council terminated from a Waste PFI contract. In doing so, the Council retained the Waste management assets but incurred a termination cost of £6.87 million, the majority of which was funded through £6 million of Scottish Government funding.



Delivery of savings required to deliver financial plan 2019/20 are challenging for the Council. The Council's 2019/20 budget identifies the need to deliver £10.161 million of savings in order to deliver a balanced budget.



The Council has reviewed the governance arrangements, including strategic committees' structures and standing orders. Under the new arrangements, the Audit, Risk and Scrutiny Committee has moved to a proportional committee and therefore Administration members will join the committee. In addition, the Council has changed its strategic committees to Communities (changed role); Economy and Resources; Finance, Procurement and Transformation (FPT); Education and Learning; and Social Work Services.



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# Financial management



Overall, the Council was able to contain expenditure within available resources at the end of the financial year. Within this position service departments reported an overspend of £726k against outturn budget. The main area of pressure was within Economy, Environment and Infrastructure (EEI) Services, which returned a net overspend of £1.247 million. This pressure was wholly offset through the release of other resources, including budget pressures and contingency funding, in addition to generating increased income from Council Tax. The overspend was primarily due to previously accrued income on a significant contract (trunk roads) no longer being recoverable.



As part of the redesign of the Council's services and governance committees, with effect from July 2019, the oversight of financial performance will be through service committees. From review of the Council's Scheme of Administration and Delegation to Committees (revised June 2019) oversight of corporate expenditure will be overseen by the Finance, Procurement and Transformation Committee. This committee will also specifically oversee the delivery of the Transformation programme ensuring alignment and focus on financial performance.



£50.7 million was invested in capital projects during the year in line with the council's ten year capital plan. The main areas of investment during the year were the continued investment in the Dumfries Learning Town, DG One and roads and infrastructure.

Within our audit plan we did not identify any significant risks around financial management at the Council. In accordance with the Code of Audit Practice, we have undertaken appropriate procedures to allow us to form a conclusion around the Council's financial management.

## Financial Performance

The Council reported total comprehensive expenditure for the year of £57.490 million and a net cost of services of £28.422 million. Following the removal of funding and accounting entries of £23.683, the net charge to the general fund for the year was £4.739 million. While the Council faced a number of financial challenges during the year, including the need to deliver budget efficiencies as well as one off costs in relation to writing off income in relation to the trunk roads contract (see below), the Council's spending for 2018/19 was contained within overall resources to enable the Council to retain unearmarked general fund reserves at the Council's agreed policy of 2% of annual planned expenditure.

Overall, the Council was able to contain expenditure within available resources at the end of the financial year. Within this position service departments reported an overspend of £726k against outturn budget. The main area of pressure was within Economy, Environment and Infrastructure (EEI) Services, which returned a net overspend of £1.247 million. This pressure was wholly offset through the release of other resources, including budget pressures and contingency funding, in addition to generating increased income from Council Tax. The overspend was primarily due to previously accrued income on a significant contract (trunk roads) no longer being recoverable.

## In year transformational savings

The Council delivered £11.272 million (94%) of targeted savings with the remainder (£736,000) being funded through planned use of the Council's Corporate Change Fund. A key area of saving has been delivered through staff costs where the Council has continued to reduce workforce to reflect more efficient and effective operating model and vacancy management. These delivered savings of £4.4 million in year.

## Capital Expenditure

	£ million
2018/19 Capital Budget	50.3
Net Capital Spend (Gross spend less direct funding for specific purposes) 2018/19	50.7
<b>Under / (Over) spend 2018/19</b>	<b>0.4</b>

The Council had net capital expenditure of £50.7 million during the year. The main areas of investment during the year were:

- Investment in the development of the Dumfries Learning Town, including refurbishment of St Joseph's college (£11.4 million);
- Investment in infrastructure, including roads and bridges (£11.7 million);
- DG One refurbishment (£9.5 million); and
- Investment in school estate (£7.4 million).

The capital expenditure is in line with the overall investment strategy. In February 2019, the Council agreed a three year capital programme of investment covering 2019/20 to 2021/22 within the indicative 10 year capital investment strategy (2017/18 to 2026/27). A key aspect of the investment strategy is prudent and sustainable investment. As at March 2019 the Council had total borrowing (excluding PFI/PPP liabilities) of £267.967 million representing an increase of £19 million from 31 March 2018.

The Council's investment strategy aligns strategic priorities with affordable levels of funding and investment. It is important that the Council continue to scrutinise capital programme to ensure this remains affordable.

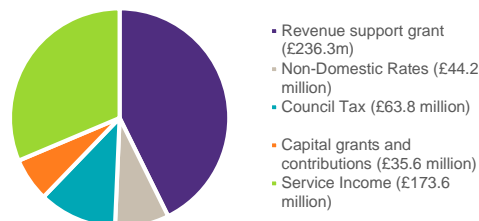
## Key performance information

	£ million
Service overspend v budget	0.726
Unplanned costs (trunk road maintenance contract deficit)	2.899
General Reserves (including un-earmarked reserves)	45
Un-earmarked reserves of annual planned expenditure	6.825 (2% of annually planned expenditure)

## Changing the landscape for public financial management

Recognising the changing landscape of Scottish public finances, including significant tax –raising powers as well responsibility for 11 social security benefits provides the Scottish Parliament with more policy choices. Subsequently, there is potentially greater volatility and complexity around Scottish budget and greater focus on the use of Scottish funds. The Council’s financial statements demonstrate the range of funding used to support operational delivery.

Revenue support grant (RSG) from the Scottish Government continues to represent the most significant source of funding. Maximising local taxation and service income are key elements of the Council’s financial plans. Consequently, there is an expectation that public bodies, including councils, will be subject to greater scrutiny through parliamentary committees.



## Financial management

Financial performance was monitored during the year through service committees with corporate financial reporting through the Policy and Resources on a quarterly basis. From our review of the financial reports and committee papers:

- Financial performance reports were reported throughout the year and there is challenge and scrutiny of performance in the year and key variances between actual and outturn performance.
- Financial pressures and challenges are discussed and savings profiles revised during the year to ensure accurate forecasting
- Management are continuing to enhance this reporting arrangements, including clearer reporting of budget movements in each quarter as well as greater operational controls over expenditure
- Based on review of committee minutes and papers there appears to be alignment between financial planning and operational plans. The alignment between financial and operational plans is increasingly critical with pressures on resource.



As part of the redesign of the Council’s services and governance committees, with effect from July 2019, the oversight of financial performance will be through service committees. From review of the Council’s Scheme of Administration and Delegation to Committees (revised June 2019) oversight of corporate expenditure will be overseen by the Finance, Procurement and Transformation Committee. This committee will also specifically oversee the delivery of the Transformation programme ensuring alignment and focus on financial performance.

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## Impact of the UK withdrawal from the EU

There is considerable uncertainty around the potential impact of Brexit. Likely areas to impact the Council are: workforce implications; funding; and regulation. We have used Audit Scotland's planning guidance to evaluate the Board's readiness for EU withdrawal across workforce (People and Skills); Finance; and Regulations.

The Council has considered the potential impact of EU withdrawal. These are kept under review through the Council's internal risk management and monitoring arrangements as EU withdrawal is considered a significant risk to the Council.

While the full implications are not yet known, the Council continue to assess and monitor the potential implications on them and, where appropriate, put arrangements in place to address these. In particular, officers have undertaken a review of potential workforce implications of EU withdrawal and potential implications on services. While we are satisfied that adequate consideration is being given by the Council to EU withdrawal preparations, the Council recognise that it must continue to focus on the impact of withdrawal as and when there is increasing clarity around this implications. As well as financial and workforce implications, the Council recognise potential risks and challenges through the having a major harbour within the authority. Officers are working closely with the Scottish Government and other public bodies to management these. Overall, we conclude that the Council is partly prepared for the impact of EU withdrawal. However, the Council recognise that it continues to face significant risks over the short and medium term impact of leaving the EU.

## Trunk Road Maintenance Management Contract

During 2019, the Council reported a deficit on the Trunk Road Maintenance Management Contract. Under the contract certain items of dispute arose between DGFirst and Scotland TranServ during the contract period that have resulted in protracted negotiations. At the end of 2017/18 an income accrual was prepared to the value of £3.530m for payment of outstanding works, excluding any contractual retention due. This represented the information available to the Council at the time and estimate of amounts due. Following subsequent discussions between the Council and Scotland TranServ, it became apparent in late 2018/19 that the level of this income accrual was overestimated. The Council subsequently reversed the accrual in the current year.

The Council is still in discussions with Scotland TranServ around some areas of dispute but these have been excluded from this position statement as the level of positive resolution remains unsure. Due to the position with the contract, the Council is having to reverse previous accrued income. The deficit recognised during 2018/19 amounts to £2.899m. The Council has initiated an internal investigation as to how this issue arose and wider implications for contractual management at the Council. It is critical that the Council consider how effective contract agreements and contract management arrangements are, including internal monitoring and reporting of performance, to ensure the Council has a clear understanding of contractual revenue due.

*Action Plan Point 2*

## Learning lessons from third party

The collapse of Carillion and the subsequent impact across the public sector, has brought into focus the risk of key supplier failure and underperformance. We considered the arrangements in place at the Council for identifying key supplier and risks, if any associated with these and how effectively these are being managed. The Council use a range of third party suppliers to support operational delivery. The Council has invested in developing its internal procurement function.

The Council have a range of significant third party suppliers providing a range of services. These range from ICT core services to construction contracts and service providers such as care provision. While the Council has a number of third party suppliers providing goods and services to the Board or on behalf of the Board, Officers are satisfied that there are sufficient contingency arrangements in place in the event of a supplier failure. In recent years, the Council has experienced a number of high profile issues with suppliers including design and construction issues on the DGOne contract and the North West Community Campus, a £28 million development which was closed for a prolonged period of time during the year due to safety concerns. In both these cases, the Council has undertaken assessments of the route cause of the issues and in the case of DG One, an Independent Inquiry reported in April 2018 on the construction of the complex. In response to the DG One enquiry, a number of recommendations have been taken forward. One key area has been the establishment of a Project Management Officer (PMO) to support the oversight and delivery of key projects.

With an ambitious capital investment programme, including a planned £200 million investment over the next five years, it is critical that the Council ensure that lessons from these developments are taken forward into future programmes.

*Action Plan Point 3*

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# Financial sustainability



The Council faces significant financial challenges over the coming years. The Council forecast a cumulative budget gap of £47 million by 2021/2022, representing 13% of the Council's current revenue funding. During 2018/19 the Council undertook a programme of transformation 'Transformation Events', utilising a range of organisational development tools to review services and activities to develop more efficient and effective ways of delivering services.



As part of the three year budget 2019-2022, the Council has identified a number of themes for which savings will be delivered. Under each of these themes detailed areas have been agreed to help address the forecast budget gap. For 2018/19 plans are in place to address the full gap £10.161 million. However, further work is ongoing for 2020/21 and 2021/22 to identify savings options for an unidentified gap.



The 2019/20 financial planning assumptions are based on the Council's historic levels of expenditure, updated to reflect known cost or demand pressures. The delivery of the required level of savings is becoming increasingly challenging for the Council.

Within our audit plan we identified risk around financial sustainability at the Council. In accordance with the Code of Audit Practice, we have undertaken appropriate procedures to allow us to form a conclusion around the identified areas of risk and the organisation's financial sustainability.

#### Identified audit risk at planning

The BVAR reported that the Council continues to face significant financial and operational challenges.

The Council has identified significant budget gaps over the next three years reflecting operational demand pressures as well as rising cost pressures including staff and inflationary pressures, which is compounded by the rural nature of the Council.

The Council's strategies including: Financial, Workforce: and Change and Transformation, shape the Council's operations and how the Council will address these challenges.

The Council acknowledged that delivering the savings required means it will not be able to deliver the same services at current levels. This will result in Elected Members needing to make difficult decisions. The Council will need to make these decisions in early 2019 as planned so there is enough time to implement the plans.

#### Our Response:

The BVAR recommended that the Council finalise and agree its long-term savings plans and move to delivering the savings, given the increasing scale of the financial challenge.

We reviewed the Council's progress against this recommendation by reviewing updates to financial plans, which lay out further savings, including the scenarios set out, the governance of the plans and regular reporting on future financial scenarios. We will assess the progress made by the Council in developing financially sustainable operating plans that continue to support the delivery of the Council's statutory functions and strategic objectives

#### Conclusion

##### Transformation

In June 2018, the Council agreed a Transformation Programme to address the challenges of providing high-quality service across dispersed rural communities to an ageing population, against a backdrop of addressing a significant funding gap projected for future years. The Council forecast a cumulative budget gap of £47 million by 2021/2022, representing 13% of the Council's current revenue funding.

##### Delivering savings

As part of the three year budget 2019-2022, the Council has identified a number of themes for which savings will be delivered. These cover:

- Sustained focus of resources on Council Plan priorities
- Transform customer experience and improve digital offer
- Modernise service delivery to meet outcomes
- Maximise the use of fewer assets, working with and within communities
- Develop and smaller more flexibly skilled workforce for the future
- Maximising income and underpinning fairness through targeted concessions

Under each of these themes detailed areas have been agreed to help address the forecast budget gap. For 2018/19 plans are in place to address the full gap £10.161 million. However, further work is ongoing for 2020/21 and 2021/22 to identify savings options for an unidentified gap.

*Action Plan Point 4*

The Council has initiated a programme of transformation 'Transformation Events', which will utilise a range of organisational development tools to review services and activities to develop more efficient and effective ways of delivering services. These are seen as intensive approach, focused on key outcomes and inclusive of senior officers and members. The key 'transformation events' are:

- Workforce
- Council travel
- Income generation, fees and charges
- Public transport
- Recycling and litter
- Education core delivery and curriculum
- Care and support for children
- Future Capital strategy

During 2018/19 the Council received update reports (Modernising the Council – Transformation Update) on the transformation programme and the Council's three year budget identified the need to deliver savings. Further work is required to translates these events into deliverable savings plans but significant progress has been made.

Under the revised governance arrangements, established by the Council in June 2019, the Finance, Procurement and Transformation sub-committee will now have oversight of the Council's transformation programme. This should provide greater oversight over the identification and delivery of transformation programmes and associated savings. It is critical that the Council's transformational activity and modernisation of council services supports the delivery of the Council's strategic goals, while at the same time addressing short term financial pressures.

## Financial planning 2019/20

In February 2019, the Council set a three year budget 2019 – 2021. The Council The budget is developed using detailed budgeting approach to ensure that forecast income and expenditure is developed on key planned activity during the year. Financial forecasts are reviewed during the year to ensure these remain appropriate. The budget was set involving engagement and consultation with the public.

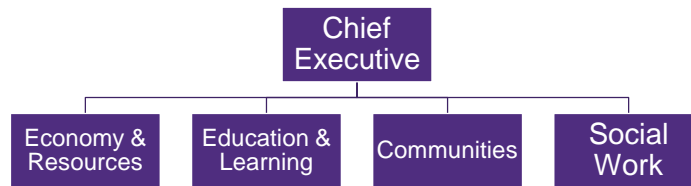
The annual budget identified a budget gap of £16.215 million. The budget gap is partly offset by the impact of a 4.79% annual council tax increase (£3.37 million) other funding measures of £2.684 million, leaving required savings of £10.161 million to be delivered during the year through savings proposals and the Council's Transformation Programme.

Key assumption	Budget £ million	Considered reasonable	Comment
Revenue grant	288.494	✓	Revenue allocation received from the Scottish Government.
Council tax	64.716	✓	The Budget includes the approved uplift in Council tax of 4.79% (£3.370 million).
Base line budget	(366.055)	✓	This is based on an incremental budgeting approach based on the net revenue budget in 2018/19 budget and one off pressures from shortfall in 2018/19
Funding measures to address funding gap	2.684	✓	Being release of Policy Development Funding of £1.091 million and Health & Social Care Additional Funding
Savings required	10.161	<b>Challenging</b>	The annual budget for the year identifies savings options of £10.161 million that are required to deliver a balanced budget for the year. The budget includes a number of savings options including sustained focus on council resources on Council Plan Priorities (£3.227 million) and a focus on developing a smaller more flexible skilled workforce for the future to generate in year savings of £2.783 million. The Council has developed detailed plans to meet these savings however recognise that it faces significant challenges in delivering these whilst ensuring continued focus on delivering high quality council services.
<b>Forecast surplus / (deficit)</b>	-		

The Council have a number of key costs pressures including the impact of agreed pay awards and service demand and cost pressures. We are satisfied that the financial plans in place are based on reasonable assumptions and appropriate based on our understanding of the Council. The delivery of the required level of savings requires more than reducing costs and will require the Council to transform service delivery. The Corporate Change Fund is an important resource in supporting the Council delivery transformational change while managing in year financial performance, allowing the Council to absorb unforeseen costs or invest in change activity.

## Council redesign and workforce

During 2018/19 the Council undertook a review of senior-level organisational design. The focus of the review was linked to the Council's modernisation and transformation activity in streamlining Council Services.



The redesign of the senior-level of the organisation has reduced the number of Heads of Service and directors and subsequently the Senior Leadership Team meetings has been extended to incorporate Heads of Service to inform discussion and debate.

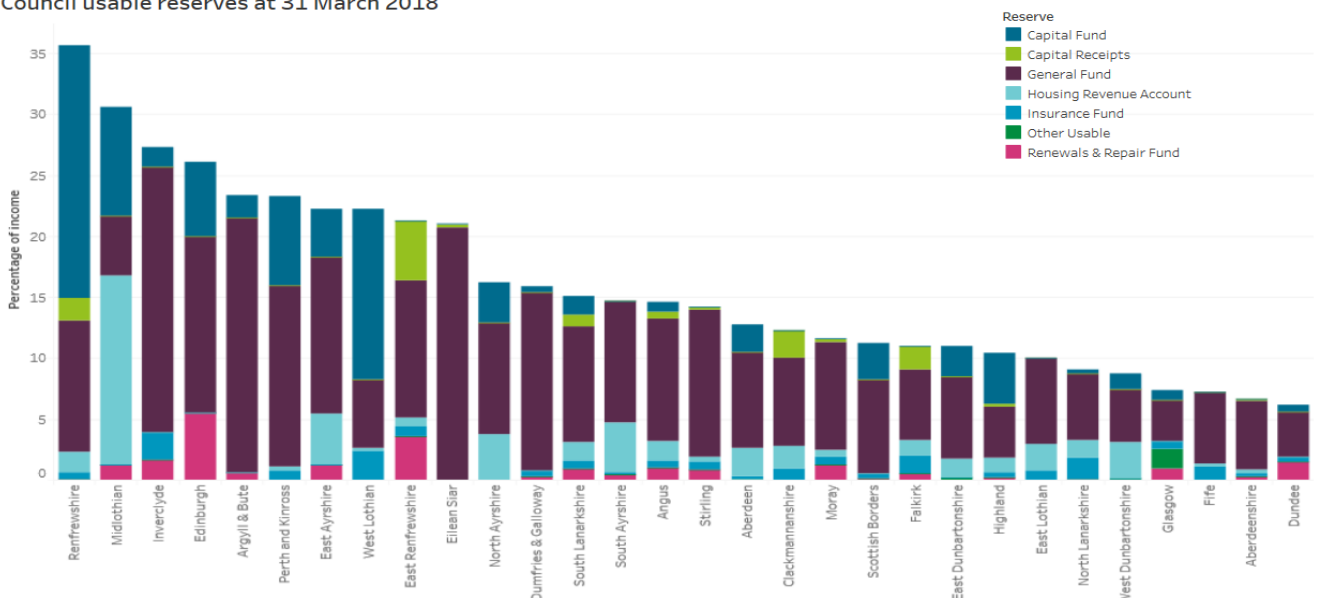
As part of the Council's ongoing transformation programme during 2018/19 153 staff left the organisation through the Council's Early Retirement / Voluntary Severance Scheme. This resulted in a total cost to the Council of £3.56 million. The payments covered amounts due in redundancy and pension contributions in line with the Council's severance programme. Included, within these was the former director of Economy, Environment and Infrastructure who left the organisation as part of the Council organisational redesign.

We recognise that the Council continues to focus on transforming services and operating model to support the delivery of services efficiently and effectively. It is important that the Council continue to monitor how effective the new arrangements area.

## Reserves and sustainability

The Council faces significant financial challenges over the coming years. The Council's non-earmarked reserves play a critical role in managing any unforeseen expenditure that could not be met through in year resources. The table below highlights the position of the Council's reserves in comparison to other authorities.

Council usable reserves at 31 March 2018



Source: Audit Scotland Financial Overview 2017/18

As at 31 March 2019, the Council's non-earmarked reserves balance represents 2% of the annual revenue budget. This was in line with Council's policy. In addition, the Council has established a Corporate Change Fund which is used to support investment in change activity. During 2018/19, funding of £3.567 Million was used from the Change Fund to support agreed initiatives (primarily Severance/ERVS costs of £3.46 Million). The Corporate Change Fund was reinstated at the end of the financial year, through the return of corporate underspends of £2.67 Million and the release of Service Reserves (£0.585 Million). The Corporate Change fund was £3.176 million as at 31 March 2019 (2018:£3.488 million), to support agreed initiatives aimed at the deliver of savings, change and efficiencies.



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# Governance and transparency



The Council undertook a review of governance arrangements. Officers and Members have recognised opportunities to enhance governance arrangements both to enhance oversight and scrutiny as well as ensuring a continued focus on local issues and priorities. The Council looked to implement an inclusive approach to the review, setting up a sub-committee and workshop of members to support the review.



There are opportunities to enhance the risk management and risk oversight arrangements at the Council through enhancing the level of oversight through the Audit, Risk and Scrutiny committee over risks.



Under the new arrangements, the Audit, Risk and Scrutiny Committee has moved to a proportional committee and therefore Admin members will join the committee. In addition, the Council has changed its strategic committees to Communities (changed role); Economy and Resources; Finance, Procurement and Transformation (FPT); Education and Learning; and Social Work Services.

## We considered, through discussions with management and review of minutes, the Council's overarching governance arrangements

### Identified audit risk at planning

### Conclusion

#### Governance arrangements

In May 2017, the Council approved the amalgamation of the Audit and Risk Committee and a committee tasked with wider scrutiny, into a new Audit, Risk and Scrutiny Committee. The Committee is comprised of 11 elected members who are opposition councillors. The 2017/18 BVAR and our annual external audit report highlighted opportunities to enhance the Council's governance arrangements. The reports reflected that the revised governance arrangements, including the Audit, Risk and Scrutiny Committee were embedding and the recommendations included:

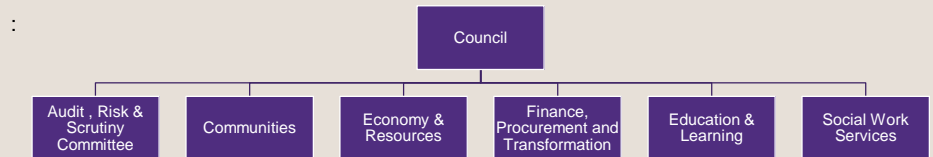
- Opportunities to enhance the Council's strategic risk management and scrutiny arrangements within the Audit, Risk and Scrutiny Committee to provide greater strategic oversight of the Council's management of corporate risks;
- Consideration of the level of information provided to governance and scrutiny committees to ensure they are clear and concise but with sufficient detail to enable effective oversight and scrutiny; and
- Opportunities to utilise Internal Audit to provide more strategic, value adding services, including supporting risk assessment of proposed service redesign through transformation.

#### Our Response:

We considered, through discussions with Officers and review of minutes and papers, Dumfries and Galloway Council's overarching governance arrangements. We will also follow up on the BVAR recommendations regarding information required within committee reports. Additionally we will follow up on the progress made around the remit of the Audit, Risk and Scrutiny Committee.

#### Governance Committee structures

The Council undertook a review of governance arrangements. Officers and Members have recognised opportunities to enhance governance arrangements both to enhance oversight and scrutiny as well as ensuring a continued focus on local issues and priorities. The Council looked to implement an inclusive approach to the review, setting up a sub-committee and workshop of members to support the review. Under the new arrangements, the Audit, Risk and Scrutiny Committee has moved to a proportional committee and therefore Admin members will join the committee. In addition, the Council has changed its strategic committees to Communities (changed role); Economy and Resources; Finance, Procurement and Transformation (FPT); Education and Learning; and Social Work Services.



As the new structures embed it is important that the Council continue to self assess the adequacy and effectiveness of these committees in supporting governance and decision making. As part of this process consideration should be given to the type, format and content of reports provided to Committees to ensure that they support them discharge their responsibilities.

*Action Plan Point 5*

#### Risk Management

As noted in previous years, during 2018/19, the Audit, Risk and Scrutiny Committee had limited oversight of the adequacy of the Council's risk management arrangements. There is limited oversight or consideration of the Council's key strategic risks during the year and the systems of internal control to manage these. The Audit, Risk and Scrutiny Committee's remit includes:

*Independent assurance of the adequacy of the risk management framework and the associated control environment within the Council to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations.*

While we recognise that the Council receive assurances from Internal Audit and Officers over the design and operating effectiveness of controls over risks, we have observed limited consideration of Council risks or level of assurances over these. We recognise that as part of the revised governance arrangements, the membership and remit of the committee has been refreshed. There is an opportunity for enhancing the level of oversight and scrutiny of risk management arrangements at the Committee.

*Action Plan Point 6*

#### Internal audit

The Public Sector Internal Auditing Standards (PSIAS) define Internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

From our review of the Council's Internal Audit plan and work during the year we found that the focus of Internal Audit activity is predominately around financial processes and controls. The Annual Governance Statement identifies that

*"the priority work for the Internal Audit section is a 3-year programme of assurance testing on the main financial systems of the Council"*

Internal Audit play a critical role in providing independent assurance and support across the Council. By focusing on financial operational controls, there is a risk that the wider Council does not obtain sufficient assurance over the wider, strategic risks facing the Council. We recommend that the Council review the scope, remit and coverage of Internal Audit to determine if this provides sufficient assurance to the organisation.

*Action Plan follow up (Point 2)*

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## Openness and transparency

The Council demonstrates committed to clear and transparent public reporting. Council and committee meeting minutes and supporting papers are published online as well as a range of corporate publications detailing the Council's underlying performance and activities.

The Council website contains performance reports during the period to keep the public informed of key developments in Council performance.



## Fraud and Irregularity

The Council has arrangements in place to help prevent, detect and mitigate the risk of fraud or irregularity, including whistleblowing policy and confidential helpline for reporting fraud. While we consider these to be reasonable, no arrangements can fully prevent against the risk of fraud, theft or irregularity. We are not aware of any material frauds at the Council during the course of the year and have confirmed this with management and report to Audit Scotland through quarterly fraud reports.

The Council participates in the National Fraud Initiative (NFI), a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the National Audit Office to identify fraud and error. We found the Council's arrangements for participation in the NFI exercise during 2018/19 to be satisfactory. The Council has effective arrangements in place for the submission of data and investigation of potential matches.

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# Value for money



The Council is in the process of enhancing its performance management arrangements, aligning with new committee structures and providing a greater focus within the measures on outcomes. However, it is too early to determine whether the reporting and monitoring of these will also focus on wider benchmarking data and the extent to which these measures stretch and challenge the organisations.



In September 2018, the Council agreed the early termination of a waste management PFI contract. The contract was due to continue until November 2029 but has encountered difficulties mainly associated with financial difficulties of the funder, particularly in complying with zero waste legislation. The Council has transitioned the services in-house and are in the process of exploring the strategic direction of waste management at the Council.



Through our wider scope audit work, including detailed follow up of the Council's progress against the BVAR recommendations (Appendix 6), we consider that the Council has demonstrated good pace in implementing the recommendations raised in the BVAR.



Following the submission of a Borderlands Inclusive Growth Deal proposal to the UK and Scottish Governments in September 2018, a Heads of Terms was signed with the UK and Scottish Governments on Monday 1 July 2019. This secures a £394.5 million investment package for the region consisting of UK and Scottish Governments' investment combined with financial support from the Borderlands partners. The Council working with partners continues to explore detailed proposals on application of the funding to the benefit of the region.

## Identified audit risk at planning

### Performance management

Dumfries and Galloway Council has a well established performance management framework in place, including corporate performance reporting. The Council has a suite of performance measures to monitor the delivery of the Council's priorities. The BVAR report highlighted opportunities for enhancing performance management, including enhancing performance indicators to demonstrate progress on priority areas.

The key challenge for the Council, against a backdrop of financial challenges, is balancing delivery of the Council's priorities and commitments while maintaining a focus on the needs of a local and diverse population. Given the challenges faced by the Council, it is critical that performance information is clear and concise to support decision making.

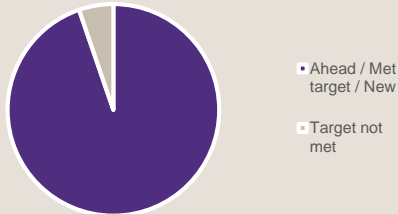
#### Our Response:

We followed up on the actions taken by the Council to respond to the BVAR recommendations around performance management arrangements including the arrangements in place to enable and support effective scrutiny and decision making. Given the rural and disparate population, it is important that these arrangements enable scrutiny of performance and impact of decisions across the region.

## Conclusion

### Oversight and scrutiny of performance

The Council utilise a suite of performance reports to monitor and challenge the Council's performance during the year. The Council report against key corporate priorities and commitments. This report is aimed at providing a transparent report on performance outcomes against the key priorities set out against the Council's key performance objectives. This is published on the Council's website. The latest performance report is attached.



### Monitoring arrangements

On a quarterly basis, performance against key performance measures including commitments contained within a Council Plan, are reported to the Policy and Resources Committee and Service Committees. The Council uses around 160 indicators to monitor how it performs against its priorities and commitments. These indicators utilise information from local government benchmarking, they also report progress on over 80 improvement projects as part of the reporting of performance against priorities and commitments. Each directorate takes responsibility for reporting progress against a group of indicators and improvement projects. The chief executive holds monthly one-to-one discussions with each of the four directors on the performance reports. The council also reports directorate performance twice a year to service and area committees.

In response to the BVAR the Council is developing a summarised suite of key indicators, based on the new Business Plans and Council Plan which demonstrate progress and delivery of Council Priorities, including relevant longer term benchmarking information and trend data. Performance information reported at Area Committee will be examined and enhanced reporting will be developed, including inclusion of indicators that demonstrate variation at a local level.

We note that these arrangements continue to embed and therefore it is too early for external audit to conclude on these however, the proposed actions appear appropriate. A key element of this work is ensuring the timeliness of performance information and ensuring alignment with Council priorities.

*Action plan follow up (point 7)*

### Public performance reporting

The Council publish performance information on the website, including financial, service level and performance against the commitments in the Corporate Plan. The website also includes a link to allow members of the public to assess the Council's performance against other local authorities through Local Government Benchmarking Data (LGBD).

## Identified audit risk at planning

### Waste Management PFI

To support the delivery of waste management services, the Council had a PFI arrangement with Renewi UK Services Limited, a subsidiary of Renewi PLC. Under the contract, waste management facilities were developed and operated by the third party and utilised by the Council. The contract was due to continue until November 2029 but has encountered difficulties mainly associated with reaching agreement with regard to changes required to meet new zero waste legislation. The Council agreed to the early termination of the Waste PFI contract in September 2018.

#### Our Response:

We reviewed the decisions around exiting the Waste Management PFI agreement, including the governance and transparency of the process as well as considering the arrangements in place at the Council to satisfy itself that the decision represented value for money. We will also consider the wider financial and operational implications on the Council, including potential impact on Scottish Government funding which was previously received to support PFI costs

### North West Community Campus (NWCC)

The NWCC in Dumfries was closed in September 2018 following safety concerns when the council took the decision to close the new campus in Dumfries until independent assurances could be given on its safety.

#### Our Response:

The Scottish Futures Trust appointed a consultant to carry out root cause analysis of construction quality failure at North West Community Campus. We reviewed the report prepared by the appointed consultants and consider the actions taken and any lessons learned by Officers from the review.

## Conclusion

### Waste Management Private Finance Initiative (PFI)

In September 2018, the Council agreed the early termination of the Waste PFI contract. The Council negotiated an early termination agreement with Shanks Dumfries and Galloway Ltd (Project Co), Renewi UK Services Ltd (Service Co) and the Project Co's lenders. The project agreement was terminated on 10 September 2018. In terminating the agreement, in order to retain ownership of the underlying waste management assets, the Council had to pay a contractually agreed termination payment. This was settled at £6.87 million. Members were also informed that a further amount estimated at £2.8 Million would be required for the rectification of assets being returned to the Council.

	£'000
Termination payment	6,870
Estimated Asst Rectification Costs	2,800
Scottish Government Grant Funding	(6,000)
Net cost to the Council from termination	3,670

The contract was due to continue until November 2029 but encountered difficulties mainly associated with financial difficulties experienced by Project Co, particularly around meeting zero waste legislation targets. In September 2018, the Council considered a range of options in terms of potential arrangements with regards waste disposal. At the time it was concluded that there was only one viable option being the termination of the agreements and transition to the services being provided in-house by the Council following a short transition period.

The Scottish Government had provided two elements of annual funding to support Waste PFI contract: £1.424 million (level playing field support and insurance) and Strategic Waste Funding of £3.191 million. With exiting the waste management contract the £1.424 million will no longer be received, however discussion are ongoing with the Scottish Government to seek to secure the continuation of the Strategic Waste funding. The Scottish Government provided the Council with a non recurring capital payment of £6 million in the year to support costs associated with contract termination.

The Council is currently in the process of establishing its waste management strategy, recognising its statutory obligations while considering strategic priorities and costs. A number of options have been considered by the Council with regards potential delivery models. It is likely that these will have significant financial implications (revenue and capital) on the Council to ensure waste management infrastructure support the delivery of strategy.

A new wastes sub-committee has been established to oversee the development and delivery of the Council's waste strategy and transition of arrangements in-house. It is important that there is clear oversight and management of the service and costs incurred in delivering it. The Council is effectively transitioning a former externally driven service in-house and it is important that this has sufficient oversight and scrutiny to ensure effectively delivered.

*Action Plan Point 7*

During our 2019/20 audit we will consider the value for money of the new waste management arrangements when these are established by the Council.

In September 2018, Education Services took the decision to close the NWCC. Separately, the contractor informed the Council that the Council no longer had beneficial access to the school as investigation and remediation works were required on the campus. The Council established contingency arrangements to ensure continuity of services for school children in the area.

All necessary works were undertaken by the contractor HubSW and following all necessary sign off certifications, the Council signed the certificate of practical completion in February enabling students to return to the campus.

The Scottish Futures Trust appointed a consultant to carry out root cause analysis of construction quality failure at North West Community Campus. The root cause review has yet to be finalised and Officers have plans in place to consider and act upon the findings of the review when available.

## Statutory performance indicators

The Accounts Commission has a statutory power to define the performance information that councils must publish for performance comparison and benchmarking purposes. It fulfils this power by issuing a Statutory Performance Information (SPI) Direction to councils.

In recent years the Commission has used the power to emphasise what it sees as the prime importance of councils reporting performance to their citizens and communities. The Direction sets out the performance information that the Commission requires councils to publish.

Between 2016/17 to 2018/19 the Accounts Commission prescribed two SPIs:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.



The Council publishes the information for both SPIs up to 2017/18. We concluded that the council's arrangements for publication are satisfactory. We are satisfied that appropriate arrangements are in place at the Council to accurately monitor and report on these SPIs.

Looking forward, the Accounts Commission published an updated direction in December 2018. This requires the Council to report on SPI1: Improving local services and local outcomes, and SPI 2: Demonstrating best value with effect for financial year ended 31 March 2020. We will monitor the Council progress with this in the coming years.

## Community engagement



The rural and disparate population covered by the Council means it is critical that the Council has effective arrangements in place to engage with local communities both to inform and communicate Council strategy. As part of the Council's review of governance arrangements, the Council has looked to evaluate the enhance the role of Local Area Committees and how these feed into the Council's wider governance arrangements.

While these arrangements continue to embed, the proposals from the Council appear to be appropriate to support local engagement. We also recognise the level of engagement and consultation undertaken by Officers as part of the budget setting process.

## Borderlands Partnership

The Borderlands partnership between the Council, Scottish Borders Council, Carlisle City Council and Cumbria and Northumberland County Councils, has worked to develop a set of proposals which once agreed will form the basis of the Borderlands Inclusive Growth Deal. Following the submission of a Borderlands Inclusive Growth Deal proposal to the UK and Scottish Governments in September 2018, a Heads of Terms was signed with the UK and Scottish Governments on Monday 1 July 2019. This secures a £394.5 million investment package for the region consisting of UK and Scottish Governments' investment combined with financial support from the Borderlands partners. The Council working with partners continues to explore detailed proposals on application of the funding to the benefit of the region.

## Pace of change and continuous improvement

Our wider scope audit work has considered the recommendations from the 2018 BVAR, including the Accounts Commissions findings. The report recognised the significant progress made by the Council since the previous BVAR in 2009 and that the council has maintained clear priorities and direction in the face of challenges associated with being a relatively expansive and predominately rural area which has a low wage economy and faces depopulation. The report highlighted that given the financial pressures facing the Council, it will need to increase the pace of change and face difficult decisions about how it provides its services now and in the future. Through our wider scope audit work, including detailed follow up of the Council's progress against the BVAR recommendations (Appendix 6), we consider that the Council has demonstrated good pace in implementing the recommendations raised in the BVAR, including seeking to address transformational change to meet the financial and operational challenges faced. We will continue to monitor the progress made by the Council through our wider scope audit work during 2018/19.

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# Appendices

**Audit adjustments**

**Action plan recommendations for 2018/19**

**Action plan and follow up of 2017/18 recommendations**

**Fees, independence and fraud arrangements**

**Communication of audit matters**

**Best value assurance report – follow up**



# Audit adjustments

## Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

The following adjustments were identified during the course of the audit and corrected in the financial statements. These impact on both the Group and Council financial statements.

Item	Dr (£'000)	(Cr) (£'000)	Description
1			
	CIES (Pension reserve)	(5.39)	
	Remeasurements (Pension reserve)		(10.51)
	Defined benefit pension liability		(5.39)
	Defined benefit scheme assets	10.51	
2			
	Other Gains and Losses		(59)
	Investments	59	

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# Audit adjustments

## Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit and Scrutiny Committee to evaluate the impact of these matters on the financial statements. There were no material/significant disclosure misstatements identified. The following disclosure misstatements were made to the unaudited financial statements:

Item	Description
1	Prior year reclassification <i>Disclosures associated with the prior year classification of CIES internal recharges required updating to ensure clarity around the impact on service income and expenditure in the prior year.</i>
2	Governance statement <i>Governance statement disclosures required updating to ensure compliance with the disclosures required under the Code (and Scottish Local Government guidance)</i>
3	Management Commentary <i>Minor disclosure adjustments required to ensure information presented consistent with primary financial statements</i>
4	Long Term Borrowing disclosures <i>Presentational adjustment to report the correct maturity analysis of short and long term borrowing</i>
5	Council tax <i>Council tax banding disclosures requirement amendment to ensure correctly cast.</i>

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# Action plan recommendations for 2018/19

We have set out below, based on our audit work undertaken in 2018/19, those risks and recommendations we consider are of a higher risk to the Council that Management may wish to consider in the future.

## Recommendation

## Agreed management response

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### 1. Valuation of property, plant and equipment

To comply with the requirements of the 2018/19 Code, items of property, plant and equipment are required to be held at their current value. For assets subject to valuation, this requires valuations to be undertaken with sufficient frequency to ensure that the carrying value of PPE is not materially different to its current value i.e. the value of the assets if they had been revalued as at 31 March 2019. During our audit further work was required from Officers and the internal valuer to demonstrate that those its of PPE not subject to revaluation in the year were not materially misstated. Through consideration of Officers assessment, we are satisfied that PPE is not materially misstated. However, we recommend that Officers, working with in-house valuers review the rolling programme of valuations to ensure these are conducted with sufficient regularity to ensure not materially misstated.

**Management response:** The frequency of valuations will be continually reviewed to ensure they are completed with sufficient regularity and reduce the potential for material misstatement.

**Action owner:** Property and Architectural Services Manager

**Timescale for implementation:** March 2020

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### 2. Trunk Road Maintenance Contract

During 2018/19 the Council had a dispute with Scotland TranServ around revenue due to the Council regarding a Trunk Road Maintenance Contract. Due to the position with the contract, the Council is having to reverse previous accrued income. The deficit recognised during 2018/19 amounts to £2.899m. The Council has initiated an internal investigation as to how this issue arose and wider implications for contractual management at the Council. It is critical that the Council consider how effective contract agreements and contract management arrangements are, including internal monitoring and reporting of performance, to ensure the Council has a clear understanding of contractual revenue due

**Management response:**

The Council now has in place a Contract & Supplier Management Strategy which includes improved reporting to Members on tendering and delivery of external contracts to provide information to demonstrate costs and benefits, related to income and the wider economy, and an assessment of commercial viability for the Council.

**Action owner:** Head of Finance & Procurement

**Timescale for implementation:** Ongoing – subject to review 31 March 2020

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### 3. Learning lessons with supplier management

In recent years, the Council has experienced a number of high profile issues with suppliers including design and construction issues on the DGOne contract and the North West Community Campus, a £28 million development which was closed for a prolonged period of time during the year due to safety concerns. In both these cases, the Council has undertaken assessments of the root cause of the issues and in the case of DG One, an Independent Inquiry reported in April 2018 on the construction of the complex. With an ambitious capital investment programme, including a planned £200 million investment over the next five years, it is critical that the Council ensure that lessons from these developments are taken forward into future programmes

**Management response:** The Council are developing a cross Council Project and Programme Management Office (PMO). The PMO will be a centralised, co-ordinating body internal to the Council that will provide a management hub and centre of expertise for the field of construction project management. It will identify and address project management issues to support and facilitate the achievement of organisational project outcomes. The PMO will also be responsible for the physical delivery of works either through internal or external contractors.

**Action owner:** Head of Economy and Development

**Timescale for implementation:** June 2020

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## Recommendation

## Agreed management response

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### 4. Transformational savings

Under the revised governance arrangements, established by the Council in June 2019, the Finance, Procurement and Transformation sub-committee will now have oversight of the Council's transformation programme. This should provide greater oversight over the identification and delivery of transformation programmes and associated savings. It is critical that the Council's transformational activity and modernisation of council services supports the delivery of the Council's strategic goals, while at the same time addressing short term financial pressures.

**Management response:** The agreed purpose and themes of the Transformation Programme are focussed on the delivery of the Council's priorities, transformation of how Council services are delivered and on the identification of required savings aligned to these objectives. Progress against the programme will be continually monitored through the Finance, Procurement and Transformation Committee and through Full Council.

**Action owner:** Senior Leadership Team  
**Timescale for implementation:** March 2020

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### 5. Governance arrangements

Officers and Members have recognised opportunities to enhance governance arrangements both to enhance oversight and scrutiny as well as ensuring a continued focus on local issues and priorities and the Council has implemented new committee structures and remits. As the new structures embed it is important that the Council continue to self assess the adequacy and effectiveness of these committees in supporting governance and decision making. As part of this process consideration should be given to the type, format and content of reports provided to Committees to ensure that they support them discharge their responsibilities.

**Management response:** There is an existing action on reports detailed in the Best Value Improvement Plan that officers are addressing. Members agreed to review the new committee arrangements after six months and this will report before next summer recess. More robust agenda management, increased scrutiny of draft reports, as well as more frequent committee business meetings with Chairs and Vice Chairs, are already in place and the impact of these arrangements will be monitored by Senior Leadership Team.

**Action owner:** Head of Democratic Services  
**Timescale for implementation:** May 2020

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### 6. Risk Management

There is limited oversight or consideration of the Council's key strategic risks during the year and the systems of internal control to manage these. The Audit, Risk and Scrutiny Committee's remit includes:

*Independent assurance of the adequacy of the risk management framework and the associated control environment within the Council to provide reasonable assurance of effective and efficient operations and compliance with laws and regulations.*

While we recognise that the Council receive assurances from Internal Audit and Officers over the design and operating effectiveness of controls over risks, we have observed limited consideration of Council risks or level of assurances over these. We recognise that as part of the revised governance arrangements, the membership and remit of the committee has been refreshed. There is an opportunity for enhancing the level of oversight and scrutiny of risk management arrangements at the Committee.

**Management response:** The Council has a corporate risk register, held on Pentana, which continues to be updated by risk owners and reviewed by the Corporate Management Team. Further, the Council has within the last 12 months updated its risk management policy and provides resources to support its implementation. There has also been significant focus on strategic risks through Directorate business plans, half-yearly update reports to Service Committees and the new Service Plans. Members as a whole will therefore be fully appraised of the strategic risks facing the Council and the Audit, Risk and Scrutiny Committee will enhance its role in seeking and obtaining assurance on the risk management process and its effectiveness as required under the refreshed Risk Management framework.

**Action owner:** Head of Democratic Services  
**Timescale for implementation:** April 2020

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**Recommendation****Agreed management response**

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**7. Waste Management PFI**

The Council is currently in the process of establishing its waste management strategy, recognising its statutory obligations while considering strategic priorities and costs. A number of options have been considered by the Council with regards potential delivery models. It is likely that these will have significant financial implications (revenue and capital) on the Council to ensure waste management infrastructure support the delivery of strategy.

A new wastes sub-committee has been established to oversee the development and delivery of the Council's waste strategy and transition of arrangements in-house. It is important that there is clear oversight and management of the service and costs incurred in delivering it. The Council is effectively transitioning a former externally driven service in-house and it is important that this has sufficient oversight and scrutiny to ensure effectively delivered.

**Management response:** The Council has implemented a Waste Services Development Programme to review the Council's Waste Strategy and develop a new operating model of waste management to provide a single Waste Service that is effective, efficient and economically sustainable for collection, treatment, recycling and disposal. This must meet statutory requirements and ensure that all aspects of the service optimise operational practice to ensure this is seamless, maximises use of investment in assets, reduces external costs to the Council and meets the needs of the customer.

Future decisions on the development and implementation of the Waste Services Development Programme will be presented to the Council's Waste Strategy Implementation Sub Committee for review prior to being presented to the Communities Committee for agreement. In addition the Finance, Procurement and Transformation Committee shall oversee the decisions on the funding of the Programme.

**Action owner:** Head of Roads and Infrastructure and Waste and Environment Manager

**Timescale for implementation:** Ongoing – subject to review 31 March 2020

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# Follow up of 2017/18 recommendations

Follow up of 2017/18 External Audit Recommendations

Action as at September 2019

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## 1. Property, plant and equipment

Heritage assets are distinct from property, plant and equipment as they are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. These assets are held based on estimated value, typically based on insurance valuation. The Council's last formal valuation was based on independent insurance valuation in 2013. In accordance with the CIPFA Code, we recommend that management look to obtain valuations, with sufficient regularity to ensure that the assets are held at their fair value, recognised in the accounts. When undertaking our PPE testing we identified a potential difference between what the system calculated as the entries between assets and the revaluation reserve for one asset. We performed alternative procedures and satisfied ourselves there was no material misstatement and this appeared isolated to the one asset. Officers will explore this issue with Capita during 2018/19, as they provide the system to determine any adjustments required and depending on the outcome this will be reflected in the 2018/19 annual accounts.

Despite the Terms of Instruction stating that as part of the SLA the estates team would "prepare all specific Property Valuation Certificates and an overarching Valuation Report for audit purposes on or before 30th June each year. All relevant information, assumptions and the extent of the Valuer's investigation will be detailed in the Valuation Report rather than individual Valuation Certificates" an actual overarching Valuation Report does not exist. This report should be developed to aid in the valuation process going forward

**Original management response:** Options for developing an overarching valuation report will be considered and we will explore the potential for obtaining updated valuations for Intangible Assets where it is economical to do so, taking into consideration materiality. We will investigate the potential fixed asset system issue with Capita during 2018/19.

### Complete

The Council has revised the reporting arrangements for PPE valuations to provide detailed guidance on valuations. Following the investigation of the fixed asset system it was identified that there was an underlying issue with regards the level of annual release from the revaluation reserve to the capital adjustment account each year not being undertaken correctly. Work was undertaken with support from Capita to reinstate the release and an adjustment between the reserves was recognised during the year. The issue has been addressed going forward.

## 2. Internal Audit

The internal audit function provides assurance to the Audit, Risk and Scrutiny Committee about the effectiveness of the Council's systems of internal control. From review of the work performed in the year and planned for 2018/19 we note that the activity was primarily focused on key financial controls. We recognise financial controls are required to be covered but there is an option to do this on more of a rotational basis or risk basis. This would then allow further input from internal audit to support the transformation and period of service redesign, from the perspective of the design and operation of controls in a period of change. This we feel would increase the value which internal audit activity provides to the Council.

**Original management response:** Options to better incorporate Internal Audit input into Transformation and Service Redesign will be explored.

## 3. Financial delivery of the 2018/19 plans and beyond

The Council has in place a medium term financial strategy and plans in place to deliver the required savings during 2018/19. However, there are some recognised risks associated with the savings plans which could impact on the achievement of the plans in year. The scale of the financial challenge does increase over the medium term, and it is recognised that some of the savings required will take a longer period of time to implement and planning needs to start now. The Council should continue to track and report on the delivery of financial saving plans and have contingency plans should they be needed. In addition, there should continue to be a focus on achieving recurring savings where possible to reduce the burden of additional/carry forward savings in prior year.

**Original management response:** We will continue to actively monitor savings delivery and ensure scrutiny of further savings options put forward.

## Outstanding

From our review of the Council's Internal Audit plan and work during the year we found that the focus of Internal Audit activity is predominately around financial processes and controls. The Annual Governance Statement identifies that

*"the priority work for the Internal Audit section is a 3-year programme of assurance testing on the main financial systems of the Council"*

Internal Audit play a critical role in providing independent assurance and support across the Council. By focusing on financial operational controls, there is a risk that the wider Council does not obtain sufficient assurance over the wider, strategic risks facing the Council. We recommend that the Council review the scope, remit and coverage of Internal Audit to determine if this provides sufficient assurance to the organisation.

**Action owner:** The Council's transformation programme involves engagement with staff across the whole Council and internal audit staff have participated in this and have also contributed through regular management processes. Consideration is given during audit work to delivery of the Council's priorities and commitments for the areas under examination and internal audit plans take account of the Council's stated risk position. The internal audit team remains positioned to assist the Council achieve effective and efficient business control processes going forward.

**Timescale for implementation:** Ongoing – subject to review 31 March 2020

## Complete

The Council delivered 94% of savings plans during the year and continued to operate within financial plans. Medium term financial plans have been established during 2018/19 for the next three years however we have highlighted within our 2018/19 Action plan the importance for the Council in ensuring effective oversight and scrutiny of these.

**4. Statutory Trading operations**

The roads maintenance service generated a very small surplus in 2016/17, but failed to breakeven over the 3 year rolling period. Actions identified may not improve financial performance of roads maintenance

**Original management response:** A review of the future viability of Trading Operations has taken place. The roads maintenance function will no longer be a statutory trading operation. Plans are in place to return the building maintenance service to a surplus position.

**Complete**

While the STO continued to report a deficit during 2018/19, the service will no longer be classified as an STO from 2019/20 as the main commercial contract ceased and therefore it no longer meets the definition of an STO.

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**5. Audit, Risk and Scrutiny**

The Audit, Risk and Scrutiny Committee is a newly formed Committee which will take time to be embedded and agree the balance of the agenda, number of meetings, and effectiveness of the scrutiny. The findings from the Committee may not be fully embraced by the main Council given the 100% opposition nature of the committee and/or the committee may not operate as intended and therefore scrutiny would not be enhanced.

**Original management response:** No formal review has yet taken place, given the officers view is that this would still be premature. The Committee's work in scrutiny has developed and strengthened in the past months and has been delivered with energy and pace. Meetings have been supplemented with regular workshops for scrutiny work which have been well received by members. The next stage of development will be to focus on the Committee's role with risk. The Council's Risk Management framework has been recently refreshed and this will provide an opportunity for training for members and to see them exercise their role in committee over the forthcoming months.

**Complete**

During 2018/19 the Committee was refreshed including incorporating members of the Administration on the Committee.

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**6. Corporate Governance Code**

The corporate governance code contains a number of documents and/or links to documents which are out of date or no-longer relevant. Out of date policies and procedures may be applied in error.

**Original management response:** There has been a great deal of progress this year in updating systems and documents in preparation for the implementation of the Council's new committee management system. The system will also allow members to update register of interest and declare any gifts and hospitality received. A thorough review of election documents and processes has also taken place. We have kept standing orders under review through the committee process. We will be drawing all the work together under a new Code, a little later than expected, but by the end of the calendar year. This therefore should be carried forward to December 2018 for final completion.

**Complete**

Key corporate governance documentation was revised during 2018/19 with completion by December 2018.

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## 7. Performance Measures

The Council are continuing to consider and develop suitable performance metrics that can be measured during the year in support of an annual performance metric to give an “early warning” signal where needed. Performance that is only reported annually may not give sufficient time to re-look at performance outcomes or make the necessary changes.

Original management response: Ongoing

### Ongoing

The Council is developing a summarised suite of key indicators, based on the new Business Plans and Council Plan which demonstrate progress and delivery of Council Priorities, including relevant longer term benchmarking information and trend data. Performance information reported at Area Committee will be examined and enhanced reporting will be developed, including inclusion of indicators that demonstrate variation at a local level.

We note that these arrangements continue to embed and therefore it is too early for external audit to conclude on these however, the proposed actions appear appropriate. A key element of this work is ensuring the timeliness of performance information and ensuring alignment with Council priorities.

As part of the Best Value Action Plan, the Council is developing a summarised suite of key indicators, based on the new Business Plans and Council Plan, which demonstrate progress and delivery of Council Priorities. This includes relevant longer term benchmarking information and trend data. As part of the introduction of new Business Planning arrangements, performance information reported at Area Committee is being examined and enhanced reporting will be developed, including the inclusion of indicators that demonstrate variation at a local level and projects which demonstrate local impacts. These changes are currently being implemented as new Business Plans are reported to Committees during September/October/November 2019. We note that these arrangements continue to embed and therefore it is too early for external audit to conclude on these however, the proposed actions appear appropriate. A key element of this work is ensuring the timeliness of performance information and ensuring alignment with Council priorities.  
**Action owner:** Head of People and Transformation  
**Timescale for implementation:** December 2019

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# Fees, independence, fraud arrangements

## External Audit Fee

Service	Fees £
External Auditor Remuneration	196,950
Pooled Costs	19,100
Contribution to Audit Scotland costs	12,360
Contribution to Performance Audit and Best Value	95,930
<b>2018-19 Fee</b>	<b>324,340</b>
External Audit fee – Nithsdale Connected Charities	1,000
<b>Total 2018-19 Fee</b>	<b>325,340</b>

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

## Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2018/19 financial year	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

## Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at the Council.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for the Council this is assumed to be the Audit, Risk and Scrutiny Committee) on their view of fraud. We did this when presenting our audit plan and discussions with management and those charged with governance.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit. – None were identified in-year

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is **Dumfries and Galloway Council's** responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with the Council to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

## Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at the Council we will report to the Auditor General as required by Audit Scotland.

# Communication of audit matters

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and officers/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
<b>We are independent of Dumfries and Galloway Council and have not identified any conflicts of interest</b>		
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
<b>We have not incurred any non-audit fees during the year and no threats to independence identified</b>		
Significant matters in relation to going concern	•	•
<b>No significant going concern matters identified</b>		
Views about the qualitative aspects of the Council accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
<b>Set out in the Financial statements Section</b>		
Significant findings from the audit		•
<b>All matters of significance are referred in this report</b>		
Significant matters and issues arising during the audit and written representations that have been sought		•
<b>Letter of representation was signed by the Head of Finance and Procurement . This is our standard, unmodified letter of representation.</b>		
Significant difficulties encountered during the audit		•
<b>No difficulties encountered</b>		
Significant deficiencies in internal control identified during the audit		•
<b>None identified</b>		
Significant matters arising in connection with related parties		•
<b>None identified</b>		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
<b>None identified. Nil quarterly fraud returns have been submitted to Audit Scotland during the year in line with Audit Scotland planning guidance (threshold of £5,000 and above).</b>		
Non-compliance with laws and regulations		•
<b>None noted</b>		
Unadjusted misstatements and material disclosure omissions		•
<b>None noted. Minor disclosure amendments only and these were not material in nature</b>		
Expected modifications to the auditor's report, or emphasis of matter		•
<b>We have included an "except for" paragraph in our opinion related to the failure of the Council's statutory trading services – Building Maintenance to break-even over a rolling three year basis in line with the Local Government in Scotland Act 2003.</b>		

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to Dumfries and Galloway Council Officers and the Audit, Risk and Scrutiny Committee.

# Best Value Assurance Report – follow up

BVAR finding	Action as at September 2019	complete
<p>The Council should finalise and agree its long-term savings plans and move to delivering the savings, given the increasing scale of the financial challenge.</p>	<p>Full Council agreed the budget setting process in September 2018, to align this with the new Transformation Programme, and the delivery of the Council Plan and Financial Strategy. This was to support setting a three-year budget from 2019/2020. The Transformation Programme is intended to help the Council close a £30 million budget gap over the next two years. The Transformation Programme 2018-2023 has progressed since its agreement in June 2018 with quarterly reports to Full Council. The Council set the 2019/20 Revenue Budget and Council Tax within a three-year revenue budget plan covering the period 2019/20 – 2021/22, along with the Capital Investment Programme 2019/20 – 2021/22 as part of an updated 10 year Capital Investment Strategy.</p>	✓
<p>The Council should develop its first organisation-wide workforce plan which details the numbers and skills of staff required in the medium and longer term.</p>	<p>The Council's decisions on Transformation and the Council's future budgets will have a considerable impact on the future workforce and skills requirements of the authority. Following agreement of the budget at the end of February 2019, the Council's Workforce Transition Board will analyse all workforce impacts and opportunities and update the Workforce Strategic Needs Assessment within the Council Plan. This forms a key element of the information required to complete the medium and longer term forecast of workforce numbers and skills. A Council-wide Workforce strategy and plan has been developed to shape the future workforce of the Council.</p>	✓
<p>The Council should ensure all staff engagement, performance management and improvement processes and practices are applied consistently across the council area and directorates.</p>	<p>The council has worked to develop a strengthened network of organisational development, performance and improvement service lead officers to implement changes to practice and provide for a consistent approach to be embedded within services. Through this network undertake a review of all related processes and practices with the Corporate Management Team has been undertaken to identify areas of inconsistency in practice, and develop a programme of training, support and intervention to ensure consistency, and to reaffirm agreed requirements. Implement the programme of identified improvements and training.</p>	✓
<p>The Council should work with community councils to implement improved ways of working together to maximise the input and added value community councils can bring.</p>	<p>The new Scheme for the Establishment of Community Councils was agreed by Dumfries and Galloway Council on 25 September 2018 and provides for 106 Community Councils across the region. The Scheme is more streamlined than previously and was developed with full engagement of our Community Councils. The Communities Directorate Business Plan 2018 to 2023 includes an Improvement project '<i>Community Council Development Programme</i>' which is to support Community Councils in their contribution to community engagement and the '<i>Local Governance Review</i>'. The project includes: improvements to the Community Council Enquiry Service; a new Community Council Handbook; updated arrangements for maintaining contact information, agendas and minutes and co-ordination of Council Officer attendance at meetings; development and implementation of a training and development programme for Community Councillors; and Community Council grant arrangements to support the establishment and running of Associations and Federations. Community Councils are supporting our Council's Budget Consultation by hosting Community Conversations in their locality; and all public sector partners will involve Community Councils in a planned programme of engagement opportunities over the coming two years, in line with their statutory role. Community Councils will be key stakeholders in the new Community Planning locality partnership arrangements which are currently under review; and a Community Councillor is to represent the community sector on the Community Planning Partnership Board.</p>	Ongoing

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BVAR finding	Action as at September 2019	complete
<p>The Council should work with members to understand reasons for low attendance at training courses and agree action to improve current rates.</p>	<p>Meetings will be held between Group Leaders and officers to understand the challenges and opportunities in relation to Member training and current programming.</p> <p>As part of developing this understanding Members will be asked to undertake an online survey on training and development which will also include a digital skills assessment.</p> <p>Following these discussions and online surveys, a report will be prepared on options and recommendations for consideration at policy and Resources Committee to seek agreement on a way forward to improve current rates of attendance.</p> <p>Implementation of recommendations would follow Members consideration.</p>	<p>Ongoing</p>
<p>The Council should work with members to agree what level of information is required in committee reports and ensure reports to members are as clear and concise as possible.</p>	<p>An initial exercise will be undertaken by Democratic Services to seek feedback from all Elected Members as to their individual views on current committee reports and if there is any pattern of dissatisfaction or satisfaction in scale of reports, content and format, including in regard to particular Committees.</p> <p>Following this exercise, a report will be provided to the Review of Standing Orders Sub Committee. This will include feedback on responses from Elected Members and provide for Elected Members consideration recommendations on any potential adjustments to Committee reports. Thereafter recommendations from the Sub Committee will be brought to Full Council for consideration. Officers will request regular feedback from Chairs, Vice-Chairs and political group business managers on any issues on the extent of information within Committee reports required to assist decision-making, and identify themes and capture any actions necessary.</p>	<p>Ongoing</p>



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