

External Audit Report for Dumfries and Galloway Council

Financial year ended 31 March 2021

Annual External Audit Report to Member and the Controller
of Audit

30 September 2021



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect Dumfries and Galloway Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive Summary

This table summarises the key findings and other matters arising from the external audit of Dumfries and Galloway Council ('the Council') and the preparation of the Group and Council's financial statements for the year ended 31 March 2021.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- The Group and Council financial statements give a true and fair view in accordance with applicable law and CIPFA Code of Practice on Local Authority Accounting 2020/21 ('the 2020/21 Code') of the state of the Council and its Group as at 31 March 2021 and of the income and expenditure of the Council and its Group;
- the Group and Council's financial statements have been properly prepared in accordance with International financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the 2020/21 Code;
- the Group and Council's financial statements 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 audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We are required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local government in Scotland Act 2003. We are also required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016).

Our audit opinion (audit report) is unmodified

This report concludes our audit of 2020/21. We summarise the work undertaken over significant audit risks, and wider scope risks as set out in our Audit Plan reported to the Audit, Risk and Scrutiny Committee in April 2021. Our audit covers the Council and the group financial statements (SWESTRANS and the Integration Joint Board).

The quality of unaudited accounts were good, and these were made available for inspection within the timeframe required. Our audit was carried out between July and September, fully remotely for the second year. Officers and the Audit Team worked well together to conclude the audit.

We conclude that the Remuneration Report, subject to audit, has been prepared in accordance with requirements and is materially correct.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of the Council and the financial statements we have audited.

Executive Summary

Wider scope audit

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code of Audit Practice requires auditors to consider the Council's arrangements in respect of the wider dimensions of public audit covering: financial management; financial sustainability; governance and transparency; and, value for money.

In our External Audit Plan for the year ended 31 March 2021 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Financial management – The Council continued to demonstrate sound financial management during a challenging financial year.

The Council reported a net underspend against service budgets of £1.168 Million. Following the recognition of accounting and other statutory adjustment, including IAS 19 pension accounting entries, the total reported comprehensive expenditure for the year in the financial statements was £85.242 million. Whilst the Council reported a deficit for the year, this reflects the impact of accounting adjustments (particularly pensions accounting entries) and a more informative indication of the Council's financial performance for the year is reflected in the movement in General Fund Balances. The Council's total General Fund Balances as at 31 March 2021 were £70.180 million (2019/20: £46.154 million).

While 2020/21 represented a challenging financial year as a result of the Covid-19 response and recovery activity, the Council continued to demonstrate sound financial management, maintaining un-earmarked general fund reserves of 2% of budgeted revenue expenditure in line with its reserve strategy.

During 2020/21 the Council undertook a review of its budget management arrangements, including budget management structure, schemes of delegation and budget holder training. The review ensured all staff had undertaken all mandatory training and ensured appropriate and consistent budget management practices were undertaken across the organisation.

In addition to the delivery of services in year, the Council distributed £69.759 million of Covid-19 funding on behalf of the Scottish Government to support businesses and individuals during the year. While this does not impact on the Council's financial position, the Council was responsible for administering the funds.

Executive Summary

Wider scope audit

Financial sustainability - The Council continued to report strong financial performance during 2020/21. However, Officers recognise the Council face greater financial challenges of the medium term including additional Covid-19 funding.

The Council continues to report a strong financial position, operating within available resources and maintaining reserves within its reserves strategy. However, the Council's medium term financial projections highlight that between £30 - £35 million of savings will be required over the next three years. While the Council has continued to demonstrate its ability to deliver savings through the Transformation Programme and reprioritisation of resources the Council also needs to manage this against a back drop of uncertainty in responding and recovering from Covid-19.

In addition to those financial pressures, the Council will need to ensure that to support the delivery of the Council's new additional strategic priority, focusing on the Council's response to climate change and transition to a carbon neutral region, it will be important that the medium and longer term revenue and capital investment plans reflect this.

Executive Summary

Wider scope audit (continued)

Governance and transparency – The Council’s governance arrangements were amended to reflect the challenges faced during Covid-19 and continued to be developed and enhanced during the year.

In response to the Covid-19 emergency, the Council implemented changes in the arrangements for the conduct and management of business. This included the establishment of an Ad-Hoc Covid-19 Sub Committee, and the establishment of a management structure to co-ordinate the Council’s Response to the pandemic. This required temporary changes to Standing orders. In June 2020, the Sub Committee was stood down by full Council and Committee meetings resumed after the summer recess.

The Council implemented temporary governance arrangements in response to the pandemic to support effective governance and leadership. The Council continues to demonstrate a commitment to improve and develop governance arrangements. Although 2020/21 represented a challenging year where temporary governance arrangements were required in response to the Covid-19 outbreak, the Council has reported progress on the six improvement actions arising from the 2019/20 self assessment as well as further identified opportunities for improving governance.

Executive Summary

Wider scope audit (continued)

Value for money – the Council has enhanced financial management and governance arrangements in response to the findings from the investigations into the Trunk Road Maintenance contract.

We have reviewed the findings of the external adviser commissioned and Integrity Group investigation into the 4G contract and have considered the Council's response and the remedial action taken. The Council has responded appropriately to the recommendations raised from the investigation implementing improvement actions in governance and financial management arrangements.

The Council's Mid-Plan Report on the Council's performance against the 2017-22 Council Plan, demonstrated good progress against the Council's key priorities. However, the Council should look to strengthen its current performance reporting arrangements to enhance the transparency of public reporting to local tax payers and services users. This should include more up to date reporting of performance, including those against improvement plans, that demonstrate the Council's performance over time.

Executive Summary

Wider scope audit (continued)

Best Value – While facing the operational and financial challenge of the Council’s Covid-19 response and recovery, the Council has continued to focus on ensuring efficient, effective delivery of services. It is important that the Council continue to maintain a focus on demonstrating how it deliver best value, particularly to the local tax payer and service user.

While managing the impact of Covid-19 and the Council’s response and recovery activity, the Council has still demonstrated good progress in relation to the ongoing Best Value and wider improvement activity. Following the Accounts Commission’s BVAR report in 2018, the Council implemented a Best Value Improvement Plan. As we have previously reported, the Council has made good progress in implementing the actions from the plan as well as wider improvement initiatives identified through self-assessment.

The Council continues to progress three outstanding actions from the Improvement Plan: Revisiting the Corporate Plan to include the Climate Change Priority; reviewing member appointments to outside bodies and embedding the actions from Internal Audit reviews around financial controls and procurement standing orders.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance officers and other staff amidst the pressure they were under during these unprecedented times.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at Dumfries and Galloway Council. The scope of our audit was set out in our External Audit Plan which was shared with the Audit, risk and Scrutiny Committee on the 20th April 2021.

The main elements of our audit work in 2020/21 have been:

- An audit of the council and Group's annual report and accounts for the financial year ended 31 March 2021;
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2016 ('the Code') covering: financial management; financial sustainability; governance and transparency and value for money;
- Certification of Housing Benefits subsidiary claim (due November 2021), Education Maintenance Allowance and Non-Domestic Rates Certification;
- Monitoring the Council's participation in the National Fraud Initiative (NFI); and
- Any other work requested by Audit Scotland.

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

This report is addressed to the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the Code and supplementary guidance, and International Standards on Auditing in the UK.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Adding value through our audit work

We aim to add value to the Council throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward looking recommendations where we identify areas for improvement and encourage good practice around financial management and sustainability, risk and performance. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources. In June 2021 we held a session for the Audit Risk and Scrutiny members on our role and remit as the Council's external auditor, giving greater detail over our audit approach. This was welcomed by members and a good opportunity to further discuss the audit planning risks and how this translated into audit work. This included our relationship with Audit Scotland and the Accounts Commission.

Audit of the annual report and accounts

Key messages and judgements

We have issued an **unmodified** audit opinion on the annual report and accounts.

We have identified one adjusted misstatement to the financial statements. This related to the cash flow statement and is detailed in Appendix 1. In addition there was 1 adjustment, not made, which we do not consider to be material to the user of the accounts and agree with Officers decisions to not amend.

In addition, any areas we have identified as having a higher priority and/or potential risk to the Council we have captured in this report.

Where we have identified more minor matters these have been reported to officers via a management letter.

Our audit opinion

For the financial year ended 31 March 2021 we have issued an **unmodified opinion** – on the annual report and accounts. As reported in the independent auditor's report:

- The Group and Council financial statements give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of the Council and its Group as at 31 March 2021 and of the income and expenditure of the Council and its Group for the year then ended;
- the Group and Council's financial statements have been properly prepared in accordance with International financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the CIPFA Code of Practice on Local Authority Accounting 2020/21 ('the 2020/21 Code');
- the Group and Council's financial statements 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 audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We are required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local government in Scotland Act 2003.

We are also required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016).

We have no significant or material matters to report to you in respect of the Management commentary and the Annual Governance Statement.

The audit process

The Council published the unaudited accounts for public inspection as required. The quality of the unaudited financial statements was again of a good quality. Our external audit work commencing in July, as set out in the plan and concluded in September. Our audit again was completed remotely, in light of Covid-19 requirements. Both teams worked well together to complete the audit, recognising the challenges of working remotely alongside the increased focus this year, from an audit quality perspective, on accounting estimates and judgements (ISA 540) and valuations of property plant and equipment. Both teams identified lessons learned from the audit, including where the audit could be more efficient and effective for both teams and this learning will be discussed and agreed prior to the 2021/22 audit cycle.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our audit approach was set out in our audit plan communicated to the Audit, Risk and Scrutiny Committee on 20th April 2021. We reviewed our planning assessment of materiality based upon your 2020/21 draft financial statements and updated our materiality to £7.584 million for Group (Council only £7.568 million), representing 1.5% of gross expenditure less IJB contributions. Performance materiality was set at £5.308 million for the Group (Council only: £5.297million), representing 70% of our calculated materiality.

We report to Officers (Management) any difference identified over £250,000 (trivial capped at £250,000 by Audit Scotland).

We applied a lower materiality threshold for disclosures within the Remuneration Report to ensure that remuneration has been disclosed within the appropriate bandings (being £5,000).

Prior period restatement of cash flows

The Council has applied the indirect method of presenting the Council's cash flow, as set out in the Local Government Accounting Code. On review of the unaudited accounts it was identified that the cash flows arising from capital grants were credited to services within net cash flows from operating activities as opposed to financing activities. In our judgement, based on our understanding of the Accounting Code, we consider the cash flow should be disclosed in finance activities. In 2020/21 the balance was £15.691 million, and in 2019/20 £25.983 million. There is no impact on the overall cash position of the Council as presented in the cash flow statement. However, recognising the value we have discussed with Officers and agreed this change of disclosure in the accounts for 2020/21 and the prior year comparatives updated in 2019/20. This has been disclosed in the final annual report and accounts. In reviewing the cash flow workings we noted it does appear to be an overly complex process, which would benefit from further review to ensure continues to meet Code requirements but is also not inefficient/result in additional work at year end for Officers.

Internal control environment

In accordance with ISA requirements we have developed an understanding of the Council's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place. However, we do not place reliance on the design of controls when undertaking our substantive testing. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Dumfries and Galloway Council's financial performance during 2020/21 – The Impact of Covid-19

The Council reported a net underspend against service budgets of £1.168 Million. Following the recognition of accounting and other statutory adjustments, including the recognition of IAS 19 pension accounting entries, the total reported comprehensive expenditure for the year in the financial statements was £85.242 million. Whilst the Council reported a deficit for the year, this reflects the impact of accounting adjustments (particularly pensions accounting entries) and a more informative indication of the Council's financial performance for the year is reflected in the movement in General Fund Balances. The Council's total General Fund Balances as at 31 March 2021 were £70.180 million (2019/20: £46.154 million).

The outturn position reflects the Council's effective financial management and cost control arrangements to continue to deliver services within budget. The net underspend includes a small number of variances that were treated as non-Covid related and included the under-commitment of area committee and strategic arts grant funding, the receipt of higher than budgeted planning and building warrant fees and the receipt of additional ICT resources. These specific resources were carried forward within reserves to be made available to support initiatives in the new financial year. In addition, corporate and Covid-19 underspends have been carried forward and earmarked against future requirements, with unallocated reserves retained at 2% in line with the Council's agreed policy.

Covid funding and costs	General costs (Emergency Response) £'000	Specific initiatives (including Education Recovery/IJB Mobilisation) £'000	Total £'000
Total Covid-19 Funding received	22,308	28,536	50,845
Less grants accrued forward to 21/22		(7,934)	(7,934)
Net Covid-19 funding applied to 2020/21	22,308	20,602	42,911
Covid-19 costs incurred	(13,556)	(14,198)	(27,754)
Covid-19 funding carried forward to 2021/22	8,752	6,404	15,156
Earmarked for specific purposes	(3,314)	(6,404)	(9,718)
General Covid-19 Reserves carried forward	5,438	0	5,438

Emergency Response Outturn position	£'000
Increased Covid-19 Costs on general fund	(8,851)
Loss of budgeted income as a result of Covid-19	(4,705)
Net covid-19 costs	(13,556)
Covid-19 Funding applied in the year	22,308
Allocation of Agreed COVID-19 Recovery Initiatives	(3,314)
Net Funding Available to Support additional costs in 21/22	5,438

The Council administered Covid-19 on behalf of the Scottish Government

In addition to the delivery of services in year, the Council distributed £69.759 million of Covid-19 funding on behalf of the Scottish Government to support business and individuals during the year. While this does not impact on the Council's financial position, the Council was responsible for administering the funds.

We have reviewed the Council's accounting treatment of these grants and satisfied that these reflect agency arrangement i.e. where the Council does not have discretion over the amounts or to whom the grants are administered.

Covid-19 funding from the Scottish Government

During 2020/21 the Council's income and expenditure were significantly impacted by Covid-19 both through the response to the pandemic as well as the Council's recovery activity. Officers reported that the net cost of the Council's Covid-19 emergency response for the year was £13.556 million, which the Council received additional funding from the Scottish government of £22.308 million to support these costs. In addition, the Council recognised additional funding of £20.602 million which was received to support specific initiatives/requirements such as the Education Recovery and IJB Mobilisation. At the end of the year, the Council has carried forward £5.438 million of General Covid-19 funding to support the ongoing response and recovery activity in 2021/22, with resources of £9.718 earmarked for specific purposes, including additional staffing and other support in schools, the reopening of services and economic recovery.

	£'000
Business Grants	42,948
Self Employed Grants Scheme	335
Business Hardship Fund	408
Business Contingency Fund	170
Strategic Framework Grants	14,537
Taxi & Private Vehicles Fund	402
Large Self Catering & Exclusive Payment of grants	533
Hospitality Top Up	3,104
Retail Top Up	4,874
Thanks You Payments (£500 payments)	2,084
ELC Transitional Support	363
Total grant funding	69,759

Programme slippage due to Covid-19 resulted in underspends in the Capital programme

During 2020/21 the Council incurred £20.368 million in capital spend related to the Council's Capital Investment Strategy. This was against a capital budget (including capital financed by revenue of £251,000) of £25.136 million, representing a 81% utilisation of available funds. The underspend was primarily due to slippage on capital programmes as a result of delays due to the impact of Covid-19. The main areas of investment relate to Council infrastructure and Schools and other buildings.

In addition to the Capital Investment Strategy, the Council invested £2.748 million in waste collection vehicles and equipment as part of the waste collection service.

As noted on page 33, the Council has revisited its ten year capital investment strategy reflecting on key priority projections for the Council and delivery capital investment targets.

Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the External Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

As set out in ISA 240 there is a presumed risk that management (Senior Officers) override of controls is present in all entities. This risk area includes the potential for Officers to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

We consider those critical estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (of expenditure and income journals) and the use of manual journals during the year and in creating the financial statements where controls may be overridden by management.

In response to this significant risk, our audit response was as follows:

- We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- We reviewed accounting estimates for management (Senior Officer) bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021 and retrospective review of those estimates as at 31 March 2020.
- Journals testing including:
 - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
 - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they were appropriate and suitably recorded in the financial ledger;
 - Target testing of transactions and journals posted around the financial year end, reviewing to understand the rationale for these entries.

Conclusion

We did not identify any evidence of management override of controls through our testing of journal transactions, or any instances of material error. We did not identify any indication of fraud and/or inappropriate management bias in accounting estimates that could result in a material misstatement. We identified a minor control point on reviewing journals within finance. This point has been captured in our management letter. This control point did not impact on our journal strategy and relates to good practice rather than a control deficiency.

Risks identified in our Audit Plan

Risk of fraud in expenditure recognition

Dumfries and Galloway Council's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as the result of fraud to occur in this area.

Dumfries and Galloway Council's non-pay expenditure includes finance costs which primarily relate to interest payments and finance charges which are deemed to be well forecast and relatively consistent year on year. There is limited opportunity for manipulation of this expenditure and as such there is no perceived risk of material misstatement due to fraud in relation to this expenditure.

We therefore focus our risk on expenditure excluding payroll and finance costs. Our testing includes a specific focus on year end cut-off arrangements, including consideration of the existence and completeness of expenditure accruals, where it may be advantageous for senior officers to recognise more expenditure in the current financial year due to receiving continued additional financial support from Scottish Government as a result of the COVID-19 pandemic, which may not be made available to Dumfries and Galloway Council in the next financial year.

Commentary

In response to this significant risk, our audit response was as follows:

- Walkthroughs of the controls and procedures over other expenditure streams, being those non-payroll or finance cost related);
- Substantive testing of expenditure throughout the year to confirm its occurrence, accuracy and completeness of recording;
- Focused substantive testing of Other Expenditure recognised pre and post year end to identify if there is any potential overstatement or understatement to address the risk of cut-off;
- Review of accruals and provisions, where material, around the year end to consider if there is any indication of overstatement or understatement of balances held at year end through consideration of accounting estimates; and
- Unrecorded liability testing to confirm the completeness of year end liabilities as well as the completeness of expenditure recognised during the year.

Conclusion

Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of expenditure. We did not identify any exceptions in the completeness and accuracy of accruals or payables balances at year end.

Risks identified in our Audit Plan

Commentary

Valuation of property, plant and equipment (land and buildings)

The Council values its land and buildings on a rolling five-year basis by the Council's valuer. This valuation represents a significant estimate by management (Senior Officers) in the financial statements due to the size of the numbers involved (land and buildings held at 31 March 2020 were £728.4 million) and the sensitivity of this estimate to changes in key assumptions. Given the value of PPE held by the Council and the level of complexity and judgement in the estimation valuations, there is an inherent risk of material misstatement in the valuation of land and buildings. The risk is less prevalent in the Council's remaining classes of assets (vehicles, plant and equipment, infrastructure assets, community assets and surplus assets) as these are generally held at depreciated historic costs, as a proxy of fair value and therefore less likely to be misstated. The Council's valuer undertakes a rolling programme of valuations across the assets base, valuing land and buildings at a minimum of once every five years. Our testing in relation to this identified risk will include review of revaluations made during the year, confirming valuations have been input correctly into the asset register, obtaining an understanding of the underlying data provided to the valuer to undertake the valuation and testing of this underlying data to ensure it is complete and accurate. We will discuss with Dumfries and Galloway Council's valuer the basis on which the valuation was carried out and challenge the information and assumptions used in the valuation process. We will engage our own valuations expert to assess the instructions issued by Dumfries and Galloway Council to their valuer, the final valuer's report and the assumptions used that underpin the valuation. We note that for 2020/21 Dumfries and Galloway Council have appointed an external valuer, Colliers, which is a change from the prior year when an in-house valuer was used as a management (senior officer) expert.

In response to this significant risk, our audit response was as follows:

- Walkthroughs of the controls and procedures over the valuation of land and buildings;
- Consideration of the arrangements in place at the Council for ensuring the carrying value of land and buildings remains appropriate and in accordance with IAS 16;
- Evaluation of the competence, capability and objectivity of the Council's professional valuers who represent management's (senior officer's) experts under ISA 500;
- Testing the accounting entries processed by Senior Officers in relation to the valuation to ensure these were in accordance with the 2021 code;
- Testing the data and assumptions applied by Senior Officers (and their experts) in producing the valuation estimate;
- Review of the suitability of indices applied in the valuation of land and buildings including challenging the reasonableness of the rates applied;
- Challenged Senior Officer's assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Council; and
- Using our auditor's valuation expert in order to challenge Senior Officer's expert as well as Officer around the valuation instructions issued and approach adopted by the Council in valuing land and buildings as at 31 March 2021.

Conclusion

Through our audit testing we identified that asset valuations as at 31 March 2021 were recorded in the fixed asset register in advance of month 12 (March) capital accounting entries (depreciation and capital spend). However, in arriving at the valuation, the valuer had taken into account capital spend and also factors in obsolesce to reflect the age and condition of the premises at the year end. Consequently, the month end capital accounting entries should be accounted before the impact of the valuation. We have raised an unadjusted misstatement ([Appendix 1](#)).

Risks identified in our Audit Plan**Commentary****Valuation of property, plant and equipment
(land and buildings) (continued)****Conclusion (continued)**

In the prior year the Royal Institute of Chartered Surveyors (RICS) issued a valuation practice note regarding material uncertainties in valuations as a result of impacts to the market caused by Covid-19. Due to the impact of Covid-19 on markets at that time, the Council's valuer reported their valuation advice on the basis of 'material valuation uncertainty' and an emphasis of matter paragraph was included within the independent audit report to highlight the matter to the reader of the accounts.

The Council's valuers have confirmed that as at 31 March 2021, while it is considered that there is a degree of market uncertainty, and thus valuation uncertainty, it is also considered that the uncertainty is not material. Accordingly the 2020/21 valuation of the Council's land and buildings is not reported as being subject to "material valuation uncertainty" as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

Our auditor's expert has also confirmed that this commentary, in relation to the asset types within the portfolio, is in line with the wider view across the profession at 31 March 2021 and therefore is in line with their expectations. We have concluded that the view taken by the appointed valuers is appropriate.

Based on our testing we conclude that PPE has been valued in accordance with IAS 16 and the 2020/21 Code and that the assumptions adopted by senior officers and their valuer are reasonable.

Risks identified in our Audit Plan

Defined benefit pension scheme (valuation)

The Council participates in the Dumfries and Galloway Council Pension Fund, a local government pension scheme. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Dumfries and Galloway Council is required to recognise its share of the scheme assets and liabilities on the statement of financial position. As at 31 March 2020 the Council had pension fund liabilities of £396.6 million. Hymans Robertson UK LLP provide an annual IAS 19 actuarial valuation of Dumfries and Galloway Council's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme could be materially misstated within the financial statements. We will consider the suitability and reasonableness of the underlying assumptions adopted by the actuary and suitability of these for the Council.

Commentary

- From year end planning review our risk focused predominantly around the key assumptions used in the actuarial valuation, where there was an increased risk of material misstatement.
- We performed walkthroughs of the controls and procedures over the valuation of defined benefit pension liabilities, including Officers oversight of the valuation;
- We considered the work of the actuary (Hymans Robertson UK LLP), including the assumptions applied, using the work performed by PricewaterhouseCoopers (PwC) (commissioned on behalf of Audit Scotland to review actuarial assumptions proposed by LGPS actuaries), as well as local audit assessment.
- As auditors of the Pension Fund we obtained assurances over assets held and membership data, and employer and employee contributions in the year.
- We performed substantive analytical procedures in the year over the pension fund movements, investigating any deviations from audit expectation.
- We reviewed the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

Conclusion

Through our audit procedures performed we did not identify any exceptions in our review and testing over IAS 19 defined benefit pension liabilities recognised in the financial statements. Through considering the work performed by PwC, we are satisfied that the assumptions applied by the actuary are reasonable.

The IAS 19 defined benefit valuation represents a material liability within the financial statements. The valuation is subject to significant estimation and thus sensitive to movements in underlying assumptions. While Officers utilise Hymans Robertson to provide actuarial expertise in determining actuarial valuation, there is an opportunity to enhance oversight of around the controls administered by the actuary over the pension data. In particular, assurances from the actuary around the controls in place at the actuary to ensure data used in the valuation is complete and accurate and controls in place at the actuary to ensure underlying calculations are correct. This point has been captured in our management letter. This control point did not impact on our testing strategy and relates to good practice rather than a control deficiency.

Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2020/21 Code.
- We enquired of Senior Officers and the Audit, Risk and Scrutiny Committee, concerning the Council's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Audit, Risk and Scrutiny Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur, by evaluating management's (senior officer's) incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Council's financial performance for the year and potential management (senior officer) bias in determining accounting estimates. Our audit procedures involved are documented within our response to the significant risk of management override of controls.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in expenditure recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - The Council's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - The Council's control environment, including the policies and procedures implemented to ensure compliance with the requirements of the financial reporting framework.

Significant estimates and judgements

The Council's financial statements include the following significant accounting estimates and judgement impacting on the annual accounts:

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Provisions and contingent liabilities	<p>The Council makes provisions in the accounts where there is an expected outflow of economic benefit but where there is uncertainty of timing or amount. Officers make judgements in relation to the categorisation of different events and the possibility of their occurrence. Where the outflow of economic benefit is not probable, the Council disclose as a contingent liability. In the financial statement the Council has provision for employment cases of £213,000. The council has disclosed contingent liabilities in relation to potential further equal pay claims and obligations under historical child abuse claims. At this stage the council is unable to quantify amounts for either claim.</p>	<p>Within the financial statements provisions and contingent liabilities have been appropriate disclosed in a note to the financial statements. We recognise there is a degree of judgement when considering provisions and contingent liabilities. However, as auditors we would not consider these to be critical judgements under IAS 37. There is an opportunity for Officers to review the critical accounting estimates and judgements note within the accounts for 2021/22, in line with IAS 37. This would streamline the disclosure potentially removing provisions, grant funding and public sector funding (see Action plan point 1)</p>	<p>● [light purple]</p>

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however officer's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however officer's estimation process contains assumptions we consider cautious
- **Light Purple** We consider officer's process is appropriate and key assumptions are neither optimistic or cautious

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Scottish Government Covid-19 Business Grants	During 2020/21 Dumfries and Galloway Council administered £67 million of Covid-19 grant funding which it has concluded it is acting as an agent on behalf of the Scottish Government. This applies where the Council has no discretion on the amounts and to whom the grants are paid. Officers have considered LASAAC guidance on accounting for these grants.	We have not identified any issues in respect of the accounting treatment and recognition in relation to these grants.	● [light purple]
Public sector funding	The Council has disclosed a critical judgement in relation to the high degree of uncertainty about future levels of funding for local government.	We have considered going concern, under FRC practice Note 10 and concluded the Council is a going concern. We have provided comment in this report in respect of wider scope financial sustainability.	● [light purple]

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
<p>Property Plant and Equipment (Land and buildings, including dwellings - £702.848 million) / Asset Valuations (including the Covid-19 impact on valuation)</p>	<p>As at 31 March 2021, the Council held PPE of £882.519 million including Land and Buildings (including Dwellings) of £702.848 million. The Council employs professional valuers, Colliers, to provide an independent valuation of land and buildings on a rolling programme of valuations, valuing land and buildings at a minimum of once every five years.</p> <p>Officers have disclosed that the estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial statements within the next financial year include property valuations. They have also confirmed and disclosed that they rely on the valuation information provided by their external valuer.</p> <p>Officers have recognised and disclosed the impact of the Covid-19 on the valuers assessment as at 31 March 2021. While the pandemic and resultant market conditions has increased the uncertainty on valuations, this valuer has concluded that the valuation of land and buildings is not subject to a material valuation uncertainty as at 31 March 2021.</p>	<p>We have tested the accounting entries processed by management (Senior Officers) in relation to the valuation to ensure these were in accordance with the 2020/21 Code. We have tested the data and assumptions applied by senior officers (and their experts) in producing the valuation estimate. We have evaluated the competence, capability and objectivity of the Council's professional valuers who represent senior officer's experts under ISA 500. We have used our auditor's valuation expert in order to challenge the Council's expert's advice as well as the Council's Senior Officers around the valuation instructions issued to their external valuer and the approach adopted in valuing land and buildings as at 31 March 2021. We have challenged Officer's assessment of potential impairment of PPE including consideration of any indicators of impairment of PPE not recognised by the Council. While we have not identified any significant issues with senior officers estimate, there are opportunities to enhance the disclosures in relation to the key assumptions that create significant estimation Appendix 1.</p>	<p>● [light purple]</p>

Significant judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
IAS 19 Pension obligations (£494.334 million)	<p>The Council has provided for estimated liability relating to the Council and Group's share of the net liability in the Dumfries and Galloway Council Pension Fund.</p> <p>The Council engage Hymans Robertson UK LLP provide an annual IAS 19 actuarial valuation of the Authority's net liabilities in the pension scheme. There are several assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. These key assumptions are discussed with the actuary to inform the report. These are predominantly informed by the actuaries recommended assumptions and subject to review from Officers from the Council.</p> <p>As administering authority for the Pension Fund, the Council also submit data to the actuary to inform both the triennial valuation (as at 31 March 2020) and the annual IAS 19 valuation.</p>	<p>As noted in our Response to significant risk section, using the work of PwC we reviewed the key assumptions underpinning the actuarial valuation. We are satisfied that the assumptions adopted were appropriate for the Council and that those applied were considered reasonable i.e. within our acceptable tolerances.</p> <p>We did not identify any indication of Senior Officer (management) bias in the underlying assumptions applied in the estimate and found that senior officers have disclosed the key sensitivities surrounding these in the draft financial statements.</p>	<p>● [light purple]</p>
Debtor and Council tax provisions	<p>The Council makes provision in the accounts in relation to outstanding debtor balances where recovery of the balance is unlikely. For debtors the total provision was £6.4 million and for council tax £14.5 million (note this includes historic balances where the Council cannot write off under statute but for accounting purposes provides against). The Council used current collection rates in estimating recoverability.</p>	<p>Through our audit testing performed we are satisfied that the debtor and council tax bad debt provision is reasonable and free from material error.</p> <p>There is an opportunity for the disclosure to be further enhanced through documenting a forward look, covering expected recovery.</p>	<p>● [light purple]</p>

Significant estimates and judgements (continued)

As set out in our Audit Plan, to ensure compliance with ISA 540 revised we also requested further information from Officers in relation to the following material estimates (which have not been considered significant by Officers as described above):

- Depreciation;
- Accrued income;
- PPP/PFI and
- Expenditure accruals.

We are satisfied that these estimates have been calculated appropriately and that year end estimated balances have not been materially misstated. We are also satisfied that these do not represent areas of significant estimation uncertainty or critical judgement and therefore it is appropriate not to be included in Note 4 and 5 of the accounts.

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts.

Issue	Commentary
Matters in relation to fraud and irregularity	It is the Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from senior officers regarding managements (senior officers) assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we have issued an unmodified opinion in this respect.
Opinion on other aspects of the annual report and accounts	We are required to report to you on whether the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014. We have audited the elements of the Remuneration Report and are satisfied that these have been properly prepared in accordance with applicable legislation. We are also required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local government in Scotland Act 2003. We are satisfied that the information provided in the Management Commentary is consistent with the financial statements and prepared in accordance with applicable legislation.

Issue	Commentary
Governance statement	<p>We are required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016). Wider assurances through financial and non-financial performance and internal controls and governance arrangements, provide assurances to the Chief Executive to express an opinion on the status of governance arrangements during the year for the purposes of updating the governance statement in the annual report. The Governance Statement reflects the assurances and conclusions reached by the Council's Internal Audit function in year.</p>
Matters on which we report by exception	<p>We are required by the Accounts Commission to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.</p>
Written representations	<p>A letter of representation has been received from the Council, including specific representations in respect of the Group. Specific representations have been requested from senior officers in respect of the significant assumptions used in making accounting estimates for property, plant and equipment valuations, provisions and accruals.</p>
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management's (senior officer's) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management's (senior officer's) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Issue	Commentary
National Fraud Initiative	<p>The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including the Council, received matches for investigation in January 2021. All recommended matches plus any further matches based on findings and the risk of error or fraud should be investigated by 30 September 2021 and the results recorded on the NFI system.</p> <p>As part of our audit work in the current year we considered the progress made by the Council in investigating matches. Due to the impact of Covid-19 the Council's progress has been delayed in implementing the investigation of matches. The Council has prioritised higher risk matches and continue to investigate outstanding matches.</p>
Grants	<p>In accordance with Audit Scotland planning guidance, as appointed auditors we undertake grant certification work on behalf of the Council. For 2020/21 we are required to provide the following certifications:</p> <ul style="list-style-type: none"> • Education Maintenance Allowance 2020/21; • National Non-Domestic Rates Income Return (NDR) 2020/21; and • Housing Benefit certification. <p>We are required to certify the Council's Education Maintenance Allowance return. This work is substantially complete and certification to be submitted in October 2021.</p> <p>The NDR return was received from the Council in June 2021. In accordance with Audit Scotland planning guidance our audit assurances over the return are due to be submitted to the Scottish Government by 8 October 2021.</p> <p>The audit of the Housing Benefit return will be undertaken in October and November 2021 with submission of the final audit return on 30 November 2021.</p>

Wider scope audit

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work on the wider scope audit dimensions: financial management; financial sustainability; governance and transparency and value for money. We take a risk based audit approach, utilising our cumulative audit knowledge of the organisation and understanding of its risks and priorities. Within our annual audit plan we identified 3 significant wider scope risks in relation Financial Sustainability, Governance and Transparency and Value for Money. As part of our audit work we have not identified any further wider scope audit risks.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
<p>Financial Management</p> <p>Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<p>No significant wider scope risks identified</p>	<p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to the Council's financial management arrangements.</p> <p>We have assessed the Council's financial performance in year (page 10). While 2020/21 represented a challenging financial year as a result of the Covid-19 response and recovery activity, the Council continued to demonstrate sound financial management, maintaining un-earmarked general fund reserves of 2% of budgeted revenue expenditure in line with its reserve strategy.</p> <p>During 2020/21 the Council undertook a review of its budget management arrangements, including budget management structure, schemes of delegation and budget holder training. The review ensured all staff had undertaken all mandatory training and ensured appropriate and consistent budget management practices were undertaken across the organisation.</p> <p>As part of our financial statements audit, we have also considered the arrangements in place for monitoring and scrutiny of financial performance in year, including oversight from senior officers and those charged with governance. This has included inquiry of Senior Officers (management) and review of minutes and papers and review of Internal Audit reports.</p>	<p>Through the audit procedures performed we have not identified any significant risks in relation to the Council's financial management arrangements.</p>

Wider scope dimension

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.

Wider scope risk identified in our audit plan

Significant risk identified: Consideration of the **medium to long term financial sustainability of the Council:** We will consider how covid-19 has impacted on the Council's financial strategy and understand particular areas of cost pressures identified during the year. We will review the extent to which savings delivered during 2020/21 represent sustainable recurring savings and consider the levels of reserves used by the Council during the year. We will consider the extent to which the Council's Transformation Programme has supported the Council achieve its financial targets in the current and future years. We will focus on in-year financial performance as well as the impact on the council's medium term financial framework, in particular the 3 year budget outlook.

Wider scope audit response and findings

Response to significant risk:

Like many other local authorities, the Council faces future financial challenges. While additional Scottish Government funding of £22.308 million has been received to support the Council manage the impact of covid-19 on lost income and increased response and recovery costs, Officers recognise the regions economic recovery from the pandemic will be a considerable challenge in the coming years.

In March 2021, the Council agreed its revenue budget for 2021/22. This reflected cost pressures across pay and non-pay including general inflation. While partly offset through an underlying budget surplus and additional funding from the Scottish Government, the council identified a funding gap of £4.402 million.

The Council has agreed a range of measures to address the funding gap, including a Council tax freeze which secured additional £2.364 million of Scottish Government funding and savings proposals totalling £0.741 million, with the remaining £1.297 Million from the temporary utilisation of non-recurring funding. The announcement of subsequent additional Scottish Government funding means that as at June 2021, additional one-off resources of £0.561 million are available for utilisation in 2021/22.

2021/22	£'million
Costs of uprating baseline budget	
Cost of pay increases	3.825
Cost of non-pay increases	1.833
Underlying budget surplus	(0.625)
Policy development proposal	0.285
Undelivered prior year savings	0.717
Increase in SG Funding	(1.633)
Required savings	4.402

External Audit conclusion

The Council continues to report a strong financial position. However, the Council's medium term financial projections highlight that between £30 - £35 million of savings will be required over the next three years. While the Council has continued to demonstrate its ability to deliver savings through the Transformation Programme and reprioritisation of resources the Council also needs to manage this against a back drop of uncertainty in responding and recovering from Covid-19.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Financial sustainability (continued)	<p>Significant risk identified (continued): We will understand the additional monies received by the Council relating to the Covid-19 pandemic and how they have been utilised in year. In particular we will focus on where local decisions have been made. We will seek to understand future plans, on recovery and re-mobilisation beyond the pandemic, and options to ensure future financial sustainability.</p>	<p>Response to significant risk:</p> <p>The Council take a prudent approach to budgeting, including retaining a provision of £964,000 for unforeseen budget pressures that may arise during the year. This flexibility, including the additional general COVID funding held in reserves and the extent to which the 21/22 COVID funding is not fully committed provides an increased level of flexibility to address potential pressures/additional costs during the year.</p> <p>A key assumption in the 2021/22 budget is that the increased cost pressures associated with the response and recovery to Covid-19 will be met through the use of additional Scottish Government Funding. With the Scottish Government has committed £7.614 million of additional funding to the Council and current estimated costs of £4.221 million this assumption appears reasonable.</p> <p>The medium term financial position becomes challenging</p> <p>While the Council's financial position remains relatively strong for 2021/22, there are greater financial challenges over the medium to longer term. The Council has estimated that that over the next three years 2022/23 to 2024/25, savings may be required of between £30 million to £35 million. The key drivers for potential gap are:</p> <ul style="list-style-type: none"> • Potential reductions (or flat) settlements from the Scottish Government: • Pay inflation pressures (estimated between 2.5 – 4%) • And non-pay increases on costs. <p>In addition to those underlying budget pressures Officers recognise that whilst the financial impact of Covid-19 on the cost of services and lost revenue is currently being funded through the Scottish Government support, this funding is not envisaged to continue beyond 2021/22. Consequently, the Council will need to ensure it has resources in place to manage the longer term impact of Covid-19 on services should available funding and existing reserves not be sufficient.</p>	<p>In addition to those financial pressures, the Council will need to ensure that to support the delivery of the Council's new additional strategic priority, focusing on the Council's response to climate change and transition to a carbon neutral region, it will be important that the medium and longer term revenue and capital investment plans reflect this.</p> <p>Action plan point 2</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Financial sustainability (continued)	Significant risk identified (continued):	<p>Response to significant risk:</p> <p>Responding to the medium to longer term risks</p> <p>Given the financial pressures facing the Council, it is important that there is a strategic approach to financial planning. The 2022/23 budget process will return to setting a three year budget. This should encourage greater focus on the longer term sustainability of financial plans.</p> <p>To meet the financial and operational challenges over the coming years, the Council has undertaken a review of its Transformation Programme with a view of developing and refining savings proposals to address the financial challenges facing the Council while supporting the Covid-19 response and recovery. This has included appointments to its senior leadership team and enhancing Transformation programme reporting, incorporating Covid-19 response and recovery activity.</p> <p>Capital investment continues to be reviewed</p> <p>The development of a 10 Year Capital Investment Strategy is a key element in allowing the Council to develop large scale investment proposals over the medium term. The latest 10 year Capital Investment Strategy was set in March 2021 and reflects total planned Council investment of £424 Million in a range of key initiatives which will attract significant additional external funding from Scottish Government and other contributors. The projects being progressed include Dumfries Learning Town Phase 2, the Borderlands Inclusive Growth Programme, various Flood Protection Schemes across Dumfries and Galloway and the development of Dumfries Zero Waste Park.</p>	

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
<p>Governance and transparency</p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Significant risk identified: Maintaining good governance</p> <p>We will consider how the Council has maintained good governance throughout the year, focused on any new governance arrangements introduced, the openness and transparency of decision making and how governance has evolved during the Covid-19 pandemic.</p>	<p>Response to significant risk:</p> <p>Temporary governance arrangements during the pandemic</p> <p>In response to the Covid-19 emergency, the Council implemented changes in the arrangements for the conduct and management of business. This included the establishment of an Ad Hoc Covid-19 Sub Committee, and the establishment of a management structure to co-ordinate the Council's Response to the pandemic. This required temporary changes to Standing orders. In June 2020 the Sub committee was stood down by Full Council and Committee meetings resumed after the summer recess. Minutes of the Sub committee are available online to ensure continued transparency around decision making. In addition, as part of enhancing ongoing effectiveness, the Council's senior management team was refined with strategic focus placed on the Senior Leadership Team (Chief Executive, three Directors, the Chief Social Work Officer and Chief Officer RRR) and the Corporate Management Team (all Heads of Service) which also meets weekly, with additional senior officers participating on a fortnightly basis.</p> <p>The Council has sought to continue to enhance the accessibility and transparency of Council and committee meetings through hybrid meetings (online and in person) and broadcasting recordings of meetings online.</p> <p>In April 2021, due to a period of absence of the Chief Executive an interim Chief Executive was in post to provide cover. This interim arrangement was only temporary and the Chief Executive returned to post in September 2021.</p>	<p>The Council implemented temporary governance arrangements in response to the pandemic to support effective governance and leadership. The Council has made significant developments in its governance arrangements during the year.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Governance and transparency (continued)	Significant risk identified: Maintaining good governance (continued)	<p>Response to significant risk (continued):</p> <p>The Council continues to demonstrate a commitment to improve and develop governance arrangements. Although 2020/21 represented a challenging year where temporary governance arrangements were required in response to the Covid-19 outbreak, the Council has reported progress on the six improvement actions arising from the 2019/20 self assessment as well as further identified opportunities for improving governance. Some key areas of development included:</p> <ul style="list-style-type: none"> • focus on the key priorities for the Council including expanding the priorities in September 2020 to incorporate the response to climate change and transition to a carbon neutral region; • reviewing of schemes of delegation and protocols to ensure these remain robust; • enhancing the Council’s risk management arrangements including the establishment of a sub group of the CMT to ensure management focus on strategic risks; and • Enhancing counter-fraud / anti-corruption arrangements with financial Regulations and Procurement Standing orders being reviewed in detail. 	

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
<p>Value for money Value for money is concerned with using resources effectively and continually improving services.</p>	<p>Significant risk identified: Trunk Road Maintenance Contract: The 4th Generation Trunk Road Maintenance Management Contract was in place from 2013-2018. the contract was anticipated to procedure an operating surplus. However, in 2018/19 following a review of the contract, the Council found that previously accrued contract income was non-recoverable and that the overall contract would result in a significant deficit.</p> <p>Following an internal review of the events that lead up to the loss, the Council identified a number of failings in how the contract was being administered. This included a lack of a formal risk assessment prior to entering into the contract and effective risk management processes within the service to properly understand and quantify risks associated with entering the contract and a lack of a clear delivery model both operationally and financially.</p>	<p>Response to significant risk: The investigation into the 4th Generation Trunk Road Maintenance Contract 2013-2018 was undertaken during 2020/21 and reported to Full Council in June 2020 and March 2021. Two Reviews were undertaken to deliver on its findings: a Review of Internal Financial Procedures and Procurement Standing Orders which reported in February 2021; and, a Service Review of the Roads Service. In addition, the Council commissioned a forensic follow up review of the Contract.</p> <p>During 2020/21, with assistance from the Council's Integrity Group an investigation was undertaken into the 4G contract. This included commissioning an external adviser to undertake forensic accounting work and professional analysis of the contract. To provide independent oversight of the financial aspects of the review, an external an external expert was appointed to act as Interim Chair of the Integrity Group for the duration of the financial aspects of the review. Membership of the Group was also expanded to include Legal Services as part of its core membership.</p> <p>The Review of Internal Financial Procedures and Procurement and the Roads Service was reported in December 2020 and the Council has implemented a number of actions emerging from the review including: the review and development of procurement arrangements, including investing in the capacity of the Council's procurement resource; review of schemes of delegation, financial reporting arrangements; and budget holder training and development to mitigate against the risk of events occurring in the future. In addition, improvement actions have been implemented by the Council's Roads Service. Progress against the recommendations is monitored by the relevant Service Committee. Further consideration was given by the Audit, risk and Scrutiny Committee of the findings of the investigation and actions taken in response to the review.</p>	<p>We have reviewed the findings of the external advisor and Integrity Group investigation into the 4G contract and have considered the Council's response and the remedial action taken.</p> <p>The Council has responded appropriately to the recommendations raised from the investigation implementing improvement actions in governance and financial management arrangements.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	External Audit conclusion
Value for money (continued)	<p>Significant risk identified: (continued)</p> <p>In addition, insufficient reporting on the performance of the contract to the Corporate Management Team or Committees of the Council and reliance on external sub-contractors to deliver the contractual obligations. The Council commissioned an external advisor to undertake an independent investigation into how the financial and operational arrangements in place had resulted in the loss being incurred. The investigation concluded in 2020/21. We will review the findings made as a result of this investigation and consider the Council's response and the remedial action taken by the Council as a result of the investigation to ensure that internal controls and governance arrangements are enhanced to prevent previous practices from re-occurring.</p>	<p>Response to significant risk: (continued)</p> <p>In March 2021 the Director of Communities who has lead in the investigatory work concluded that in considering all relevant investigatory work, including assurance from the Integrity Group, no evidence or indications of fraud or corruption had been identified with regards the Management of the contract.</p> <p>In addition to those improvement recommendations reported to the Council in December 2020, Officers had further additional improvement actions underway to secure more robust schemes of governance and accountability. This has included establishment of a Head of Governance and Assurance as well as reviewing standing orders of sub committees to provide strategic oversight of the Council's decision making arrangements.</p>	<p>We have also considered those further developments made by the Council in enhancing governance and transparency at the Council and will continue to monitor how these arrangements embed at the Council.</p>

Wider scope dimension

Wider scope audit response and findings

External Audit conclusion

Best Value

Auditors have a statutory duty to be satisfied that local government bodies have made proper arrangements to secure Best Value. As auditors, we work with Audit Scotland's performance audit team in shaping a Performance Audit Plan. This covers our audit work over the term of our appointment including supporting the Accounts Commissions Best Value Assurance Report of the Council in 2018 and subsequent follow up. During 2020/21, building on our audit work over the wider scope areas we also considered the Council's arrangements for securing best value, particularly in response to the covid-19 pandemic.

The Council demonstrates continuous focus on improvement and delivering best value

While managing the impact of Covid-19 and the Council's response and recovery activity, the Council has still demonstrated good progress in relation to the ongoing Best Value and wider improvement activity. Following the Accounts Commission's BVAR report in 2018, the Council implemented a Best Value Improvement Plan. As we have previously reported, the Council has made good progress in implementing the actions from the plan as well as wider improvement initiatives identified through self-assessment.

The Council continues to progress three outstanding actions from the Improvement Plan: Revisiting the Corporate Plan to include the Climate Change Priority; reviewing member appointments to outside bodies and embedding the actions from Internal Audit reviews around financial controls and procurement standing orders.

Borderlands

In March 2021, the UK and Scottish Governments signed the Borderlands Inclusive Growth Deal. This aims to bring £452 million new investment to the Borderlands area. The Borderlands partnership includes Dumfries and Galloway Council, Scottish Borders Council, Northumberland County Council, Carlisle City Council and Cumbria County Council. The Borderlands Inclusive Growth Deal forms an important element of the areas economic development, benefiting the 1.1 million residents through generating 5,500 job opportunities, attracting extra tourists to the region, encouraging young people to stay, live and work in the region and therefore improving the lives of existing residents and communities. The Council is developing business cases to access funding and investment in the area over the coming years.

The Council continues to demonstrate a commitment to delivering best value and continuous improvement. The mid-plan update on the Council's performance against the Council's 2017-22 Business Plan demonstrated good progress had been made in delivering the Council's key objectives. In addition, the Council continues to report progress against its Improvement Plans.

Wider scope dimension

Wider scope audit response and findings

External Audit conclusion

Best Value (continued)

The Council is required to report on Statutory Performance Information (SPI) Direction to councils. The Accounts Commission direction (2018) requires the Council to report on SPI 1: *Improving local services and local outcomes*, and SPI 2: *Demonstrating best value*. We will consider the extent to which the Council has followed the SPI direction, including the extent to which the Council demonstrates best value

The Council reported progress against the Council Plan 2017-22 priorities in its mid-plan review. However, there is an opportunity to enhance the transparency around performance reporting at the Council to demonstrate continued progress in delivering best value.

The Council priorities and targets are detailed in the Council Business Plan and this is underpinned by Service Business Plans. Performance is monitored through relevant Service and Area Committee on a six monthly basis. Performance considers local targets as well as using benchmarking data through the Local Government Benchmarking Framework to support assessment and provide an external comparison around performance.

In addition, in September 2020 the Council published a mid-year review of the Council plan and progress against each of the areas against the Council plan targets as at March 2020. The Council reported significant progress against the plan and clear actions against those. As included in Action Plan Point 2, with business plans being refined to reflect the impact of Covid-19 and strategic priorities, it is important that performance monitoring evolves to reflect this.

In accordance with SPI 1, the Council is required to report on:

- performance in improving local public services, provided by both (i) the council itself and (ii) by the council in conjunction with its partners and communities;
- progress against the desired outcomes agreed with its partners and communities.

The SPI guidance anticipates that these indicators will reported assessing the Council's performance over time as well as compared to other authorities using the Local Government Benchmarking Framework.

The Council's Mid-Plan Report on the Council's performance against the 2017-22 Council Plan, demonstrated good progress against the Council's key priorities. However, the Council should look to strengthen its current performance reporting arrangements to enhance the transparency of public reporting to local tax payers and services users. This should include more up to date reporting of performance, including those against improvement plans, that demonstrate the Council's performance over time.

Wider scope dimension	Wider scope audit response and findings	External Audit conclusion
Best Value (continued)	<p>The Council reported progress against the Council Plan 2017-22 priorities in its mid-plan review. However, there is an opportunity to enhance the transparency around performance reporting at the Council to demonstrate continued progress in delivering best value. (continued)</p> <p>Under SPI 2: <i>Demonstrating best value</i> the guidance requires authorities to report on:</p> <ul style="list-style-type: none"> • The council's assessment of how it is performing against its duty of Best Value, and how it plans to improve against this assessment; • audit assessments of its performance against its Best Value duty, and how it has responded to these assessments; and • how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities. <p>The Council publishes performance information on its website, including those in relation to SPI 1 and SPI 2. However, we found the information is currently using 2018/19 data and therefore does not reflect current performance. The Council has published a mid-year review against the Council's business plan which does provide performance against key Council priorities as at 31 March 2020. However, there are opportunities to enhance performance information reported. In line with the Accounts Commission guidance, this should demonstrate the Council's performance over time and progress against improvement plans, currently not reported on the Performance Section of the website.</p> <p><i>Action Plan Point – 3</i></p>	

Appendices

1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management (senior officers). There was one corrected misstatement to the financial statements identified during our audit in relation to the recognition of cash from capital financing contributions on the Cash Flow statement. This was a presentational adjustment in both the current and prior year. We identified 1 uncorrected misstatement to the financial statements in respect of period 12 capital transactions (depreciation and capital spend). This is not considered material to the financial statements.

Impact of adjusted misstatements

Detail	Cash Flow Statement 2020/21 £'000	Cash Flow Statement 2019/20 £'000
Being presentational adjustment to the Cash Flow Statement to recognised cash flows in relation to capital grants credited to services within net cash flows from financing activities instead of net cash flow from operating activities. This has no impact on net cash flow. This has been updated in the prior year comparatives within the cash flow for 2019/20.		
Dr Net cash outflow from operating activities	15,691	25,983
Cr Financing activities – Other receipts from financing activities	(15,691)	(25,983)
Overall impact	-	-

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. Officers consider these adjustments to not have a material impact on the financial statements and the user of the financial statements understanding of the Council financial position.

Detail	Comprehensive Income and Expenditure £'000	Statement of Financial Position £' 000
Being overstatement of depreciation charge and period 12 capital costs on revalued items of property, plant and equipment in March 2021.		879
Dr Property, plant and equipment - Valuations		
Cr CIES - Depreciation	(284)	
Cr Property, plant and equipment - additions		(595)
Overall impact	(284)	284

Misclassification and disclosure changes

The table below sets out our more significant proposed disclosure amendments, noting those that have been updated and those that have not. We are comfortable those that are not updated do not have a material impact on the users of the accounts and their understanding of the Council.

Disclosure	Auditor recommendations	Adjusted?
Financial instruments	The draft accounts (Note 33 financial instruments) include reference to loans and receivables. However, assets and liabilities should be disclosures at amortised cost or Fair Value through Profit and Loss. In addition, these should exclude statutory items such as taxation. We do not deem this to be material to the financial statements.	No
Audit fee disclosure	The Audit fee in the draft accounts should be updated to reflect the total fee as reflected in the annual audit plan and agreed with Officers	Yes
Finance lease disclosures	Finance lease (lessor and lessee) disclosure should show the minimum lease payments due allocated between financial years. Currently the disclosure reflects the payment at the annual payment at the end of the lease term rather than minimum lease payments. We do not deem this to be material to the financial statements.	No
Common Good	Common Good revaluation reserve balances require review to ensure appropriate balances are held as they are currently recorded at a higher value than carrying value of the underlying assets. For 2021/22 the Council has agreed to undertake an exercise to review the reserve balances to determine what the carrying value should be in the disclosure. We do not deem this to be material to the financial statements.	No
Agency arrangements	The Council distributed personal protective equipment to social care providers on behalf of the Scottish Government. The notes to the accounts should be updated to ensure appropriate disclosure of the agency arrangement.	Yes

Disclosure	Auditor recommendations	Adjusted?
PPE	Reference to fair value in reference to property, plant and equipment should be changed to current value. In addition, rolling programme of valuations needed minor update for computational error.	Yes
Group bodies	Page 97 notes that the Council is an equal partner in a National Housing Trust Limited Liability Partnership (Marchfield LLP) with Scottish Futures Trust and Robertson Homes. However, the NHT Debt was fully repaid in 19/20 so this reference can be removed.	Yes
Capital Commitments	Capital commitment note updated to reduce capital commitments from £7.505 million to £7.190 million to reflect commitments as at 31 March.	Yes
Movement in reserves	Presentational changes to current and prior year MIRS disclosure.	Yes
Remuneration report	Noted small variance through our audit testing in relation to legal fees associated with exit packages. This reduced total cost of exist packages by £1,615	Yes

2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2020/21, the significant recommendations arising from our audit work:

Recommendation

1. Critical estimates and judgement disclosures

Note 3 and 4 set out those judgements the Council believe are critical estimates or judgements in the accounts and that the user should be aware of. This is in accordance with the Accounting Code. Based on our review, considering IAS 37 there is an opportunity for the Council to reduce these disclosures to only those that are critical estimates or judgement. Audit Scotland issued a short publication which set out good practice and Officers could review this, when producing the 2021/22 annual report and accounts. This could potentially streamline the accounts further.

Agreed officer response

The critical estimates and judgement disclosures will be fully reviewed as part of the preparation of the 2021/22 Annual Accounts and reduced where necessary.

Responsible Officer – Head of Finance & Procurement
Implementation Date – March 2022

Recommendation

2. Governance, planning, finance and performance monitoring arrangements reflecting the revised strategic focus

During 2020/21 the Council revised its Strategic priorities to incorporate the Council's response to climate change and transition to a carbon neutral region. In addition, reflecting the Council's Covid-19 response and recovery the Council has therefore prioritised resources to focus on this activity. It is likely this will be area of focus for the remainder of the Business Plan 2017-22 and beyond. Therefore, it is important that the Council's underlying plans, including Business Plans, Services Plans and strategies are developed and refreshed to support the delivery of these. This will include financial plans where the Council will need to ensure it has robust financial plans in place that not only address the current budget gap of £30-£35 million over the next 3 years but also ensure the Council have sufficient resources to manage the potential longer term cost pressures arising from Covid-19 that may exceed existing and projected Scottish Government support. In addition, the Council should ensure that governance structures are appropriate to ensure consideration around the delivery of the Council's key priorities.

3. Enhancing performance reporting to demonstrate best value

In line with the Accounts Commission guidance, the Council should look to demonstrate how it is delivering best value, including reporting up to date performance information of performance over time and progress against improvement plans, currently not reported on the Performance Section of the website.

Agreed officer response

The Council's Governance, Planning, Finance & Performance monitoring arrangements will continue to be reviewed and developed to reflect the Council's revised strategic focus, priorities and pressures emerging from the COVID-19 response and recovery.

Responsible Officer: Head of Governance & Assurance, Head of Finance & Procurement and Head of People & Transformation

Implementation Date: March 2022

The strategic reporting framework has recently been refreshed and strengthened and work is underway with Services to align performance information to the Statutory Direction and improve the level of information available on the website. In addition, an evaluation framework has been introduced which both challenges and reviews service performance information.

Responsible Officer: Head of People & Transformation

Implementation Date: March 2022

3. Follow up of 2019/20 recommendations

We set out below our follow up of our 2019/20 recommendations:

Valuation of property, plant and equipment

The Council's valuation of property, plant and equipment in year was based on forecast BCIS data (published in June 2019) rather than actual market data as at 31 March 2020. As a result there is a risk that the underlying price information may be out of date. While Officers were able to demonstrate that the valuations were not materially misstated, to avoid potential error in future valuations, the Council should ensure that current market data is used in the valuations to ensure compliance with the code that assets are valued at current value as at 31 March 2020. In addition, the Council use an in-house valuer to undertake the valuation of land and buildings held. However, the valuer does not provide the Council with a formal valuation report containing key judgements and assumptions and confirmation of valuation methodology. In accordance with the Code, the Council should obtain a formal valuation report each year to enable them to scrutinise the suitability and reasonableness of the assumptions made by the valuer in year and that these are consistent with wide knowledge and understanding of the Council.

Responsible officer: Head of Economy & Development

Initial officer response: The Council now subscribe to the RICS BCIS online service and have access to up to date price data. This will negate the need to forecast values to the same degree as that in the previous financial year. Looking forward the Council are investigating the possibility of outsourcing the valuations work currently being carried out by the one qualified in house valuer. The RICS "Red Book" "RICS Valuation – Global Standards" states that Firms should have a rotation policy and the same valuer should not carry out valuations for a number of years, and the valuer should be rotated within the firm.

Timescale for implementation: March 2021.

Follow up: **CLOSED** – The Council has appointed external valuations specialist to undertake the valuation of land and buildings for the year ended 31 March 2021. this includes detailed valuation instruction and reporting in according with RICS guidance.

Governance statement

There are opportunities to enhance the Council's Governance Statement. Currently, the Governance Statement contains a significant number of references to other published documents or Council papers. While references to published information can add further information to the reader of the accounts it should not replace disclosure of key information to inform the reader of the accounts, particularly where these may be read in paper format without access to the links. In addition, an important element of assurance informing the Governance Statement is the work of Internal Audit. Currently, the Statement does not include the overall Internal Audit opinion. Lastly the Governance statement is an opportunity to capture improvements planned within internal control and future actions.

Responsible officer: Interim Head of Democratic Services

Initial officer response: The Council's Governance Statement and opportunities for further improvement and development, including reference to the internal audit opinion will be subject to ongoing review prior to being submitted to the Audit, Risk & Scrutiny Committee for review and approval prior to inclusion in the Council's 2021/22 final accounts.

Timescale for implementation: 30 June 2021

Follow up: **OPEN** – The Governance statement continues to rely on website links and referencing to support disclosures. While not a material omission there is an opportunity for the Council to further develop and enhance the disclosure in the statement as a stand alone document. The Governance Statement will be further reviewed as part of the 2021/22 process, to remove those links which are considered unnecessary.

Revised responsible officer: Head of Governance & Assurance

Revised implementation date: March 2022

Financial sustainability

Like many public bodies, the Council, face significant financial and operational challenges. Over the Council has forecast a budget gap of £16.254 million for 2021/22 rising to £33.009 million in 2022/23. Alongside the identified budget pressures, the Council face challenges with regards the impact of Covid-19. Given the level of uncertainty surrounding the medium to longer term implications of Covid-19, including demand on Council services as well as the Council's ability to implement planned transformation during period in which the Council is managing its response to the pandemic, it is critical that the Council continue to reassess the medium to longer term impact of Covid-19 on the Council to ensure that there remains focus on the need to deliver strategic transformation while recognising the immediate pressure on resources.

Responsible officer: Head of Finance and Procurement

Initial officer response: Both the ongoing financial implications of Covid-19 and developments at a national level in relation to future Scottish Government funding settlements will continue to be subject to close monitoring and reporting to Members as further information becomes available. Work is currently progressing to assess the current position in relation to the level and timing of savings available through the agreed transformation projects and also in relation to other savings options with details of potential spending reductions to be provided to Full Council in December 2020. The impact of COVID-19, and the associated changes to service requirements, provides the opportunity for a fundamental reassessment of service priorities and this is being undertaken to support the ongoing development of the Council's financial strategy.

Timescale for implementation: 31 March 2021

Follow up: **SUPERCEDED** – See audit **Action Plan Point 2** in relation to Council's financial sustainability.

Waste Management PFI

As the new Waste Management operating model becomes operational, it is important that the Council objectively reviews the actual costs incurred in service delivery as well as operational performance against those forecast in the options paper and waste strategy to ensure that the Council realises planned benefits, demonstrating value for money in service delivery.

Responsible officer: Head of Infrastructure & Transportation

Initial officer response: A further review of the costs will be carried out at each stage of the implementation process. The changes to collection will be undertaken in two stages, Wigtown in Q4 2020 and rest of region in Q2 2021. The purchase of refuse collection vehicles (RCVs) and bins has already been undertaken. Delivery of the Dumfries Zero Waste Park, which will process dry recyclates is not scheduled for operation until Q2 2022. Strategy for waste treatment and disposal through current Ecodeco MBT Facility is still under development and timescales for demonstrating value for money in service delivery at this time cannot be determined. The process will therefore be ongoing for the next few years

Timescale for implementation: Q2 2022

Follow up: **OPEN** – As noted above ongoing process which will be followed up as part of our audit work in 2021/22.

Statutory Performance Indicators

The Council publishes a range of performance information through the Council's website. This includes: financial reports; performance benchmarking information; council priorities and commitments; business plans and performance reports; as well as best value information. However, there are opportunities to enhance the current reporting arrangements. In particular, under SPI 2: Demonstrating best value, the Council should look to report on audit assessments of its performance against Best Value duty, and how it has responded to these. The BVAR report and follow up are not documented with the Council's wider performance information. In addition, we found some of the performance information to be dated with the Council's latest report on performance against the Council Priorities and Commitments being 2016/17. While we acknowledge that performance is reported to Service Committees on a six monthly basis this does not provide a strategic overview of the Council's performance. The Council should consider collating the information, including its own performance as well as that in working in conjunction with partners and communities into a central report to enable the public to obtain an understanding of the Council's overall performance against these statutory areas.

Responsible officer: Head of People & Transformation

Initial officer response: The Council is currently finalising a report on the Council Plan performance to date. This will be reported to Full Council in September. The Council Plan mid-term review is scheduled to be complete by December 2020 and this will consider any Restart and Recovery impacts on commitments. The Corporate Management Team are currently reviewing their Performance Indicators and performance information – this work will include the recommendations above.

Timescale for implementation: March 2021

Follow up: **SUPERCEDED** – See *Action Plan Point 3*

4. Follow up of 2018/19 recommendations

We set out below our follow up of our 2018/19 recommendations:

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.

Update in 2019/20: The Council, through the Audit, Risk and Scrutiny Committee, receive assurances from Internal Audit and Officers over the design and operating effectiveness of controls over risks. However, we have observed limited consideration of Council risks or level of assurances over these. We also recognise that the Audit, Risk and Scrutiny Committee has undertaken targeted areas of scrutiny at the Council which incorporates consideration around how services are managing risks. However, this does not provide a holistic or strategic review of the Council's risks. 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.

Responsible officer: Interim Head of democratic Services

Management's follow up response in 2019/20: The Council agreed three Risk Registers on 25 June 2020 – an updated Corporate Risk Register; a COVID Response Risk Register and a UK exiting the EU Risk Register; and a Sub Group of the Corporate Management Team has been established to drive through improvements. A weekly 'SitRep' report for Elected Members details the risk assessment and narrative for each risk and the Corporate Risk Register is going to the Audit & Risk and Scrutiny Committee on 10 December 2020.

Revised implementation date: March 2021

Follow up: **CLOSED** – The Council has established updated risk management arrangements during the year, including enhanced monitoring arrangements

5. Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	211,490
Pooled costs	19,740
Contribution to Audit Scotland costs	11,420
Contribution to Performance Audit and Best Value	100,300
2020/21 Fee	342,950
Audit of Nithsdale Connected Trust Fund	1,000
Total 2020/21 Fee	343,950

Fees for other services

Service	Fees £
We confirm that for 2020/21 we did not receive any fees for non-audit services	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 Financial Reporting Council'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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- 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). 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.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

6. Communication of audit matters

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 below.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/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	•	•
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	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of the Council's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

