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Dumfries and Galloway Council

External Audit Annual Report to Members and the Controller of Audit

2016/17 Financial Year

21 September 2017

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Our audit plan at a glance:

Materiality has been updated based on unaudited financial statements to £4.682 million (1% of gross 2016/17 expenditure adjusted for Integrated Joint Board expenditure)

Performance materiality is set at £3.043 million and we have reported to management everything identified over £46,820 (1% of materiality)

Financial statement audit risks were: management override of controls; risk of fraud in revenue recognition; and valuation of property assets. Other risks were: completeness of operating expenditure and employee remuneration.

We wider scope risks in relation to: future financial sustainability; arrangements the Council has to demonstrate appropriate use of resources; and governance following the May 2017 Local Government elections

We can confirm we are independent of Dumfries and Galloway Council and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. No non-audit services have been provided to Dumfries and Galloway Council in 2016/17. Our audit fee was as set out in our audit plan dated March 2017 and was £317,190

Key Messages

We have issued an unqualified opinion on:

- True and fair view of the financial statements
- Other prescribed matters
- We have included an “other matter” related to the failure to break-even of the Roads maintenance service on a rolling 3 year basis (Statutory Trading Operation)

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the elected members (in their role as those charged with governance) and the Controller of Audit. This report will be published on the Audit Scotland website at: www.audit-scotland.gov.uk

This report has been discussed and agreed with Officers, and presented to the Audit, Risk and Scrutiny Committee on 21 September 2017. We would like to thank Officers for their co-operation and assistance throughout our audit work.

Our work included:

- An audit of the 2016/17 financial statements
- A review of the Management Commentary, Annual Governance Statement and Remuneration Report
- Completion of the ‘Role of Board’s’ return and EU Funding return submitted to Audit Scotland to inform future performance publications
- Completion of grant claims including NDR, Criminal Justice and the Bus Operators grant
- Completion of the National Fraud Initiative (NFI) return and review of data matching progress

The unaudited accounts were published online and made available by the statutory deadline of the end of June. The unaudited accounts were of a good quality and been subject to detailed internal review by officers. During the year end we flexed our proposed timetable slightly to accommodate unforeseen officer changes by bringing work forward, with all substantive fieldwork on the annual report and accounts completed by the middle of August. Overall the audit process has been effective and we have started to build a good working relationship with the finance team. Our audit queries were answered promptly and we appreciated that the audit activity was prioritised.

This report reflects our broader reporting obligations under the Code of Audit Practice. We have provided commentary against our specific wider scope risks as well as certain aspects of Dumfries and Galloway Council’s arrangements as they relate to: financial management; financial sustainability; governance and transparency and value for money.

Overall the Council has gone through a substantial period of change and transformation since the previous Best Value Review undertaken. The four strategic priorities are clear and will be reflected in a Council wide plan due for approval by the new Administration in the Autumn. A methodical approach has been adopted around service transformation, which is linked to 12 service reviews completed over the last two years. A longer term financial strategy will be discussed with Elected Members in September 2016. This strategy reflects a number of unknowns and assumptions but it is clear that substantial savings will need to be achieved over the next 5 years to maintain financial balance and that the savings identified will need to be recurring, which will be challenging.

For and behalf of Grant Thornton UK LLP
21 September 2017.

Financial Statements Audit



Our audit plan was presented to the Audit and Risk Committee on 16 February 2017 (now the Audit, Risk and Scrutiny committee following the May elections). We have not altered our planned audit approach. However, we have updated our final materiality figures based on the unaudited 2016/17 accounts. Recognising the Integrated Joint Board income is received into Dumfries and Galloway Council; recognised as expenditure to the IJB; and then further operational expenditure in year we have adjusted our materiality to £4.682 million.

Our year-end audit work commenced on 3 July and we had a complete set of the accounts with good supporting working papers. Officers were quick to respond to our queries. The annual report was of a good quality and been subject to detailed review.

We have reported all potential audit adjustments identified above £46,820 to management (the value below which we consider to be trivial); along with identified disclosure enhancements.

A summary of corrected, uncorrected, and disclosure adjustments are set out in Appendix 1.

Internal Audit

As set out in our plan we have not placed formal reliance on the work of the in-house Internal Audit function during 2016/17. The Internal Audit function confirmed compliance with the Public Sector Internal Audit Standards as part of their Annual Report.

We have reviewed the internal audit plan, and the internal reports considered relevant to our external audit, in particular reviews of; Procurement (purchasing compliance), Payroll, and Framework-I.

Based on the work throughout the year, Internal Audit have concluded that there were adequate and effective internal controls in place throughout the year and that the Council has implemented a governance framework in line with required guidance sufficient to discharge the responsibilities of this role.

Overall Internal audit has sufficient resources to complete the agreed internal audit plan, and all internal audit activity is reported to the Audit and Risk Committee with Officers providing updates on the agreed action plans to the Committee.

Internal Control Environment

During the year we have sought to understand Dumfries and Galloway Council's overall control environment as related to the annual report and accounts. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls
- Performed procedures around IT general controls
- Performed walkthrough procedures on the design of key controls around; operating expenditure, Employee Remuneration, Non grant revenue, Fixed assets and the processing of journals

No material weaknesses in the accounting and internal control systems were identified during the audit which could have an adverse impact on Dumfries and Galloway Council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We noted one very minor discrepancy between the balance in the fixed asset register and the balance in the Trial Balance (£80,000). This is historic arising on the upgrade of the fixed asset register. **See Action point 1.**

Under ISA's we are required to report to those charged with governance the main issues arising from our audit of the Annual Accounts and Report.

This report discharges our obligations under the relevant ISA's.

Accounting for Dumfries and Galloway IJB

2016/17 represented a full operational year of the Integrated Joint Board (IJB). We are satisfied that Dumfries and Galloway Council has accounted for the IJB in accordance with the Local Government Code of Practice and LAASAC guidelines and income and expenditure has been consolidated correctly. The IJB has been consolidated into the Council's group financial statements as a joint venture.

Charitable Funds audit

We are registered as appointed auditors to provide an audit opinion on charitable trusts registered with the Office of Scottish Charities Regulator (OSCR) where the council, or some members of the council, act as sole Trustee.

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

In 2015/16 following de-registration of two trusts, the council confirmed with OSCR that there was no requirement to prepare annual accounts. We have performed audit procedures in relation to the remaining active trusts: Stewartry Connected Trusts and Nithsdale Connected Trusts.

Statutory Trading operations (STO's)

Dumfries and Galloway council has two significant trading operations; Roads maintenance service and Building maintenance service. We have summarised financial performance over the rolling three year period in the table below:

STO	2014/15 (Surplus)/Deficit £'000	2015/16 (Surplus)/Deficit £'000	2016/17 (Surplus)/Deficit £'000	3 Year Cumulative (Surplus)/Deficit £'000
Roads Maintenance service	405	676	(10)	1,071
Building Maintenance services	(94)	56	(156)	(194)

Given the Roads Maintenance service has not achieved the statutory three year rolling breakeven position we have included this as an other matter in our audit opinion. Achieving a recurring surplus position for the roads maintenance service trading operation continues to be a challenge for the Council. In 2014/15 a local action plan was developed to look to address the financial position and this was being enacted and it is noted that for 2016/17 a small surplus was generated. Officers should re-look at this action plan and consider whether any further actions are needed to ensure the continued surplus. **Action point 2.**

Audit risks set out in our external audit plan

Our audit plan set out a number of identified audit risks, including the two presumed risks under International Standards of Auditing (management override of controls and the risk of fraud in revenue recognition). Set out in an appendix to this report is a detailed explanation of the work we have undertaken in relation to each risk and our conclusions. This can be summarised as:

Audit Risks in our plan	Conclusion
Risk of fraud in revenue recognition	Satisfactory
Management override of controls	Satisfactory
Valuation of property assets	Satisfactory
Risk of fraud in expenditure (practice note 10)	Satisfactory
Employee remuneration	Satisfactory
IJB Consolidation	Satisfactory

The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding of Dumfries and Galloway Council and the financial information set out in the accounts, alongside the guidance in the Local Government Accounting Code of Practice and additional supporting guidance. We have set out our observations below.

Management Commentary

- The report outlines performance analysis and highlights the key issues and risks facing the Council.
- All required disclosures included in line with the relevant guidance
- We have confirmed financial performance analysis included is in line with our understanding and work performed.
- We are satisfied that management commentary is consistent with our knowledge of the council and no key information has been omitted
- Key issues and risks in line with our understanding and expectations
- Looking ahead, officers could further enhance the management commentary for 2017/18 by including graphics, case studies and generally look at how key messages could be portrayed to the user of the accounts in a more user friendly manner. **Action point 3**

Annual Governance Statement

- All key required elements included within the corporate governance statement and is in line with the good governance framework
- Each director has signed off to the Chief Executive to provide assurances to allow him to provide overall assurance in the governance statement. In addition, the Standing Committees have also provided an assurance statement. No matters of note raised in any of the statements
- This approach is in line with best practice and provides a clear paper trail behind the annual governance process.

Remuneration report

- The remuneration report has been completed in line with the Local Authority Accounts (Scotland) Regulations 2014 and the CIPFA Local Government Code
- We have audited the financial information included in the remuneration report (marked audited information). We have no matters we wish to bring to your attention.



Judgements and estimates

We consider other aspects of your annual report and accounts, in particular key areas of judgement. We have summarised below our observations in these key areas:

Accounting Policies

- Accounting policies are in accordance with the CIPFA Local Government Accounting Code of Practice and we consider these to be appropriate to Dumfries and Galloway Council.

Accounting estimates and judgements

- We have identified and gained comfort over the following key estimates and judgements:
- Property valuation including impairment risk
- Pension fund liabilities
- Bad debt and other provisions.
- Plant, Property and Equipment (PPE) depreciation policies are in line with prior year and the manual

Going Concern

- Dumfries and Galloway Council has agreed a balanced budget for 2017/18 and continues to identify further savings.
- Given the current political environment and relevant Scottish Government policies announced/recently announced, we do not have reason to consider that Dumfries and Galloway Council will not continue to operate over the next 12 months from the account signing date. See additional commentary around future financial sustainability risks beyond this period.

Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transaction or the period in which they were recorded.

Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the final annual report and accounts.

Accounts Commission strategic priorities



Council Plan

The Council has 4 strategic priorities:

1. We will build the local economy
2. We will provide the best start in life for all our children
3. We will protect our most vulnerable people
4. We will be an inclusive Council

Following the May 2017 Local Government elections these priorities are being built into a Council plan. This will align the 4 strategic priorities with the political priorities of the new Council.

This will be the “blueprint” for the Council over the next 5 years, and the Council’s financial strategy, service plans and budget setting arrangements will be supporting the Council plan.

Re-Shaping the Council - Service Transformation

At full Council on 18 December 2014 Members agreed the re-shaping of the Council and since then a programme of change has been ongoing. Every quarter full Council has received an update on progress, and the last update was provided in March 2017 which also contained a forward look to how the Council could sustain innovation to meet future challenges.

Progress against the re-shaping programme was reported regularly to the Business Transformation Board and Business Transformation Steering group. Running alongside the re-shaping programme were 12 service reviews. All service reviews reported options to Committee with work underway to implement the options approved by Elected Members and to deliver the associated savings. In total the service reviews identified £8.362 million in potential savings (against the target of £7.690 million set at the start of the reshaping).

The outputs from the re-shaping programme have include:

- Reduction from 6 Departments to 4 Directorates
- Re-grouped services with a focus on achieving better outcomes
- Removal of duplication and reduction of Heads of Service posts from 18 to 14
- Fewer management tiers across the Council giving a flatter structure

The 12 service redesign plans were developed by Officers and Members, using the service design methodology set out, which applies across all Council decision making and comes back to the 4 Council priorities. They are supported by business plans.

Elected Member Training

The Elected Member training programme reflects the national CPD framework for elected members in Scottish National Local Government. The programme seeks to focus on key training priorities then offer a range of learning experience over a twelve month period. Training will differentiate between those that are new to Local Government and others who have been Councillors previously. It is also anticipated the training will make use of on-line training where appropriate. This approach is set out in the Elected Member perspective provided.

By phasing the training over a 12 month period with clear links to CPD it is hoped that there will be greater buy in and commitment for elected members than in 2012 when there was a non-attendance rate of 40%. **See action point 4**

Council leadership structure

The Council has a streamlined leadership and management structure. There are 4 Directorates, with a number of Heads of Service. The Corporate Management team meet monthly and includes the Directors and Heads of Service. Although this is then a large group, it allows information to be discussed in one forum and then cascaded within each Service. This also promotes ownership and accountability for the actions agreed.

Performance Framework

The Council has a performance management framework. This includes the suite of statutory Key Performance Indicators (KPI's), Local Government benchmarking data provided by the Improvement service and local indicators and actions at a service level.

Openness and transparency

The agenda for each meeting is set with the Chair of the Committee and the Vice-Chair. No pre-meetings are held to discuss the wider agenda, with all discussion taking place in the meetings. Committee meetings are available to view on-line alongside all reports.

The Council website is user friendly and contains quick links to various on-line services and where service users can find information. Looking forward, the Council may wish to make it easier to see the Council priorities on the website and performance information. All the information you would expect on Council outcomes and performance is available, but in some cases it is through 4 or 5 different links before it is found

Action point 5

Community participation and engagement framework

The Council reshaping programme created 9 Centres of excellence, one of which was the community participation and engagement framework.

The strategy aims to build on consultations carried out during the enabling community empowerment service review and the scrutiny and performance committee review of public involvement. As part of these reviews key messages were analysed including feedback that has come through the Council's website link "have your say".

Objectives for the strategy have been agreed, including: decision making structures are understood and accessible for individuals and communities; increased opportunity to engage and participate in Council services and projects; improve quality of engagement across all Council services, and to achieve best use of resources.

This framework will be developed during 2017/18 directly with individuals and community representatives, who will also be involved in devising and monitoring the action plan.

Area working and local engagement

The Scheme of delegation approved in May 2017 included four Area Committees. Decision making at these Area Committees include for example: discretionary grants, appointment to local outside bodies, oversight of Common Good Sub Committees and consultation of community asset transfers. Discussions within the Council and with partners highlighted the value of the reporting, including performance reporting to these committees. In particular, it was noted the Area Committees would welcome greater opportunity to scrutinise Capital spend and future plans.

It is proposed that Four Area Committee meetings will take place each year, subject to discussion and approval by the Council at the end of September 2017. Liaison between the Senior Leadership Team and the Area Committee Chairs and Vice Chairs has been identified as beneficial so it is planned that this group will meet quarterly, taking place in a different locality hosted by the respective Chair and Vice Chair.

The proposed remit for the Areas Committees have initially been agreed alongside options for memberships and boundaries and the specific role description for Elected Members who sit on these Committees.

Business plan performance

Each service has an agreed three year business plan (2015 to 2018) and on annual basis each service committee is presented with The Directors end of year assessment against the plan. For example the Education Service report in September 2016 showed 42 performance indicators on track, 2 where targets were not met but within acceptable limits and 7 where targets were not met. These reports make use of data analysis and are visual making it easy to identify areas where performance is below expected. This format is used consistently across all Services.

Priorities and Commitments – Performance Report 2016/17

The Council prepares an annual public performance report. The report sets out the achievements across the 4 strategic priorities, as well as some of the challenges and opportunities in respect of each priority. The 4 strategic priorities are supported by sixteen commitments. Overall the report highlights significant progress across all 4 priorities.

A significant proportion of indicators are shown on target. Areas for further improvement are identified in the report as:

Priority 1 Build the local economy

Growth in registered small and medium sized businesses was a new indicator for 2015/16 onwards. The target was 255 and the Council achieved 150

Priority 2 Provide the best start for all our children

All of these are shown as on target or within the permitted range

Priority 3 Protect our most vulnerable people

All of these are shown as on target or within the permitted range

Priority 4 Be an inclusive Council

Percentage of community councils satisfied with support from Council staff is shown as a red as no survey was completed in 2016/17

Overall a number of the indicators although met show a slight decrease in trend. Recognising that from September the Council will have a new plan, new measures and indicators will be developed to support the outcomes identified in the Council plan. When devising these measures, consideration will be taken on the resources required to deliver the measure, what "good" looks like, and take into account resources/benefit when setting the targets.

Financial Management and Sustainability



Financial performance 2016/17

The Council reported in June a summary of the actual outturn compared with the budget for 2016/7. Overall the actual movements compared with budget were in line with those anticipated and reported during the year to Policy and Resources Committee.

The surplus of £1.465 million will be transferred into the strategic change fund to contribute to new developments and policy initiatives.

All services with the exception of Economy, Environmental and Infrastructure (EEI) managed to operate within the reduced budgets set at the start of 2016/17. EEI were over budget by £0.297 million due to a deteriorating performance in roads maintenance and an under-recovery of income in relation to planning applications and building warrant fees. Funds which at year end remained unallocated have been used to meet the EEI overspend so the overspend is not carried forward into the EEI savings required in 2017/18.

Loan charges were underspent by £0.800 million due to the continuing low interest rates and continued treasury management approach of delaying taking out long term debt where possible, to take advantage of favourable short term rates.

A total of £19.6 million in savings were achieved in-year, of which £4.2 million relates to staff. This represents the achievement of 93.7% of planned savings. The small shortfall included savings which were not achieved due to timing differences, but are still forecasted to be delivered in full going forward including: depot rationalisation; energy efficiency measures; and staff savings which did not come through the ERVS process.

A total operating budget (expenditure) of £319.377 million was set, with £318.969 being incurred. The £1.5million is transferred to the change fund.

Capital Planning

The Council spent £52.321 million on capital, which includes the additional £2.638 million that was brought forward from the 2017/18 Capital programme, in relation to the accelerated spend at the Dumfries Learning Town north west campus project. Net capital receipts were £1.429 million from predominantly the sale of surplus land.

This capital spend was funded from predominantly general capital grants (£16.814 million); Capital Fund (£3.509 million) loan charges released (£1.478 million); and approved borrowing of £29.099 million.

The Council at the end of February 2017 approved the Council's capital programme for the next 3 years (2017/18 to 2019/20) within an indicative 10 year capital investment strategy.

Progress against the capital plan is reported to Policy and Resources Committee during the year, as well as service committees receiving capital project updates, relevant to their committee.

£2.544 million of additional prudential borrowing was incurred on “spend to save initiatives” where the cost of the borrowing will be met from the additional income generated. For example street lighting project, renewables and Dumfries Fibre project.

Council Office strategy

The Council has in place a Council wide office strategy, which is linked to the Council's workforce planning strategy. A number of options were considered around Council accommodation, with the optional appraisal presented to the Policy and Resources Committee in February 2016. The associated costs and benefits of this strategy are linked to budgets and extend up until 2019/20. The paper clearly sets out a number of options, including the two options which were considered affordable and deliver the level of savings required.

The option decided involves reducing the number of Council buildings from 24 to 14 through a mixture of disposal and re-purposing the Council estate and a medium capital investment over the three years to support smarter working. The option appraisal also considered alignment to the 4 Council priorities, and which option would give best achievement of the priorities.

It was agreed that the Business Transformation Board would have oversight of the project.

Budget for 2017/18

In order to set a balanced budget in March 2017 for the 2017/18 Financial year, savings of £17.289 million need to be achieved. 2017/18 sees the Council's Revenue grant decrease by £8.555 million. Reflecting on the anticipated Scottish Government funding settlement the Council took the decision to increase Council tax by 3%, increasing forecasted income by £1.900 million (alongside a change in the Council Tax multiplier which increases income by £2.450 million, giving a total increase in income relating to Council tax of £4.350 million).

The savings will be achieved through: Savings which were agreed by Policies and Resources in November 2016 as part of the service transformation programme; a reduction of £1.8 million from the delegated Adult Social Care Budget; further operational savings and efficiencies including re-looking at staffing per the workforce plan.

On an annual basis the budget is set in accordance with budget principles that were agreed by the Council in 2014/15:

- The link between the budgets and achievement of the corporate priorities
- The sustainability of budgets over the longer term;
- Medium term financial planning
- The maintenance of a prudent level of general fund balances
- Ensuring capital investment levels are prudent, affordable, sustainable
- Council tax considerations
- The need for strong and effective financial management arrangements

These clear principles are still applicable, and are linked into the longer term financial strategy (2018/19 to 2022/23)

Financial scrutiny

Financial monitoring information, for both revenue and capital is presented to the Policy and Resources Committee during the year. Each individual service committee receive sufficiently detailed finance reports on their specific budget, including progress against the agreed savings plans. The budget updates for Corporate Services are reported to Policy and Resources committee, split out by the five services that fall under the Corporate services umbrella.

From a review of the financial information presented to the respective committees during the year we noted that the information is sufficiently detailed to allow for scrutiny of the financial position, and the savings tracker shows progress against agreed savings plans with a helpful column explaining progress and reasons for the variance.

Treasury Management Strategy

The Treasury Management Strategy and prudential indicators for 2017/18 was presented to the Council in March 2017 for approval. This Strategy is linked to the Council's Capital Investment strategy. Overall the Council has projected an increase in the level of capital spending and associated borrowing, particularly for 2017/18. This reflects the planned progress with the Dumfries Learning Town programme.

The need to recognise that capital spending remains within prudent, affordable, and sustainable levels is recognised by Elected Members and taken into account when determining the future strategy, including borrowing and loan charge implications.

The Council's Strategy recognises the current low interest rates and the advantages of this, whilst recognising longer-term implications.

Key prudential indicators based on capital investment decisions include the ratio of finance costs to net revenue scheme including PPP going from 7.1% in 2015/16 to an estimate of 8.3% in 2019/20. The total costs of borrowing, recorded in the Council's expenditure on an annual basis is in the region of £23 million.

The Council use Capita Asset Services as its external treasury management advisers, who support the Council in taking informed decisions including providing wider economic indicators.

Five year financial planning

Officers have prepared a draft five year financial strategy (2018/19 to 2022/23) which is on the agenda for the Council meeting at the end of September.

The strategy provides an indication to the Council Members of the financial challenges facing the Council and highlights the number of assumptions that have been made, and that given this the strategy will need to be flexible, to allow the Council to proactively respond to changes both in funding levels but also the economic climate.

The strategy sets out that over the 7 year period from 2010/11 the Council has budgeted for £86 million of savings, representing 24% of the Council's annual expenditure. The chart extracted from the strategy shown below highlights the savings peak in 2011/12 and then again in 2016/17.

The strategy recognises that as well as funding reductions there is a combination of increasing demands for services for example care services coupled with elements of the Council's budget which are effectively ring-fenced for example teacher numbers. Therefore the savings required in non-protected services has been significantly higher.

The paper does emphasis that although the Council has been successful in identifying and delivering savings and efficiencies in line with the Council priorities some reductions in services have been required and will continue to be required.

The paper identifies a number of variables and then risk assesses these against likelihood and impact coming out with the 3 percentage ranges (High, mid-range, low) and translates this into potential values. The paper gives good economic context and is helpful in settling out the new Scottish powers and what this could mean for Local Government.

Variables set out are:

- Grant funding from Scottish Government and a range of a potential increase up to 3% or down by 3%
- Impact of the Scottish Government's fiscal policies, related to taxation and borrowing, from 2019 and the application of the new Scottish powers
- Scotland's economic performance, in absolute terms and in relation to wider UK economic performance
- Scottish Government priorities which change overtime and at present NHS are considered more of a priority than Local Government
- Pay and non-pay inflation rates and interest rates
- Demand for services for example within education and social care and what this means for associated expenditure.

Projected reductions in Scottish Government funding for 2018/19 range from 4.50% (high) to 2.50% (low) with a monetary value of £12.56 million to £6.98 million.

Pay increases range from a high of 2.5% (£4.25 million) to 1.5% (2.55 million).

Non-pay increases range from 3% (£4.38 million) to 2% (£2.92 million)

The strategy includes a section on capital investment levels and borrowing costs. Highlighting the profile of Capital spend Members agreed which has more spend early on in the ten year programme to take in account the investment in the Dumfries Learning Town projects.

Governance and transparency



Audit, Risk and Scrutiny Committee

During 2016/17 the Council has an Audit and Risk Committee and a separate Committee tasked with wider scrutiny. The Audit and Risk Committee had in place an agreed remit, was relatively well attended by Elected Members and met five times during the year. The composition of the Audit Committee was a mix between administration and opposition Councillors where as scrutiny was made up of opposition Councillors.

Following the Local Government elections in May 2017 the new Council administration took the decision to combine the two committees to create the Audit, Risk and Scrutiny Committee. This new committee met for the first time in June, and considered the remit of the Committee. All 11 elected members are opposition councillors.

The remit is broad and the intention is for the Committee to still meet five times per annum. This is being further Considered by Council Officers, as it may be that certain aspects of the scrutiny role are done via sub-groups or relevant to a specific priority of the Council.

The remit of the Committee and how the Committee will work in practice is an ongoing development and will be supported by specific elected member training and guidance on what key Council projects and priorities do Committee members further want to consider.

It is recognised that this new committee will need to develop over time, and we will help the Council through elected member training as well as the Council considering what other Council's have similar structures and/or approaches.

Typically the Audit and Risk Committee composition would be a mix of elected member party representation rather than a sole opposition committee. This should be something officers and the Committee review following the first year of being established to ensure it is still operating effectively and the link between the Committee and full Council is effective. **Action Point 6**

Corporate Governance code

A detailed corporate governance code for the Council is available which contains a series of links to key publications or aspects of the Council's governance structure, many of which have bee significantly revised over the prior year. A further update to ensure all the links in this document are correctly referenced is planned for 2017/18. **Action point 7**

Fraud and standards of conduct

The Council has an established fraud policy which is provided to all staff on induction and made easily accessible on the Council's intranet. In addition to the policy regular fraud updates and fraud alerts are shared with all staff to promote awareness. Internal audit routinely investigate potential frauds and/or irregularities producing a report which ensures lessons learnt from the incident is also widely shared across the Council.

In addition, the Council's arrangements in relation to standards of conduct are adequate. Arrangements include:

- A whistleblowing policy supported by a confidential helpline through which all employees can report concerns
- The financial procedures provide clear instruction on the investigation of suspected or actual fraud including reporting lines and escalation
- A code of conduct is in place for employees and for Elected Members which sets out the overarching principles and expected behaviours when undertaking Council business.

Openness and transparency

All of the Council's agenda; minutes and associated papers, unless exempt under the Local Government Act are available to the public on-line. In additional each Committee meeting is recorded as a webcast and available to view for 12 months from the date of the meeting.

Based on our review of Committee minutes and associated papers we note that these all follow a consistent structure which supports Committees in their decision making. For example all reports include a clear recommendation box, which is a fair summary of the key points in the paper; specific considerations including assumptions and/or judgements made; and the appendices including support and enhance the paper should the Elected members want to see further detail. On the whole papers are not cluttered, and contain the key facts.

DG One

DG one was intended as the Council's flagship leisure service in the Centre of Dumfries town. However, there have been continued problems with the building which has been deemed to be "poorly constructed" and remains closed to members of the public by the Council.

At a Council meeting on 3rd July 2017 the Council agreed to commission an independent inquiry into the circumstances that led to the Council receiving a building that is not fit for purpose and poses extensive risks to public safety. At this time the Council also decided to write to the Chief Constable of Police Scotland in respect of any criminal wrongdoing and the Health and Safety Executive. Lastly, the Council at this time agreed to continue with the remedial works at DG one, which are reflected in the capital plan.

As at September 2017 a chair of the independent inquiry has been appointed and the chair has appointed two panel members.

We will continue to review how this progresses during our 2017/18 external audit, including the lessons learned and planned future developments.

Risk management arrangements

Responsibility for the co-ordination and reporting of risk management rests with the Risk Officer, who is part of the Internal Audit Team with a reporting line to the Council Monitoring Officer. Risks are captured at a Directorate and Service level using the Council's performance management system. The Council has a corporate risk register which is reviewed and updated regularly. As at September 2017 21 risks were reflected on the corporate risk register. Risks are scored on a five by five basis against likelihood and Impact. Each risk reflects narrative on the potential effect of the risk; risk factors; internal controls and related documentations and actions. A number of the risks are related to Adult and Social care services; protecting vulnerable children and young people and the Integration of services.

From our review of the register and our understanding of the Council, there is an opportunity to further strengthen the risk management arrangements in place. For example, reviewing the senior focus and priority the Council gives risk management, and reviewing the corporate risks identified and linking these to the impact the risk would have on the Council not achieving the agreed Council priorities.

This would allow Council Officers to focus on the top strategic risks, and actions to mitigate the risk, providing detailed action plans to Corporate Management Team and the Audit Risk and Scrutiny Committee.

Action point 8

Value for Money



Performance framework

The Council has a Performance Team which reports into the Council Monitoring Officer, as part of the Corporate Services Directorate. The Council's intranet contains all the performance information for the Council including the framework; business case transformation; and the performance information linked to the Council's strategic priorities.

A key document is the Council's business planning guidance. This is an easy to read document which explains how the Council's priorities link to the Single Outcome Agreement and National Policy context, and how this is then translated into department/service business plans and ultimately individual performance objectives.

The planning and performance cycle demonstrates how business plans are linked to the budget outputs and the role of the Corporate Management Team in reviewing either new or revised business plans before the start of each finance year to ensure quality and consistency. Business plans are ultimately submitted to each service committee for approval in April and May on an annual basis. The business planning guidance was produced in 2015 and is still relevant. Plans are in place for the Council to review this structure in 2017/18 to ensure still aligned with the longer-term financial strategy and the budget setting process.

Public Performance Reporting

Performance is considered and measured through the following arrangements:

Public performance reporting framework:

Single Outcome Agreement (SOA) – Strategic Planning Partnership

Priorities and Commitments – Full Council

Key performance indicators and projects – Service and Area Committees

Operational monitoring and reporting:

Supporting performance indicators and projects – Department and Service led

Team and individual work plans – Service management team

On an annual basis an employee from one of the Council's Directorates are seconded into the Performance Team and following the LEAN 6 Sigma model consider specific priority projects. To date these projects have included: maximising attendance and Digital transformation. Across the Council 40 employees are trained in LEAN and the benefit of this secondment model is the employee can take the learning back into the Director and promote wider sharing.

Reshaping services

Over the last two years there have been 12 service reviews undertaken. These are bottom up reviews focused on improving performance and outcomes. Each review resulted in an individual report, with proposed options for change which were then subject to scrutiny at the relevant Committee.

Built into the service review process is the Business Transformation Steering Group, consisting of members of the CMT and Elected Members. This steering group independently challenge the proposals and the alignment to the Council priorities. Lastly there is an external challenge panel which includes representation from Finance and Human Resources.

Performance indicators and Local Government benchmarking

Performance is reported to the Corporate Management Team on a quarterly basis. Performance information is captured in covalent and reports generated from the system. Projects captured in the business plan are also recorded in the system and if a project milestone falls behind this is then escalated to the relevant service committee via a report.

A number of the performance measures are by their nature annual. Therefore Council Officers are looking at proxy measures to see how certain areas of performance can be better monitored during the year. **Action Point 9**

Service Committees

Council Managers are provided with guidance on reporting performance to ensure performance is reported consistently across the Council services. The guidance is good and sets out questions Managers should consider when reviewing performance alongside questions Service Committees and/or Elected Members may ask. This allows the Managers to think about the performance data in a wider context.

Committee reports are designed to allow Elected Members to quickly identify progress against the business plan and identify any exceptions in performance. Each report includes an "at a glance" section setting out progress against all service performance measures and KPIs. This is then followed with more detailed performance reports by exception, and these focus on areas of improvement or where there are significant changes. As reports are system generated they make good use of traffic light type indicators and trends are easily identifiable.

Local Outcomes Improvement Plan

The Community Empowerment (Scotland) Act 2015 requires each Community Planning Partnership (CPP) to prepare and publish a Local Outcomes Improvement Plan which sets out:

- Local outcomes to which priority is to be given by the CPP with a view to improving the achievement of outcomes.
- A description of the proposed improvement
- The period in which the improvement is to be achieved
- A description of the needs and circumstances of persons residing in the area of the Local Authority to which the plan relates

Overall the plan is focused on tackling inequalities in the Dumfries and Galloway area.

The Local Outcomes Improvement plan for 2016/17 sets out five outcomes:

1. Better paid employment for working people in our region
2. Positive destinations for vulnerable children and young people
3. Older and vulnerable people are able to look after their own health and wellbeing
4. People are supported to get out of poverty
5. Minority groups make a strong contribution to the planning, delivery and improvement of services and their communities.

Dumfries and Galloway Integration Joint Board

The Integration Joint Board arrangements continue to develop and evolve. Both the NHS and the Council work very closely together, as was previously the case. From our interactions with the Council Officers, and NHS Management we note that the partnership is working well and there is a real desire to work closely together to improve outcomes across the area.

The differing financial and governance models between NHS Boards and Local Government have at times been difficult to navigate by members of the IJB and culturally both organisations have different styles of working, in part due to different funding and governance models.

There is a degree of duplication between the IJB meetings, NHS Board meetings and Local Government meetings and this is one the IJB Board are considering for 2017/18, as part of the natural evolution.

Looking forward, recognising the significant financial pressures Local Government is facing, this may create further tensions at an IJB level, given the IJB's need to manage within defined resources, and seeking improvement in care outcomes and the shift from acute to community based care. We will continue to review the Council's relationship with the IJB in 2017/18 and the evolution of the IJB model.

Auditing Best Value

The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016.

Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period.

The BVAR report for Dumfries and Galloway Council is planned for 2018.

The Best Value audit work carried out this year focussed on the council's arrangements for demonstrating best value in financial management and financial sustainability and is reflected in the relevant wider scope sections of this report.

Workforce planning

The Council has a workforce strategy for the period 2015 to 2020. There are four key themes underpinning the strategy:

- Planning effectively for our workforce needs
- Improving employee engagement
- Helping our employees to succeed
- Ensuring equality for all

Regular reports on the workforce action plan are presented to the Policy and Resources Committee. Each Directorate has a workforce plan, which supports the goals of the Council wide plan. Plans focus on quantitative (employee numbers linked to financial planning) and qualitative aspects. Directorates are also in the process of developing succession plans and individual learning plans.

Progress to date in relation to the strategy includes:

- Council employment experience programmes established
- 250 modern apprenticeship programme delivered, supporting with succession planning and youth employment
- Improved reporting systems to support more informed workforce decisions
- Developed a coaching and mentoring framework for staff to support the building of transferable skills across the Council
- Performance development reviews established
- Developed a monthly staff survey programme for regular positive staff engagement.

DG Transform phase 2 is focused on supporting the retraining to upskill the Council's workforce and to improve resilience and capacity. Linked to this is continuing to work across the Council on managing headcount reductions effectively to support budget savings for example through the ERVS scheme. The workforce plan recognises that 42% of the Council's workforce are over the age of 50. Highlighting the importance of succession planning and the development of the modern apprenticeship schemes and graduate programmes.

Workforce skills

The Council recognise the need to invest in people to enhance their skills and performance, including the development of learning pathways which provide opportunity for career development. There is also a recognition that over the next 5 years the shape of the Council and its services will change requiring differing skills so the intention is to focus on how the Council can effectively forward look and plan for this change. Investments in this area include looking at graduates, the Council's "grow your own" programme and continued development of Modern Apprentices.

Staff Engagement

The Council has a workforce charter. Engagement with staff follows a three line approach:

1. Staff surveys. An annual Council wide survey is planned for September 2017. This includes the agreed benchmarks so results can be compared over time alongside how other Council's compare
2. Staff focus groups are planned for October 2017 focused on communications and what can be leaned and done differently
3. Engagement sessions – Targeted sessions are planned from November 2017 onwards once the outcome of the staff surveys and staff focus groups are collated and considered.

The Council has reflected on the Audit Scotland Local Government Performance and Challenges report (2017) and reflected the relevant actions into the workforce plan.

Through employee engagement, and other employee support arrangements the Council is hoping to improve the current days lost through sickness. Days lost to absence comes out at 12.66 days which the Council has calculated as being a cost of £1,035 per employee.

An update to the Council workforce plan will go to Committee in September or October this year. This includes Council wide information supported by Directorate commentary in the Directorate business plans.

Based on our discussions with Council Officers and review of the workforce plans and supporting documentation it is evident that the Council are taking workforce planning seriously and that workforce decisions are linked to the Council's wider Financial and service delivery decisions.

Appendices

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Audit adjustments

Uncorrected misstatements

There were no uncorrected misstatements noted in the year.

Corrected misstatements

Set out below were the corrected misstatements reflected in the final audited annual report and accounts

	CIES £000	BS £000	MIRS £000
Classification of Investments			
Dr Long term Investment		850	
Cr Short term Investment		(850)	
This was due to a misposting			
Classification of temporary			
Dr Short term Investment – Common Good		641	
Cr Short term Investment – Council		(641)	
This was due to a misposting			
IJB allocation adjustment			
Dr IJB expenditure	63,913		
Cr IJB income	(63,913)		
This was due to the judgement that IJB allocation and income is not real income or expenditure, but the LASAAC guidance requires these amounts to be reflected			
Total	-	-	-

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow audit committees to evaluate the impact of these matters on the financial statements. During the course of our audit process we identified certain minor disclosure enhancements throughout the annual report and accounts. These small disclosure changes been amended in the final version of the accounts. There were no significant disclosure changes that we want to bring to the Audit Risk and Scrutiny committee's attention.

Our identified audit risks and conclusions

Our audit plan identified a number of significant and other audit risks. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p>Management override of controls</p> <p>Under ISA (UK&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>Work undertaken:</p> <p>Completed a walkthrough of the controls and procedures in place around journal entries</p> <p>Reviewed the key accounting estimates, judgements and decisions made by management in particular property valuation, bad debt provision and PPE depreciation policies</p> <p>Tested journal entries with a focus on large and/or unusual values; posting sources; timing as identified using our IDEA data analysis software</p> <p>Reviewed unusual and/or significant transactions.</p>	<p>Key accounting estimates: We did not identify any significant areas of bias in key judgements by management and judgements were consistent with prior years.</p> <p>Fixed asset depreciation: We have reviewed the council's depreciation policies and used analytical procedures to recalculate depreciation estimates. We found the councils depreciation policies are in line with the Local Government SORP.</p> <p>To assess the bad debt provision we reviewed the inputs used by the council and the calculation performed. Specific items are provided for if Officers feel they are of a higher risk, and amounts and the percentages applied are regularly reviewed in relation to the nature of the debt and the economic conditions.</p> <p>Journals: We made inquiries of Officers who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We confirmed completeness of journals, and targeted large and/or unusual journals. We consider large journals to be those above our performance materiality and unusual to be those not expected in the usual course of business. We noted no issues from our journals selected for testing.</p> <p>Through our substantive audit testing we did not identify any significant transactions out with the normal course of business for Dumfries and Galloway Council.</p>
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 (UK&I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>Work undertaken:</p> <p>Completed a walkthrough of the controls and procedures in place around sales invoicing and sales ledger</p> <p>Agreed other revenue to cash receipts in the year / post period end to gain comfort over validity of these transactions</p> <p>Performed cut off testing to gain comfort around the completeness and accuracy of recognised income</p> <p>Considered the recoverability of any outstanding balances at year end.</p>	<p>We have performed our year-end cut-off procedures and assessed recoverability of outstanding amounts at year-end by performing analytical reviews of debtors and reviewing accounting treatment for post year end receipts</p> <p>Specifically in relation to Council Tax, NDR, Other Grant revenues and Other Income we completed detailed procedures on all material income streams. This included substantive sample testing where income was agreed to supporting information and bank statements.</p> <p>No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the Local Government Code of practice.</p> <p>We rebutted the risk of fraud related to the income stream from the Scottish Government, Council tax and NDR given the nature of the funding received. For Scottish Government income we agreed this to the final allocation letter and income receipted to bank.</p> <p>For Council Tax we performed analytical procedures and agreed to council tax system.</p> <p>Non Domestic Rates income was agreed to Scottish Government allocation letter, and pooling amount agreed to amount collected.</p>

Audit plan identified risk and work completed	Our conclusion
<p>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>Work undertaken:</p> <p>Completed a walkthrough of the controls and procedures in place around the valuation process.</p> <p>Reviewed the revaluation performed in year, including an assessment of the credentials of the valuer.</p> <p>Considered any indicators of material movements in those assets which have not been revalued in the year.</p> <p>Tested a sample of revalued assets to ensure adjustments have been correctly processed.</p>	<p>In 2016/17, in line with the 5 year rolling revaluation programme £121.722million assets were revalued in year. We have performed substantive procedures over these assets, and concluded that the revaluations have been undertaken in accordance with the Local Government code and applicable guidance issued.</p> <p>Dumfries and Galloway Council's valuer is in-house and we confirmed their suitability and qualifications through independent third party confirmation. The valuer is independent of the finance function working as part of the estates team which fall under separate services.</p> <p>We inquired of the valuer of their methodology and assumptions. The primary assumption being the building costs rates which are provided by BCIS, and produced for national use. We are satisfied that both methodology used and assumptions are in line with guidance.</p> <p>We have also assessed the arrangements in place to consider the risk of impairment of assets that have not been revalued in year. This is performed through recording of any events which may impact the value of a property and where necessary, considering if a revaluation should be undertaken earlier than planned.</p> <p>Through the inspection of title deeds we have confirmed ownership of assets.</p>
<p>Completeness of operating expenditure</p> <p>Operating expenses are understated or not recorded in the right period. 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>Work undertaken:</p> <p>Completed walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure.</p> <p>Reconciled creditors ledger to the general ledger and financial statements</p> <p>Performed cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure</p>	<p>Where grants had specific conditions for testing we have confirmed that monies have been spent in line with these conditions.</p> <p>Through our pre and post year end cut off testing we did not identify any expenditure that was incorrectly accounted for.</p> <p>Larger areas of expenditure were substantively tested. No issues have been identified through the procedures we have performed.</p>

Audit plan identified risk and work completed	Our conclusion
<p>Completeness of employee remuneration expenditure</p> <p>Completeness of employee remuneration accruals.</p> <p>Staff costs account for 40% of the 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>Work undertaken:</p> <p>Perform an analytical review against expectations and investigate significant movements in employee remuneration expenditure.</p> <p>Perform substantive testing of employee remunerations accruals at year end.</p> <p>Perform substantive testing to agree staff members to the e-payroll system and re-calculate employer costs.</p>	<p>We have concluded through the performance of our year end procedures that the expenditure of employee remuneration was incurred or applied in accordance with the applicable enactments and guidance issued and the expenditure is valid and correctly classified.</p> <p>Through our substantive payroll testing which covered the two council payrolls we did not identify any expenditure that was incorrectly accounted for.</p> <p>Larger areas of employee expenditure were substantively tested. In particular we considered the holiday pay accrual of £3.093 million, agreeing this to payroll system data and reviewing assumptions used.</p> <p>We have also tested the number of people who left the council under the Early Retirement/Voluntary severance Scheme. In 2016/17 188 people left the council at a cost of £4.246 million.</p>
<p>Consolidation of Dumfries & 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 & Galloway and Dumfries & 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 31st March 2017 are required to be consolidated within the Council financial statements. There is therefore a risk that the consolidated balance may be materially misstated as at 31 March 2017.</p> <p>Work undertaken:</p> <p>Reviewed the arrangements and processes in place to facilitate consultation.</p> <p>Completed procedures to gain assurance over the IJB balances.</p> <p>Ensured all disclosures in relation to the IJB are adequate, complete and appropriate.</p>	<p>We have reviewed the arrangement and processes undertaken by the council to consolidate the accounts. Working papers provided have been clear and well document the process followed by the council.</p> <p>We have fully tested the transactions between Dumfries and Galloway Council and Dumfries and Galloway IJB through confirmations between the bodies. The consolidation process has been carried out in accordance with the CIPFA/LAASAC guidance and the SORP.</p>

Action Plan for 2016/17

During the course of our 2016/17 audit work we have identified the following actions for Officers:

	Area	Issue and Risk	Priority	Recommendation
1	Fixed assets	<p>When reconciling the Fixed asset register and the General Ledger we identified that for Vehicles, plant, furniture & equipment there is a £79,000 difference between the fixed asset register and the ledger. This difference is a known difference and immaterial. Officers continue to ensure that this difference does not increase as a fix is not possible and relates to the historic change in IT systems around fixed assets and goes back a number of years.</p> <p>There is a risk that this difference increases resulting in a material difference which is not anticipated.</p>	Low	<p>Officers should continue year on year to ensure that this difference remains fixed and does not increase, which would indicate a deficiency in the control environment.</p> <p>Officer responsible for implementation: Treasury and Capital Manager Timescale: by end of March annually</p>
2	Statutory trading organisations	<p>The roads maintenance service generated a very small surplus in 2016/17, but failed to breakeven over the 3 year rolling period..</p> <p>Risk: actions identified may not improve financial performance of roads maintenance.</p>	Low	<p>Officers should review the actions agreed in the 2014/15 action plan to see if further action can be taken to build on the small surplus achieved this year</p> <p>Officer responsible for implementation: Head of Enterprising Services. Timescale: December 2017</p>
3	Management commentary	<p>The Management commentary reflects our understanding of the Council. It is very narrative focused and although conscious it could be enhanced for the user of the accounts through the inclusion of diagrams to show year-on-year comparisons and to highlight particular practices through case studies.</p>	Low	<p>Officers should review the management commentary for 2017/18 to see how this can be made as user friendly as possible, and may wish to include diagrams and case studies to support the narrative.</p> <p>Officer responsible for implementation: Corporate Accountancy Manager in liaison with the Policy and Performance Team Timescale: During 2017/18, and completed for the draft unaudited accounts</p>

	Area	Issue and Risk	Priority	Recommendation
4	Elected Member training	<p>The Council has invested in a significant training programme for Elected members but based on previous experience attendance outwith the required sessions had been mixed. Therefore the importance of attending training should continue to emphasised by Council Officers</p> <p>Risk: Investment in Elected Member training may not result in a return due to poor attendance rates or lack of commitment and engagement with the programme.</p>	Medium	<p>Officers should continue to encourage elected members to fully participate in the training programme, both required but also the wider CPD elements to ensure that a higher attendance rate is achieved than in 2012.</p> <p>Officer responsible for implementation: Head of Legal and Democratic Services Timescale: 31 March 2018</p>
5	Website	<p>The Council website contains a wealth of information for service users. From our review, we noted that information on how the Council performs and delivery of outcomes could potentially be clearer, as currently you need to go through about 4 sub menus.</p> <p>There is a risk that performance information may not be easily identifiable via the website</p>	Low	<p>The Council's website will be reviewed to ensure all key documentation is included and easy to find.</p> <p>Officer responsible for implementation: Business and Technology Services Manager Timescale: 31 December 2017</p>
6	Audit, Risk and Scrutiny	<p>The Audit, Risk and Scrutiny Committee is a newly formed Committee which will take time to be embedded and agree the balance of the agenda, number of meetings, and effectiveness of the scrutiny.</p> <p>Risk: The findings from the Committee may not be fully embraced by the main Council given the 100% opposition nature of the committee and/or the committee may not operate as intended and therefore scrutiny would not be enhanced</p>	Medium	<p>Officers and Committee members should review the effectiveness of the committee at the end of June 2018 to confirm the committee is meeting the scrutiny and audit needs of the Council.</p> <p>Officer responsible for implementation: Head of Democratic and Legal Services Timescale: 30 June 2018</p>

	Area	Issue and Risk	Priority	Recommendation
7	Corporate Governance Code	<p>The corporate governance code contains a number of documents and/or links to documents which are out of date or no-longer relevant.</p> <p>Risk: Out of date policies and procedures may be applied in error</p>	Low	<p>The Corporate Governance code should be updated during 2017/18 as planned, and employees notified of the new document.</p> <p>Officer responsible for implementation: Democratic Services Manager Timescale: 31 March 2018</p>
8	Risk management	<p>The Council's corporate risk register reflect a number of risks, as recorded on covalent. However, there is an opportunity to re-review these risks and link them to the risk of failure to deliver the Council priorities. In addition, Council Officers may wish to consider the focus risk management receives across the Council. This would then ensure risk was integrated into the Council's wider arrangements and the Corporate Management team would then only focus on those risks that are critical to the Council.</p>	Medium	<p>Council Officers should review the seniority and priority the Council gives risk management, and also review the corporate risks identified and how these link to the impact the risk would have on the Council not achieving the agreed Council priorities.</p> <p>Officer responsible for implementation: Internal Audit Manager Timescale: 31 March 2018</p>
9	Performance Measures	<p>The Council are continuing to consider and develop suitable performance metrics that can be measured during the year in support of an annual performance metric to give an "early warning" signal where needed.</p> <p>Risk: Performance that is only reported annually may not give sufficient time to re-look at performance outcomes or make the necessary changes.</p>	Low	<p>As planned Officers should look to develop and implement these quarterly/proxy measures during 2017/18.</p> <p>Officer responsible for implementation: Performance and Improvement Manager Timescale: 31 March 2018</p>

Follow up on prior year recommendations

We have undertaken a follow up of outstanding recommendations from prior years raised by the previous external auditors (PricewaterhouseCoopers LLP). The results of our work are outlined below:

Prior year finding	Action in 2016/17	
Related party transactions The Council should enhance procedures to ensure that related party transactions are disclosed in accordance with accounting standards.	Status: Implemented Officers have implemented new procedures to identify related parties which directly relates to IAS 24. No issues were identified in our related party testing.	 Green
Compliance with procurement standing orders Management should seek to understand the underlying cause for the failure to adhere to procurement policy in this instance and assess whether any further procedures require to be undertaken in the context of this contract.	Status: Implemented During the year a Procurement and Commissioning Manager was appointed and the Council's procurement arrangements including procurement policy updated. Elected Members have been kept updated during the year.	 Green
Accounting for asset combinations Management should implement a monthly review of automated journals posted to the general ledger as a consequence of fixed asset register transactions to ensure that these are correct. An additional step will be added into the fixed asset register closedown process to review any asset combinations during the year and ensure that relevant postings are carried out in the general ledger to avoid any inaccurate revaluation movements.	Status: Implemented An additional step has been added into the fixed asset register closedown process to review any asset combinations during the year and ensure that relevant postings are undertaken in order to avoid any inaccurate movements. We did not identify any errors in our testing for 2016/17,	 Green
Consideration of asset impairment Going forward the Council should review the controls it has in place to ensure that all asset impairment triggers are identified by the Council's Estates and Finance department (i.e not just those assets being formally revalued as part of its annual rolling revaluation exercise to ensure that the value of the Council's assets have not been overstated in the financial statements at year end.	Status: In Progress A pilot is currently ongoing with a view to developing a web based database of planned maintenance and scheduled repair works. This will provide management with information to assist with the identification of impairment indicators beyond the rolling valuation exercise. The pilot is currently based in excel. The building of a web based solution is ongoing and due to be completed in 2018/19. Revised Target date: June 2018	 Amber

Prior year finding	Action in 2016/17	
Borrowing and treasury management in councils We recommend that the Council consider the “Borrowing and Treasury Management in Councils” report and assess its controls against the recommendations raised within it.	Status: Implemented Following the action plan produced by internal audit we are satisfied that the council has fully implemented the recommendations.	 Green
Management of the National Fraud Initiative We recommend that the Council reviews the procedures and resources it has put in place to deal with NFI to ensure that the issues identified above are resolved.	Status: Implemented Based on our NFI procedures carried out during the year we are satisfied that there are no matches that have not been investigated for the 2014/15 period.	 Green



Fully implemented (green)



Partially implemented (amber)



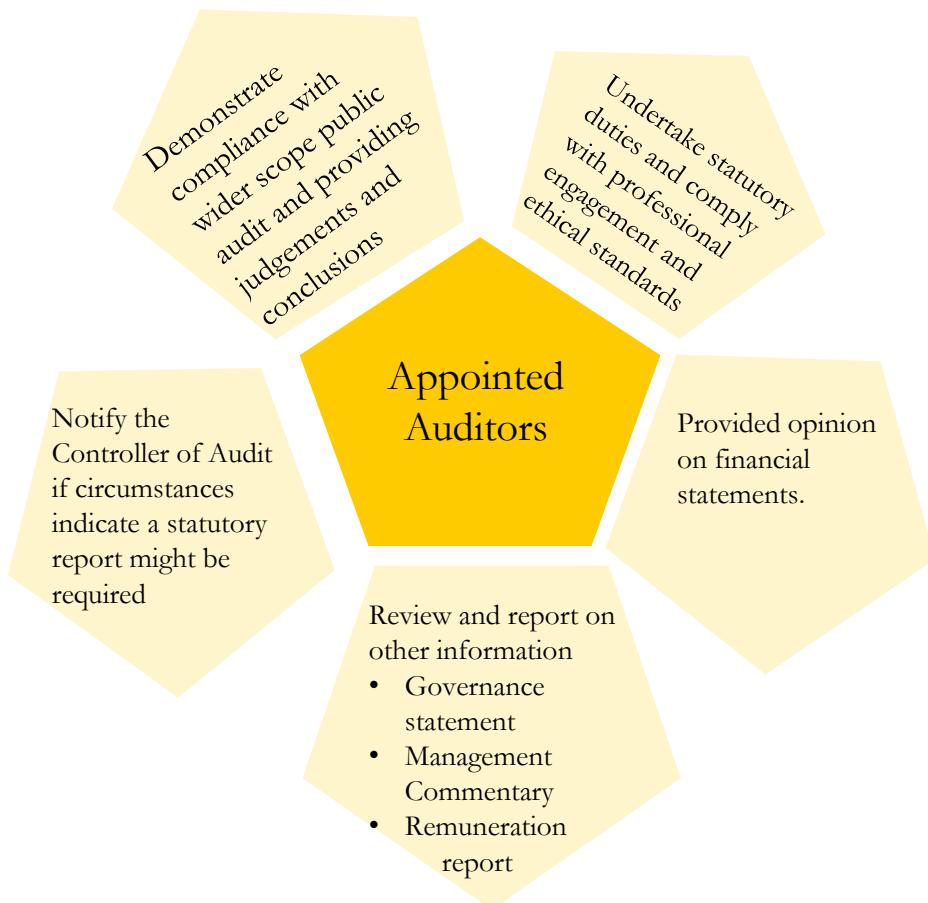
Not implemented (red)

Summary of audit deliverables

Audit deliverables for 2016/17	Outcomes/Summary of progress
Audit opinion on the annual report and accounts and our report to those charged with Governance and the Controller of Audit	Complete: Our opinion is unqualified and will be signed and included in the final annual report and accounts published by the Council. This report discharges our responsibilities under ISA standards and the Code of Audit Practice.
Charitable Trusts	Complete. We have completed the audit of the two charitable Trusts and provided signed opinions for the inclusion of these accounts which are then submitted to OSCR.
Whole of Government Accounts (WGA)	Ongoing. As the Council is over the reporting threshold for WGA we need do certain checks and issue an assurance report to the NAO. The deadline for this is the end of September and we are on track to meet this deadline.
Criminal Justice Authority (CJA) Grant Claim	Completed. We have audited the CJA Grant claim and submitted that by the deadline of end of September 2017. No issues were identified
Bus Operators Grant claim	This grant claim was audited and the claim form submitted to Transport Scotland in July with no issues noted.
Education Maintenance Allowance (EMA) Grant Claim	Completed. Grant Claim submitted by the deadline of the end of July 2017.
Non-Domestic Rates Grant Claim	Completed. Our work on the NDR Grant claim is complete and submitted ahead of the deadline of the start of October 2017. There were only minor immaterial issues identified which are reflected in the covering letter.
Housing Benefit subsidy claim	Ongoing. Our work over the housing benefit subsidy claim is ongoing and will be completed during October 2017 and November 2017 to ensure we can return the required information and certificate to the DWP by the end of November 2017
Audit Scotland returns and information	<p>During the year we submitted certain information to Audit Scotland. These were submitted by the deadlines and included:</p> <ul style="list-style-type: none"> - Updates on Dumfries and Galloway Council risks/challenges/opportunities to help Audit Scotland in their reporting to their FAAC committee - EU Grants return - Role of “Boards” return to inform a future performance study - LG return, linked to our final report, to support LG overview reporting and an indicative Best Value 5 year plan to inform the arrangements for Best Value Assurance Reporting

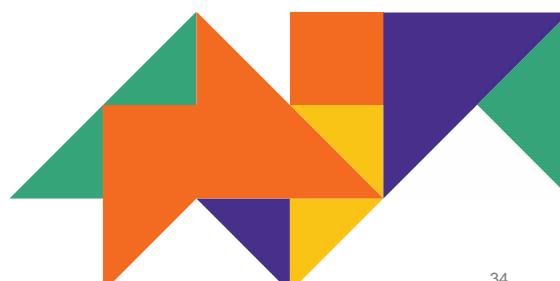
Reminder of Responsibilities

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 and are summarised below.



An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISA's and the Code and may not be all that exist

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control





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