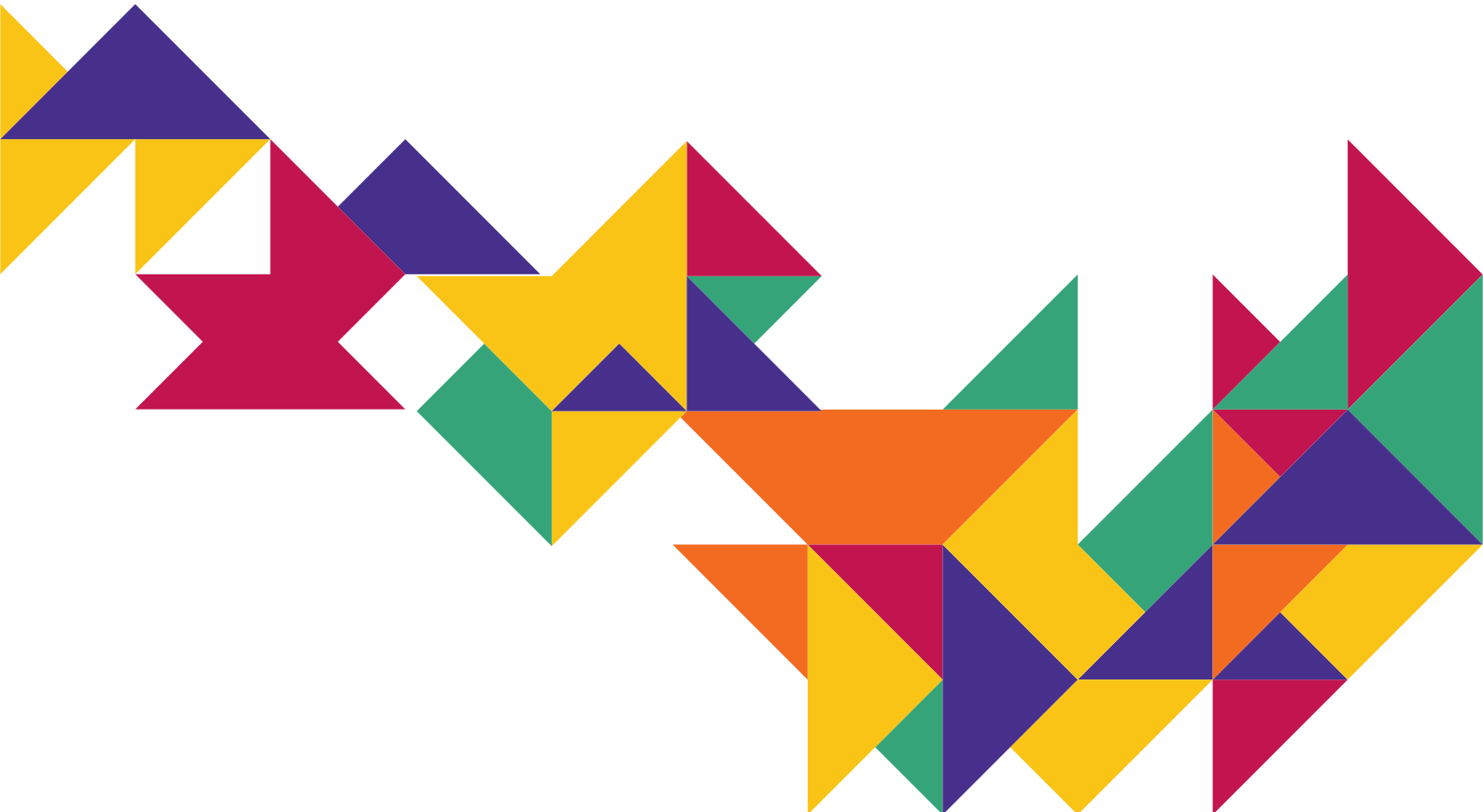


# **Dumfries and Galloway Council**

## External audit plan for the financial year ending 31 March 2017

Presented to the Audit and Risk Management Committee in its  
role as those charged with governance

16 February 2017





**Grant Thornton**

An instinct for growth™

Dumfries & Galloway Council  
Members of the Audit Committee  
Council Offices  
English Street  
Dumfries

Grant Thornton UK LLP  
Level 8  
110 Queen Street  
Glasgow  
G1 3BX

T +44 (0)141 223 0000  
F +44 (0)141 223 0001  
DX GW232 Glasgow  
grantthornton.co.uk

16 February 2017

Dear Members of the Audit & Risk Management Committee

### External audit plan for the financial year ending 31 March 2017

Please find enclosed our annual external audit plan addressed to those charged with governance for the financial year ending 31 March 2017. We are delighted to have been appointed as your external auditors and look forward to working with you to ensure you get maximum value from our audit work. We will be pragmatic and actively engage with you throughout the year in an open and transparent manner ensuring you benefit from our wider insights and observations.

Our plan sets out how we fully discharge our responsibilities as set out in the Audit Scotland Code of Audit Practice 2016, as well as requirements set out in International Standards of Auditing (ISA's) (UK and Ireland).

In particular, our approach delivers:

- A robust challenge of your judgements and key aspects of your financial statements, in particular in respect of the significant audit risks and other audit risks as highlighted in this plan.
- An understanding of the Council's strategic vision and objectives. We will pro-actively engage throughout the year with you and your team.
- A focus on your risks across the spectrum of: financial management; financial sustainability; governance and transparency and value for money. (our wider scope responsibilities)
- A risk based approach to Best Value, aligned to understanding your arrangements across each Best Value characteristic over our 5 year appointment.
- A clear and concise annual report addressed to the Controller of Audit and those charged with governance, reporting the outcome of our work during the year and reflecting our key judgements and conclusions over your arrangements as relevant to our audit role.

I look forward to working with you over the course of our appointment and discussing this plan with you on the 16<sup>th</sup> February 2017.

**Joanne Brown, Engagement Leader**

Director, Public Sector Assurance  
For Grant Thornton UK LLP

**Chartered Accountants**

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# 1. Our approach at a glance


Our approach fully complies with the Audit Scotland Code of Audit Practice and is based on our ethos of upfront, early engagement and pragmatic advice and support. Key elements are:

## Planning

- We will build up good relationships with your team and produce a high level communications plan (Appendix B)
- We consider key aspects of your organisation, strategic goals and risks, and implications of wider sector developments. We also participate in the Local Area Network, with other scrutiny partners, to develop a shared risk assessment of the Council.
- We will determine audit materiality (**Section 4**)
- We will identify key audit risks and judgements (**Section 4**)
- We will build an understanding of your approach to Best Value and identify “wider scope” risks (**Section 3**)
- We will discuss and agree this Audit Plan at the Audit and Risk Management Committee on 16<sup>th</sup> February 2017.

## Focused early work

- We will conduct a high level review of your systems and controls to inform our audit approach.
- We will assess the IT control environment and assess the implications on our audit work of any issues identified.
- We will conduct early substantive work on key areas of audit risk
- We will liaise with your internal auditors, review their outputs and assess the impact on our work.
- We will discuss and agree any emerging issues with the Finance Team before the preparation of the annual accounts.
- We will review the four wider scope impact areas (financial sustainability, financial management, value for money and governance & transparency) relevant to our identified risks and discuss emerging findings with management.



## Our audit approach

## Reporting & debrief

- Our annual report sets out key audit and accounting issues and how those have been resolved.
- The report will provide commentary on the Council's systems and control. We will make clear judgements on the Council's arrangements for Best Value, including improvement opportunities.
- We will present the Annual Report to those charged with governance.
- We will sign the accounts and opinion in advance of the deadline (end September 2017).
- We will hold a debrief meeting with the senior finance team, and a client service review will be carried out, with feedback from you shared across our team.

## Financial Statements visit

- We focus our work on key risk areas and material balances within the financial statements, with on-site manager and Engagement Lead review.
- We use technology to support audit efficiency and insight
- Audit issues and potential adjustments will be discussed and cleared as they arise.
- Our work will be carried out by a team with relevant experience and knowledge of Scottish local government.
- We will review the Council's arrangements for publishing Statutory Performance Indicators and the quality of reporting to allow citizens to gauge improvements
- We will hold a clearance meeting with management to discuss audit issues and agree the treatment of any unadjusted differences.

## 2. Developing our understanding: sector context

In planning our audit we consider the key developments in the sector and the impact on the Council. We also take account of national audit requirements as set out in the Code of Audit Practice and sector reports, including national performance reports from Audit Scotland.

We will use progress reports to keep you informed about key developments in the sector throughout our appointment.

### Sector risks

Local Government funding settlement

- The local government financial settlement 2016-17 announced in December 2016 has resulted in an estimated £8.555 million reduction in revenue funding.
- The updated funding gap for 2017-18 presented to the Policy & Resources Committee in February 2017 is £15.962 million.
- The settlement continues to be for one year only, meaning that the Council's 3 year planning framework continues to rely on estimates and scenario planning.

Local Government elections in May 2017

- Political consensus about key priorities for the Council will be critical to ensure that service performance and the delivery of savings plans continue to be delivered.
- Training and support will be important for members, particularly any newly elected members, or those new to roles.

### Impact on the Council

### Our response

- In common with other councils in Scotland, we regard financial sustainability as a significant risk to Dumfries & Galloway Council. We will review the Council's longer term financial plans as part of our "wider scope" work outlined on page 7.
- Audit Scotland produce an annual financial overview of the sector (most recently in November 2016) which we will draw upon in conducting and reporting our work.
- We can offer training and support for elected members, particularly members of the audit committee, on the role of the committee and local government finances.
- We will follow up Audit Scotland's updated report on the roles and working relationships in councils (published in November 2016).

# Sector context continued

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## Sector risks

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## Impact on the Council

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## Our response

### Impact of Brexit

- ➔ As details of the plan for Brexit begin to emerge, a successful transition will be dependent on knowing where potential challenges face the Council, and ensuring that sound financial and risk management processes are in place to respond.
- ➔ The uncertainty means that financial plans need regular review to reflect emerging developments or clarifications.

- ➔ Financial sustainability will remain a significant risk for all councils. As part of our work on the Council's financial planning arrangements (set out on page 7) we will work with the Council to provide challenge on risks and guidance on developments.
- ➔ Effective financial management will include scenario planning based on key assumptions, such as the impact of inflation, and stress testing key suppliers.

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### The integration of Health and Social Care

- ➔ The Dumfries & Galloway Integrated Joint Board was fully operational throughout financial year 2016-17, and began work on delivering the Strategic Plan and Change Programme. The integration of health and social care has resulted in complex governance arrangements for social work services.
- ➔ Council officers and elected members should continue to focus on improving the public experience around health and social care. This may include working with partners to simplify the patient pathway and innovating to address the needs of an aging population. The role of elected members and scrutiny of the new arrangements may continue to develop and change.

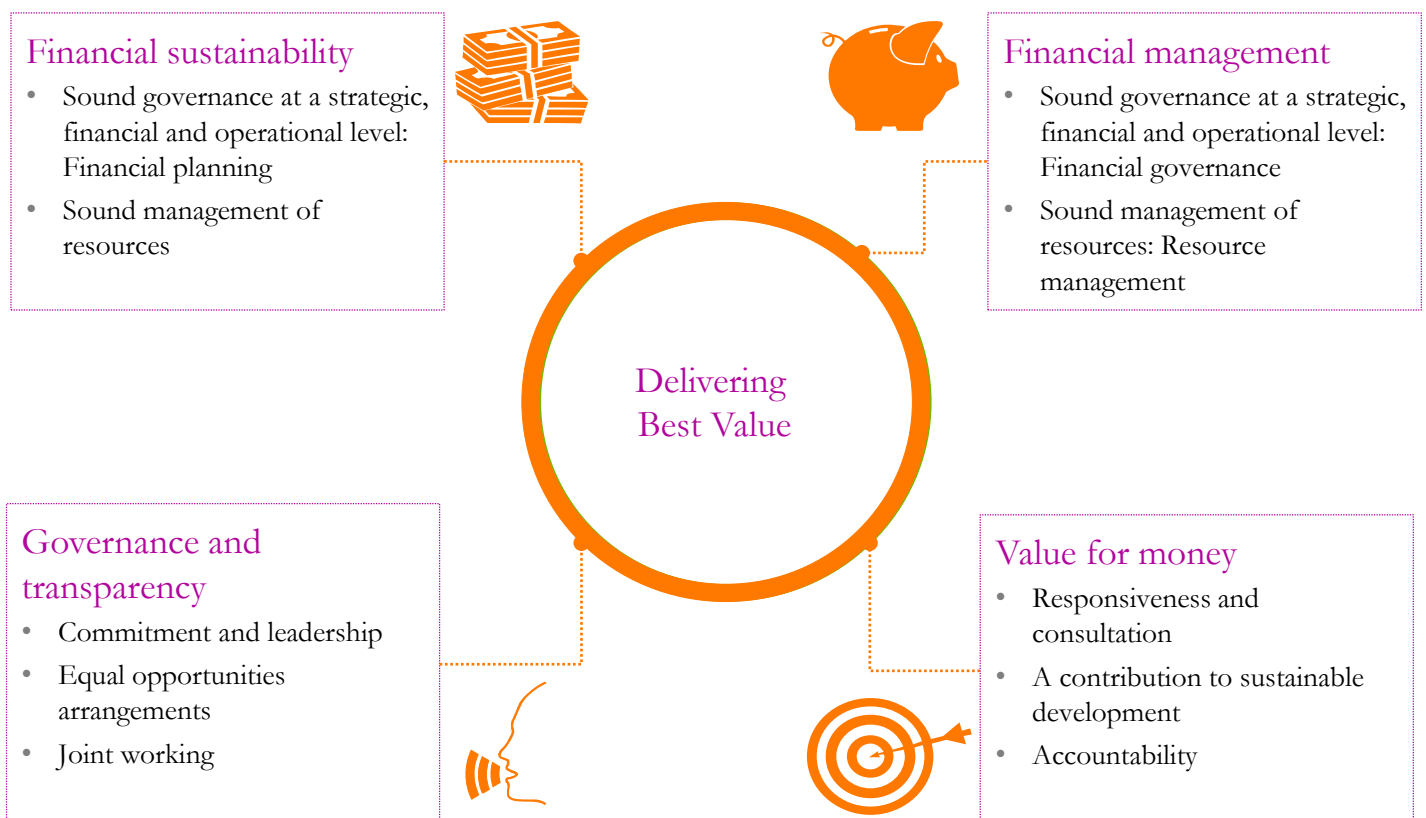
- ➔ We will use the first year of our appointment to review governance arrangements, and provide guidance on assurance and scrutiny processes.
- ➔ We will follow up Audit Scotland's report, Social Work in Scotland (September 2016).
- ➔ We will take into account the Transforming Health and Social Care agenda and wider Audit Scotland work around health and social care integration.

# 3. Wider scope and the delivery of best value

The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific areas. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report
- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission that will highlight findings from across all 32 councils Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

The Code aims to assist improvement by councils in the delivery of services by requiring auditors to use their work to provide clear conclusions across the four key audit dimensions: financial sustainability, financial management, governance and transparency and value for money, related to risks. Collectively, these dimensions will provide an understanding of how effectively the Council is responding to the statutory duty of Best Value. The figure below maps each audit dimension against the relevant Best Value characteristic. Over the five years of our appointment we will carry out targeted work, determined by risk assessments, against each Best Value characteristic. On the following pages we describe our planned work for 2016-17.



# Developing our understanding: four impact areas

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## Audit Dimension

### Financial sustainability

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## Considerations

The local government financial settlement 2016-17 continues to place pressure on financial resources.

The Council continues to develop a 3 year savings plan, reflecting the scale of the potential savings required in future financial years and the preparatory work necessary to deliver.

Savings achieved to date have exceeded targets but scenario planning highlights a significant projected savings gap of in the region of £15.962 million.

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## Our work in 2016-17

- We will review the Council's medium to long term financial strategy and reserves strategy.
- We will review the financial planning systems in place, including financial projections and the appropriateness of arrangements to address funding gaps.

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### Financial management

The Council's financial governance arrangements include a Policy and Resources Committee, and Audit & Risk Management Committee. We will use the first year of our appointment to review the effectiveness of these arrangements, and the quality of financial scrutiny, including budget monitoring arrangements and the governance framework.

The Council has received a number of progress reports on Shaping the Council, and is due to receive a full report on the transformation programme in March 2017.

- 
- We will develop our understanding of the systems to secure financial governance, including the accuracy of financial forecasting.
  - We will review the Council's risk management arrangements.
  - We will review the progress of Shaping the Council, including the achievement of transformation savings.

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### Governance and transparency

The Council has agreed priorities for the area with community planning partners and has identified key areas of investment, such as roads, broadband and employability. The Council has recognised the challenges of a rural region, and is developing arrangements to support community empowerment, including transfer of ownership and a Scrutiny Review of Public Involvement.

- 
- We will review governance arrangements to ensure they are appropriate and operating effectively
  - We will review the effectiveness of scrutiny arrangements, including the transparent reporting of performance.

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### Value for money

The Council has outlined four key priorities and reports on progress against key objectives on an annual basis. The Council also has a dedicated section of the website to report on performance, including progress with community planning partners.

- 
- We will consider the Council's SPI arrangements in September 2017.
  - We will review the Council's arrangements for monitoring service outcomes.



## 4. Our financial statements audit

Our audit is risk based and undertaken in accordance with International Standards of Auditing ("ISA (UK&I)") and Audit Scotland Code of Practice 2016.

Our audit will seek to understand your internal control environment, including policies and procedures, segregation of duties and budgeting and financial reporting arrangements. We will use our interim audit to review and understand key controls, including journal entries and operating expenditure.

We will use our progress reports to ensure that the Committee is kept up to date with key financial reporting developments (refer to Appendix D) and the impact on the Council's arrangements.

### Internal Audit

As set out in ISA (UK&I) 610 'using the work of internal auditors' we are prohibited from using internal audit to provide direct assistance to the audit, therefore we design our approach to internal audit to ensure compliance with these requirements.

We have reviewed the internal audit plan for 2016-17 and completed a high level review of arrangements during our early visit in January 2017, including the work on key financial systems to date. Internal audit has a team of 4.6 FTE, delivering 690 audit days, of which 190 related to key financial systems in 2016-17.

We will continue to review reports finalised during the year and meet with the team to discuss their work including their understanding of the control environment and potential fraud risks. Should internal audit identify specific material deficiencies in the control environment during the year we will consider the impact of this on our planned audit approach and substantive testing, adjusting our work where appropriate.

We will liaise with internal audit in respect of our risk assessment, minimising any risk of duplication or inefficiency. However, we do not intend to take specific reliance on the work performed in the period.

### Professional standards

Our objective is robust, quality driven external audit which adds value to you. Our team works to the highest level of professional standards in delivering their work. Specifically we would highlight:

- professional scepticism will be applied throughout the audit, in particular in respect of significant or key judgements.
- we will provide robust challenge and wider insights and practices to management based on our significant public sector experience, including wider local government experience (Scotland and UK)
- We will seek to really understand your culture and ethics as well as the Council's strategic priorities, risks and challenges and how you operate on a day to day basis. This will mean our approach is tailored to you, risk based and provides greater impact.
- we will involve necessary specialists to support us in our audit work, for example valuation and PFI experts (auditor experts)
- we will use IDEA, our data analytical software to effectively and efficiently test your balances and transactions during the year including for example journals.

### Other core audit elements we would highlight

We are responsible for delivering against a range of other core work including:

- certifying all grant claims submitted by the Council that have been approved for certification by Audit Scotland.
- participate in shared risk assessment (SRA) processes leading to the publication of a local scrutiny plan.
- Report on the results of follow up on the Council's progress in implementing existing best value improvement plans.
- Set out a five year plan for auditing best value.
- Review the procedures and processes in place around Statutory Performance Indicators.

# Materiality

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We are required to audit the financial statements and to give an opinion as to whether they:

- give a true and fair view of the financial position of the Council and its group and of the expenditure and income for the period 1 April 2016 to 31 March 2017
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016-17 Code of Practice on Local Authority Accounting in the UK
- 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, applicable accounting standards and other reporting requirements
- Whether the Annual Governance Statement has been prepared in accordance with Delivering Good Governance in Local Government.

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## Determining materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

## Overall materiality

As is usual in public sector entities, we have determined materiality for the financial statements as a percentage of gross revenue expenditure of Dumfries & Galloway Council. Using audited 2015-16 figures we have calculated our preliminary planning materiality as £4.687 million (1% of gross expenditure).

It is normal practice for us to reconsider our materiality levels when final accounts are available for audit. We will report any changes in our materiality threshold to you within our Annual Report to those charged with governance.

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## Performance materiality

Performance materiality is set at £3.046 million and is calculated based on 65% of materiality, and represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality.

## Trivial

Under ISA 540, auditors set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £0.047 million, based on 1% of materiality.

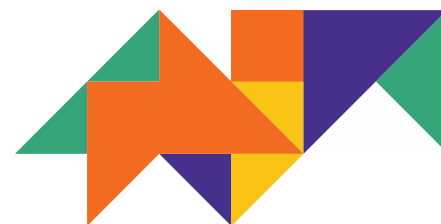
We may, however, report to you any adjustments identified through our audit work below these thresholds where we consider them to be material by nature.

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## Group Accounts

As a result of the Dumfries & Galloway Health and Social Care Integrated Joint Board becoming operational on 1 April 2016, we anticipate that the Council will prepare group accounts in 2016-17.

A separate materiality will be determined once we are in receipt of draft accounts and communicated to those charged with governance in our update report to the next meeting of the Audit and Risk Management Committee.



# Risks identified as part of our planning work

Risk identified	Description of risk	Work planned																											
<p><b>1 Significant risk</b> Management override of controls <i>Presumed risk under auditing standards</i></p>	<p>Under ISA (UK&amp;I) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk)</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Complete walkthroughs of the controls and procedures in place around journal entries</li> <li>• Review the key accounting estimates, judgements and decisions made by council officers with a key focus on the overall position.</li> <li>• Test journal entries with a focus on unusual posting sources, times or amounts identified using our IDEA data analysis software</li> <li>• Review unusual and/or significant transactions including those with related parties.</li> <li>• Consider the sensitivity of the financial statements with respect to achieving financial balance</li> </ul>																											
<p><b>2 Significant risk</b> The revenue cycle includes fraudulent transactions <i>Presumed risk under auditing standards</i></p>	<p>Under ISA 240 (UK&amp;I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. The Council's service income in 2015/16 was £101 million, with a further £380 million of taxation and grant income in addition. We do not believe it is appropriate to rebut the revenue recognition risk, but will rebut the risks around Government grant funding given the nature of this income stream.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Complete walkthrough of the controls and procedures in place around invoicing and sales ledger</li> <li>• Agree other revenue to cash receipts in the year / post period end to gain comfort over validity of these transactions</li> <li>• Perform cut off testing to gain comfort around the completeness and accuracy of recognised income</li> <li>• Consider the recoverability of any outstanding debtor balances at year end.</li> </ul>																											
	<table border="1"> <thead> <tr> <th>Type of income</th> <th>2015/16 (£m)</th> <th>Significant risk</th> </tr> </thead> <tbody> <tr> <td colspan="3"><b>Taxation and non specific grant income</b></td> </tr> <tr> <td>Non ring fenced government grants</td> <td>245.6</td> <td></td> </tr> <tr> <td>Council tax income</td> <td>56.2</td> <td></td> </tr> <tr> <td>Non-Domestic rates</td> <td>50.8</td> <td></td> </tr> <tr> <td>Capital grants and contributions</td> <td>17.9</td> <td></td> </tr> <tr> <td>Settlement receipts</td> <td>9.5</td> <td></td> </tr> <tr> <td><b>Total</b></td> <td><b>380.0</b></td> <td></td> </tr> <tr> <td>Service Income</td> <td>100.5</td> <td>✓</td> </tr> </tbody> </table>	Type of income	2015/16 (£m)	Significant risk	<b>Taxation and non specific grant income</b>			Non ring fenced government grants	245.6		Council tax income	56.2		Non-Domestic rates	50.8		Capital grants and contributions	17.9		Settlement receipts	9.5		<b>Total</b>	<b>380.0</b>		Service Income	100.5	✓	
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<p><b>3 Significant risk</b> Valuation of property assets</p>	<p>The Council hold £761 million of property assets with property, plant and equipment. The valuation of these properties is inherently judgemental and are by nature a significant estimate based on both management assumptions and key inputs provided by valuation specialists. There is a risk that the balance in the financial statements is thus materially misstated</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Complete walkthrough of the controls and procedures in place around the valuation process.</li> <li>• Review the revaluation performed in the year, including an assessment of the credentials of the valuer.</li> <li>• Consider any indicators of material movements in those assets which have not been revalued in the year.</li> <li>• Test a sample of revalued assets to ensure that the adjustments have been correctly processed.</li> <li>• Engage our property specialists to review and challenge the assumptions and methodology adopted by the Council's valuers.</li> </ul>																											

# Risks identified as part of our planning work (continued)

Risk identified	Description of risk	Work planned
<p><b>4 Other audit risk</b> Completeness of operating expenditure</p>	<p>Operating expenses/Creditors are understated or not recorded in the correct period due to the volume of transactions within the Council across a variety of locations. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• Complete walkthrough of the controls and procedures around purchase ordering, procurement and general payment and recording of expenditure</li> <li>• Reconcile creditors ledger to the general ledger and financial statements</li> <li>• Perform cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure</li> </ul>
<p><b>5 Other audit risk</b> Completeness of employee remuneration expenditure</p>	<p>Completeness of employee remuneration accruals.  Staff costs account for 40% of total Council spend, a notable proportion of the Council budget. The nature of employee remuneration includes a large number of transactions and numerous control activities to ensure accuracy.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• Perform an analytical review against expectations and investigate significant movements in employee remuneration expenditure</li> <li>• Perform substantive testing of employee remuneration accruals at the year end</li> <li>• Perform substantive testing to agree staff members to the e-payroll system and re-calculate employer costs.</li> </ul>
<p><b>6 Other audit risk</b> Consolidation of Dumfries and Galloway IJB</p>	<p>From 1 April 2016, the IJB has been the accountable body of the Health and Social care partnership between NHS Dumfries and Galloway and Dumfries and Galloway Council. Minimal expenditure was incurred in the start up phase of 2015/16. Being the first full year of operation, material costs for the body to the 31<sup>st</sup> March 2017 are required to be consolidated within Dumfries and Galloway Council's financial statements. There is therefore a risk that the consolidated balance may be materially misstated as at 31 March 2017.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review the arrangements and processes in place to facilitate the consolidation</li> <li>• Complete procedures to gain assurance over the IJB balances</li> <li>• Ensure all disclosures in relation to the IJB are adequate, complete and appropriate.</li> </ul>
<p><b>7 Wider scope risk</b> Financial Sustainability</p>	<p>Like all Council's in Scotland, Dumfries &amp; Galloway faces a significant financial challenge in 2017-18 and beyond.  <i>Link to Accounts Commission strategic priority: The clarity of priorities and quality of long term planning to achieve these</i></p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Draw upon Audit Scotland's Best Value Assessment Guidance to review the Council's Financial Planning arrangements.</li> <li>• Review how well engaged members/stakeholders are in budget planning and management.</li> <li>• Make judgements about the effectiveness of arrangements and the pace and depth of improvements made by the Council in this area.</li> </ul>

# Risks identified as part of our planning work (continued)

Risk identified	Description of risk	Work planned
<p><b>8 Wider scope risk</b> Use of resources</p>	<p>The Council's work on Shaping the Council is a key aspect to ensure that the best use is made of public resources, including employees, land, property and financial resources. The Council must keep a considered and appropriate balance between cost, quality and price.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Draw upon Audit Scotland's Best Value Assessment Guidance to review the Council's Financial Governance and Resource Management processes.</li> <li>• Assess how effectively the Council demonstrates value for money in key decisions.</li> <li>• Review the effectiveness of resource management.</li> <li>• Make judgements about the effectiveness of arrangements and the pace and depth of improvements made by the Council in this area.</li> </ul>
<p><b>9 Wider scope risk</b> Governance</p>	<p>The elections in May 2017 mean that there may be new elected members, or changes to existing governance arrangements. Arrangements may need time to bed in, and there is therefore a risk that key priorities such as Shaping the Council and delivering financial sustainability may lose momentum.</p> <p><i>Link to the Accounts Commission strategic priority: How effectively Councils are ensuring members and officers have the right knowledge; skills and time to lead and manage delivery of council priorities</i></p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Review the Council's plans to support new and returning elected members, including training and development plans.</li> <li>• Consider whether governance, decision-making and scrutiny arrangements are fit for purpose.</li> </ul>

## 5. A quality audit

Ensuring we deliver on our commitments to you is important to us.

Our regular liaison meetings are an opportunity to discuss our performance and confirm your expectations about audit outputs and audit approach including our team interactions with you for example, are being met. We will look to use the performance metrics set out below so you can assess our performance; and we will report our progress back to you.

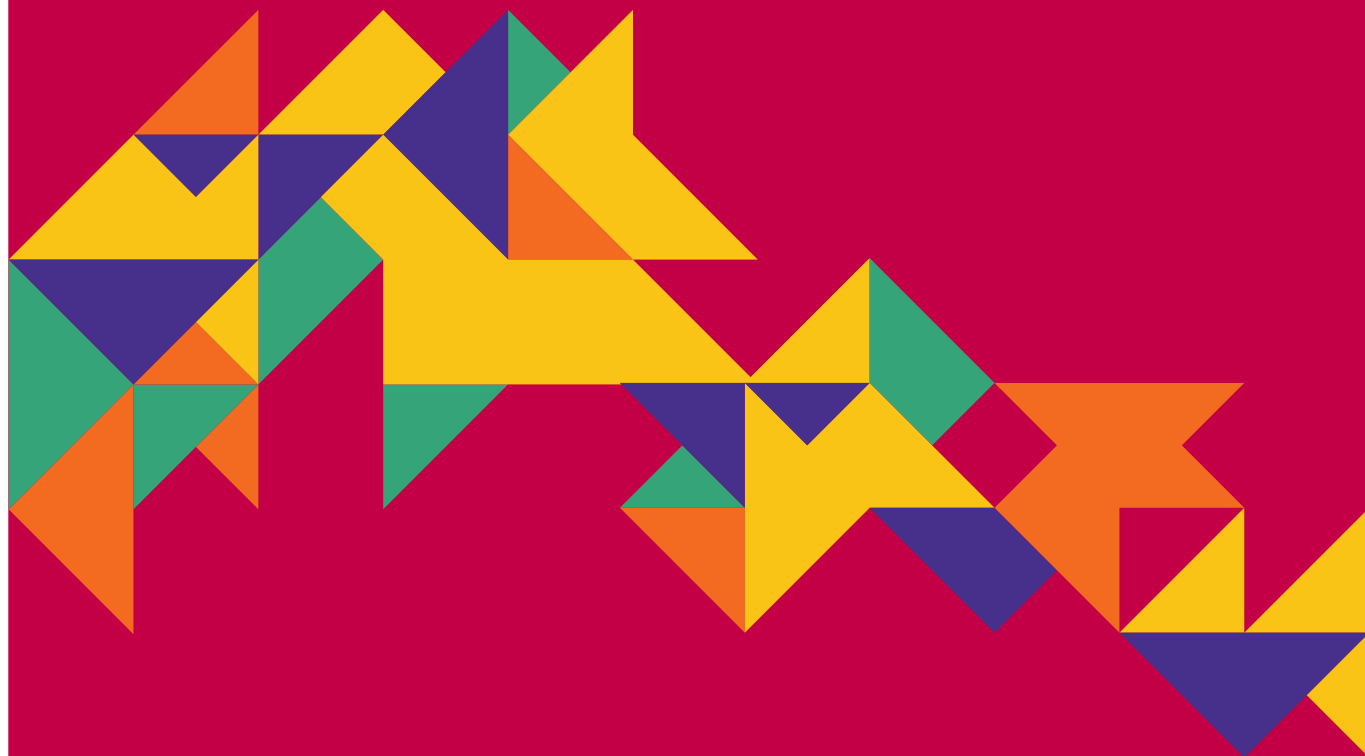
We will also undertake regular client service reviews so that you can tell us how we are performing, as well as recognising that Audit Scotland will also ask you for feedback on us. We take your feedback seriously and will seek to continually improve our service, reflecting on your ongoing feedback.

The table outlines the service levels that you can expect as a minimum. We will always strive to do more, and deliver above and beyond these.

Area	Proposed service level and indicator
Response time	<ul style="list-style-type: none"> <li>We will respond to all minor queries or requests for assistance within two working days</li> <li>We will provide an initial response to all major queries or requests for assistance within two working days, with full responses within five working days</li> <li>We will acknowledge any complaint by return and will resolve it in discussion with you within two working days. We will escalate any complaint at your request</li> </ul>
Achievement of planned inputs and milestone	<ul style="list-style-type: none"> <li>We will not vary the total approved audit fee, except by prior approval by the Director of Corporate Services and the Audit &amp; Risk Management Committee</li> <li>We will achieve all key milestone dates and audit inputs, as agreed with you at the start of the year. All papers for audit committee will have been reviewed by management and submitted in advance of the paper deadlines (100% target)</li> </ul>
Liaison	<ul style="list-style-type: none"> <li>We will agree a schedule of liaison meetings with you at the start of each year, along with the proposed dates for our on-site work</li> <li>Jo Brown and/or Lindsay Robertson will attend all liaison meetings with other core and support team members as required</li> <li>We will confirm agendas for every liaison meeting a week in advance to allow the most appropriate colleagues participate</li> <li>We will attend all Audit &amp; Risk Management Committee meetings with the engagement lead attending as a minimum two per annum</li> <li>We will meet with Audit Scotland at least twice per year to engage with them about Dumfries &amp; Galloway Council. We will deliver all of their data requirements and returns within the deadlines set (100%)</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>Our reports will be clear and concise and include sufficient, appropriate based on evidence/our work, conclusions and judgements in respect of our wider scope responsibilities.</li> <li>We will issue suitable progress reports that focus on insights from across the public sector.</li> </ul>
Audit protocol	<ul style="list-style-type: none"> <li>We will comply with all auditing and ethical standards and will maintain the integrity, objectivity and independence of the team at all times (100%)</li> </ul>
Client feedback	<ul style="list-style-type: none"> <li>We will informally seek your feedback throughout the year. On an annual basis we will undertake a client satisfaction survey with an aim of a score of 8 or above (out of 10)</li> </ul>

# Appendices

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# Our commitments to you aligned to the principles set out in the Code of Audit Practice

## Independent

- full compliance with independence and ethical standards

## Co-ordinated & integrated

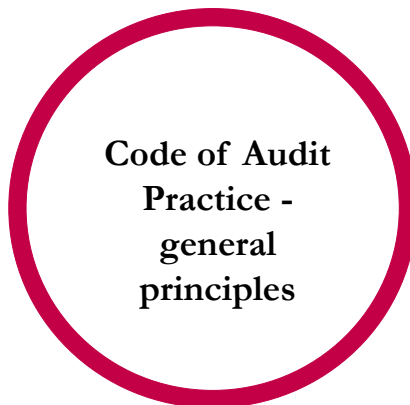
- co-ordination with Audit Scotland and Audit Commission.
- seeking to minimise duplication/inefficiency with Assurance Providers for example internal audit
- Co-ordination with LAN scrutiny partners
- sharing of Audit Scotland National Reports including action plans

## Adds value

- clear and concise Annual Report to those charged with Governance
- recommended actions which make a difference to you and are aligned to your risk framework
- judgements and conclusions-supported by evidence

## Proportionate & risk based

- focus on significant audit risks
- risks across 4 dimensions
- tailored to you and your strategic goals



## Transparent

- clear plan linked to final reporting
- upfront, open engagement
- responsive to your queries
- consideration of potential contentious audit areas upfront to agree early resolution

## Quality focused

- fully ISA (UK & Ireland) compliant audit
- full compliance with Audit Scotland Code of Audit practice
- Rigorous quality checks built into our audit approach
- an internal audit quality compliance programme

## Public focused

- focus on user of the accounts and what matters to them
- jargon free – easy to understand
- commentary supported by evidence
- risk based and relevant to you



# Team and key audit deliverables



**Key phases of our audit**

## Our communications plan

### Our team

**Joanne Brown**  
Director  
T 0141 223 0848  
E [joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)

**Lindsay Robertson**  
Senior Manager  
T 01414 223 0823  
E [lindsay.n.robertson@uk.gt.com](mailto:lindsay.n.robertson@uk.gt.com)

**Chloe Johnston**  
In-charge Auditor  
T 0131 659 8559  
E [chloe.johnston@uk.gt.com](mailto:chloe.johnston@uk.gt.com)

**Raul Rodriguez**  
IT Audit Specialist  
T 0131 659 8534  
E [raul.rodriguez@uk.gt.com](mailto:raul.rodriguez@uk.gt.com)

**Tricia Meldrum**  
PABV Contact  
T 0131 625 1234  
E [tmeldrum@audit-scotland.gov.uk](mailto:tmeldrum@audit-scotland.gov.uk)

Date	Activity	Audit Scotland Deliverables
<b>November 2016 – January 2017</b>	Audit planning site visits & Meetings with Management  Handover meeting with predecessor auditor and review of predecessor audit file to gain comfort over opening balances	
<b>January 2017</b>	Planning site visit	
<b>16 February 2017</b>	Audit Plan presented to Audit & Risk Management Committee	FAAC Current issues return 1 – covering matters of interest to the Accounts Commission (February)  Contribute to report on Health & Social care integration part 2 (Spring)  Submit Audit Plan (deadline 31 March 2017)
<b>Interim testing</b>	Completion of early testing	FAAC Current issues return 2 (April)  Contribute to Audit Scotland follow up of Role of Boards (Deadline 30 June 2017)
<b>June - July 2017</b>	Year end fieldwork commences	Submit NFI questionnaire (June) Submit technical database return (July) Certify grant claim returns: - Education Maintenance Allowance (July)
<b>August 2017</b>	Audit findings meeting with Director of Corporate Services and Head of Finance and Procurement	Certify grant claim returns: - Criminal Justice Social Work Services (September) FAAC Current issues return 3 (August)
<b>September 2017</b>	Report audit findings to those charged with governance  Sign financial statements opinion	Certify annual accounts, submit annual accounts and annual audit report, certify WGA consolidation pack (2 October)  Certify NDR return (9 October)
<b>October – November 2017</b>	Debrief and learning meeting	Certify Housing Benefit and Council Tax return

# Independence and fees

## External Audit Fee

Service	Fees £
External Auditor Remuneration	190,560
Pooled Costs	16,590
Contribution to Audit Scotland costs	11,380
Contribution to Performance Audit and Best Value	98,660
<b>Expected Fee</b>	<b>317,190</b>

The audit fee is calculated in accordance with guidance issued by Audit Scotland. Audit Scotland sets an expected fee for each body that assumes the organisation has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate accounts, does not have significant non-standard or complex transactions and contracts and meets the agreed timetable for audit. The auditor remuneration element of the fee may be varied up to 10% above the expected fee where local issues require additional work to be undertaken.

We have agreed that the fee for 2016/17 will be maintained at expected fee as shown above.

Typically our fee assumptions include:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and Council activities will not change significantly from planned

- The Council will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1<sup>st</sup> draft; amended draft and final)

## Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

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

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team. We can confirm no independence concerns have been identified.



# Financial reporting developments

As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code. We will continue to keep the Finance Team up to date with any further changes or developments throughout the year.

## Highways network assets (HNA)

On 14 November 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016-17. This deferral is due to delays in obtaining updated central rates for valuations.

CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017-18. It currently anticipates that the 2017-18 Code will be on the same basis as planned for 2016-17, i.e. not requiring restatement of preceding year information.

We will review the Council's position during our 2016-17 work to ensure that the Finance Team is on course for implementation.

## CIPFA Code of Practice and SERCOP

Changes to the Code in 2016-17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015-16 comparatives by way of a prior period adjustment.

## Revised good governance framework

In autumn 2016, CIPFA and Solace published a revised framework 'Delivering good governance in local government framework 2016'. This defines principles that should underpin the governance of each local authority, and provides structure to help individual authorities with their approach to governance. Every local authority is required to prepare an annual governance statement to report publicly on the extent to which they comply with their own governance code, which should in turn be consistent with the principles laid out in this framework.

## Decluttering the accounts

Financial statements are an important part of good governance and accountability but many local authorities say their financial statements are becoming more complex, harder to prepare and less clear for readers.

We have worked with authorities across the UK to help them prepare financial statements that are more clear and concise, based on key issues for the Council, removing immaterial disclosures and any areas of duplication.

## Early close

The Accounts and Audit Regulations 2015 require local authorities in England to bring forward the approval and audit of financial statements to 31<sup>st</sup> July by 2017/18 financial year. There is no equivalent requirement in Scotland, but we believe that there are advantages of early completion of the accounts process, including freeing up finance team resources to support savings programmes. We would be happy to discuss how to achieve early sign off with the Finance Team.



# Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at the Council.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error. We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. In addition, we will ask the question of the audit committee at the planning stage and routinely during the audit.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

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

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

Throughout the audit we work with the Finance Team to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing the Council's NFI arrangements, in response to the national fraud initiative exercise. We will monitor the Council's participation in NFI and assess the adequacy of the processes adopted. We will also complete an NFI questionnaire by 30 June 2017 – the information contained in this report will be collated and used within Audit Scotland's NFI report due to be published in June 2018.



# Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	Council Responsibilities
Corporate governance	<ul style="list-style-type: none"> <li>Establishing arrangements for proper conduct of its affairs</li> <li>Legality of activities and transactions</li> <li>Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)</li> </ul>
Financial statements	<ul style="list-style-type: none"> <li>Preparing financial statements which give a true and fair view of their financial position</li> <li>Maintaining accounting records and working papers</li> <li>Putting in place systems of Internal Control</li> <li>Maintaining proper accounting records</li> <li>Preparing and publishing an annual governance statement, management commentary and remuneration report</li> <li>Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money</li> </ul>
Financial position	<ul style="list-style-type: none"> <li>Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value</li> </ul>
Fraud and error	<ul style="list-style-type: none"> <li>Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed</li> </ul>

## Our responsibilities

- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements and where appropriate regularity of transactions
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Controller of Audit when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope

## How do we do this in practice

- By reviewing and providing judgements and conclusions on Best Value arrangements including those across the wider scope of audit dimensions.
- Consideration of the effectiveness of performance management arrangements
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of the Council
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements 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.

# Communication of audit matters with those charged with governance (summary of ISA requirements)

Requirement	Audit Plan	Annual Audit Report
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

International Standards on Auditing (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 opposite.

This document outlines our audit strategy and plan to deliver the audit, while the Annual Audit Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Audit & Risk Management Committee.



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