

# External Audit Report for Dumfries and Galloway Council

Financial year ended 31 March 2022

Prepared for those Charged with Governance and the  
Controller of Audit

March 2023



# Contents



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Section	Page
Executive Summary – Financial Statement Audit	3
Introduction	5
Audit of the annual report and accounts	6
Wider scope and best value conclusions	22
<b>Appendices</b>	
1. Audit adjustments	40
2. Action plan and recommendations – Wider Scope and Best Value	45
3. Follow up of prior year recommendations	46
4. Follow up of 2019/20 recommendations	48
5. Audit fees and independence	49
6. Communication of audit matters	50

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

# Executive Summary

This table summarises the key findings and other matters arising from the external audit of Dumfries and Galloway Council and its Group and the preparation of the financial statements for the year ended 31 March 2022 for those charged with governance (Audit, Risk and Scrutiny Committee) and the Controller of Audit .

## Financial Statements

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

- The Group and Council financial statements give a true and fair view in accordance with applicable law and CIPFA Code of Practice on Local Authority Accounting 2021/22 ('the 2020/21 Code') of the state of the Council and its Group as at 31 March 2022 and of the income and expenditure of the Council and its Group;
- the Group and Council's financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as interpreted and adapted by the 2021/22 Code;
- the Group and Council's financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) regulations 2014, and the Local Government in Scotland Act 2003.
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

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

We have issued an unmodified opinion. We have concluded that the other information to be published alongside the financial statements is consistent with our knowledge of the council.

As in prior year our external audit work was completed remotely. The financial statements presented for audit were of a good quality and the Council finance team have supported the audit process, by providing suitable working papers and answering our auditor queries on a timely basis. We have faced challenges relating to system access in order to obtain supporting working papers and evidence. This has in part been due to security blocks from our external network. The council and future appointed auditor should work together to ensure there is a streamlined way of accessing working papers and evidence in a more efficient manner.

We have identified one adjustment to the financial statements of Dumfries and Galloway Council and the Group of £100k and no changes to the general fund reported financial position.

We have identified a number of potential misstatements during the audit from our testing to date. Most of these have arisen as a result of errors identified within our sample testing which when extrapolated are above our trivial threshold. Management have decided not to adjust the financial statements as the misstatements are estimated and not material. Audit adjustments are detailed in Appendix 1.

We have also raised recommendations for management as a result of our audit work in Appendix 2. Our follow up of recommendations previous audits are detailed in Appendix 4.

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## Financial Statements (continued)

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There has been a delay in issuing our audit opinion due to the additional work undertaken on infrastructure assets to gain assurance that the useful economic lives (UELs) applied by management are reasonable and that the net book value of assets remains free from material misstatement. Due to the lack of record keeping by councils nationally on the componentisation of infrastructure assets a temporary statutory override was issued by the Scottish Government in August 2022 (more details can be found on page 13 of this report).

As part of the work carried out we employed our own engineering experts to review the records kept of maintenance of infrastructure assets to gain assurance over the reasonableness of the useful economic lives applied to determine the net book value of assets.

Our experts concluded in February 2023 that the UELs applied by management for roads was deemed appropriate. They however concluded that there was insufficient information to support the UELs applied by management for bridges and structures. We therefore performed a sensitivity analysis to determine whether the difference between the UEL applied by management and the UEL suggested by our engineering experts and other evidence would result in a material difference in the net book value of these assets. The result was that a change in UEL adopted for these assets on a cumulative basis would result in a £10.6m difference to the current net book value reported. This represents an uncertainty, and a judgement and estimate where we could not obtain corroborative evidence to support assumptions and is therefore not a defined error in the accounts. This is below materiality levels and therefore we are satisfied that the net book value of infrastructure assets is free from material misstatement.

It is recognised by Council Officers that further work will be required to support UEL in 2022/23 and to hold sufficient, complete and accurate records for when the statutory override is removed. This is an action that is being taken forward already.

This is our last year as the Council's appointed auditors and we wish to thank the Council and the Council finance team for supporting the audit process over our audit appointment.

# Introduction

## Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year at Dumfries and Galloway Council. The scope of our audit was set out in our External Audit Plan.

The core elements of our audit work in 2021/22 have been:

- An audit of the Council and Group's annual report and accounts for the financial year ended 31 March 2022 [findings reported within this report];
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2016 ('the Code') [within this report];
- Certification of Housing Benefits subsidiary claim, Education Maintenance Allowance and Non-Domestic Rates Certification [in the process of conclusion and will be reported to DWP in March 2023];
- Monitoring the Council's participation in the National Fraud Initiative (NFI); and
- Any other work requested by Audit Scotland.

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

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

## Responsibilities

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

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

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

## Adding value through our audit work

We aim to add value to the Council throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward looking recommendations where we identify areas for improvement and encourage good practice around financial management and sustainability, risk and performance. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

# Audit of the annual report and accounts

## Key messages and judgements

To date we have identified one audit adjustments to the financial statements of £100k and no changes to the reported general fund financial position.

Disclosure corrections identified during our audit have been detailed in Appendix 1.

We have also raised recommendations for management as a result of our audit work in Appendix 2 and 3.

Our follow up of recommendations from the prior year's audit are detailed in Appendix 4 and 5.

Our work is complete, there are no matters of which we are aware that would require modification of our audit opinion for the council's financial statements (including the financial statements which consolidate the financial activities of the group).

## Our audit opinion

As reported in the independent auditor's report, our opinion will cover:

- The Group and Council financial statements give a true and fair view in accordance with applicable law and the 2021/22 Code of the state of the Council and its Group as at 31 March 2022 and of the income and expenditure of the Council and its Group for the year then ended;
- the Group and Council's financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the United Kingdom, as interpreted and adapted by the CIPFA Code of Practice on Local Authority Accounting 2021/22 ('the 2021/22 Code');
- the Group and Council's financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) regulations 2014, and the Local Government in Scotland Act 2003; and
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

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

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

Our work relating to the review of Management Commentary and Annual Governance Statement is complete and we have no significant or material matters to report to you in respect of the Management Commentary and the Annual Governance Statement.

# Audit of the annual report and accounts

## The audit process

Our external audit work commenced in September 2022 with the audit team working remotely. The Council prepared and published the unaudited annual report on the Council's website by the end of June, as required. The overall quality of the accounts were of a good standard. The Council finance team supported the audit process, with both teams working together to resolve audit queries.

We have experienced some delays in completing our audit work. This is not a reflection on the Council and their support of the audit process. The reason for the delay in concluding our work primarily relates to, the recently issued statutory override on infrastructure assets and the associated challenge as auditors of the resultant net-book value as at 31 March 2022. In addition, we continue to demonstrate professional challenge and scepticism, over audit evidence, including areas of significant audit risk such as valuation, and officers critical judgements and estimates.

## Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our audit approach was set out in our audit plan.

- We reviewed and updated our assessment of materiality from planning based upon your 2021/22 draft financial statements and concluded that materiality is £10.938 million for Group (£10.918 million for Council only), representing 2% of consolidated group gross expenditure less IJB contributions of £77.9m (and 2% of Council only gross expenditure less IJB contributions of £77.9m). In the prior year we used the same benchmark.
- Performance materiality was set at £8.203 million for the Group (Council only: £8.188 million), representing 75% of our calculated materiality.
- We report to Officers (Management) any difference identified over £250,000 (trivial capped at £250,000 by Audit Scotland).
- We applied a lower materiality threshold for disclosures within the Remuneration Report to ensure that remuneration has been disclosed within the appropriate bandings (being £25,000). This was only for the remuneration of senior staff and does not include Councillor remuneration or Councillor expenses.

## Internal control environment

In accordance with ISA requirements we have developed an understanding of the Council's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place.

However, we do not place reliance on the design of controls when undertaking our substantive testing. We identified no material weaknesses from this work which would have caused us to alter the planned approach as documented in our plan.

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# Audit of the annual report and accounts

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## Status of Audit Work

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Our audit team and the Council finance team continue to work together to complete the audit. We have a tracker of outstanding items we routinely share and agree. This captures those matters where the Council need to respond to our follow up queries, and the audit work we have yet to complete.

As an audit team we have focused on concluding our work on the significant audit risks and the material financial balances, per our audit risk assessment and scoping. These are the areas at greater risk of material adjustments, with a potential to impact the opinion. No significant adjustments have been identified through this work.

Our work is subject to the following closing procedures which necessarily take place within the concluding stages of the audit:

- Final senior engagement team and quality review; and
- receipt of management representation letter {sent as a separate document}

Audit quality is important to us and it is important as auditors that we take a step back to consider all our audit evidence and the quality of our audit work on file. This includes sufficient documentation of our auditor judgements and conclusions. This includes further review and challenge by the Engagement Leader and the Council's Review Partner.



## Responding to significant financial statement risks

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

Risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b></p> <p>Our risk focuses on the areas of the financial statements where there is potential for management (Senior Officers) to use their judgement to influence the financial statements alongside the potential to override Dumfries and Galloway Council's internal controls, related to individual transactions. Our work focuses on journals, management estimates and judgements and transactions outside the normal course of business as set out within the financial statements.</p>	<p>In response to the risk highlighted in the audit plan we look to undertake the following work:</p> <ul style="list-style-type: none"> <li>• Evaluated the design effectiveness of management controls over journals;</li> <li>• Analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>• Tested unusual journals made during the year and at year end for appropriateness and corroboration;</li> <li>• Gained an understanding of the accounting estimates and critical judgements applied and made by Officers and consider their reasonableness; and</li> <li>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p><b>Conclusion</b></p> <p>We encountered difficulties in obtaining a complete listing from the ledger system in order to review and select high risk and unusual journals for testing. This is due to a variety of factors including specific attributes of journal postings from the ledger system which the new audit team were required to gain an understanding of, as well as incomplete listings provided at the start of the audit which required further listings to support reconciliations. We subsequently gained assurance over the completeness of the ledger which reconciles to the financial statements. We have reviewed journals posted and selected high risk and unusual journals to test to supporting documentation.</p> <p>We noted a control deficiency, in respect of segregation of duties (journal authorisation). On discussion we note this has been previously identified by internal audit and that management are satisfied that mitigating controls are in place and management are accepting of the risk.</p> <p><b>Our work has not identified any material issues in relation to management override of controls.</b></p>

## Risks identified in our Audit Plan

## Commentary

### Valuation of land and buildings

The Council values its land and buildings on a rolling five-year basis as allowed in the Accounting Code. This valuation represents a significant estimate in the financial statements due to the material values involved (land and buildings held at 31 March 2021 were £703 million) and the sensitivity of this estimate to changes in key assumptions. Given the value of land and buildings and the level of complexity and judgement in the valuation estimates, there is an inherent risk of material misstatement in these valuations.

The risk is less prevalent in the Council's remaining classes of assets (vehicles, plant and equipment, community assets and surplus assets) as these are generally held at depreciated historic costs, as a proxy of fair value and therefore less likely to be misstated.

The Council employs external valuers, Colliers, to value land and buildings to provide an independent valuation of land and buildings on a rolling five-year basis, valuing all land and buildings at a minimum of once every five years. Based on our planning procedures to date and subject to the results of the final valuation we focus the risk on:

- Land and buildings where the valuation movement is not in line with the audit team's expectation;
- Land and buildings which have been valued by the valuers without any physical inspection of relevant data.

In response to the risk highlighted in the audit plan we look to undertake the following work:

- reviewed revaluations made during the year, confirming valuations have been input correctly into the asset register;
- obtained an understanding of the basis on which valuations are carried out and challenged the information and assumptions used in the valuation process;
- engaged our own valuations expert to assess the instructions issued by Dumfries and Galloway Council to their valuer, the final valuer's report and the assumptions used that underpin the final valuations;
- performed focused testing in relation to management's impairment assessment, particularly in relation to assets which have not been subject to a formal valuation during the year, and considered the appropriateness of the assumptions used as part of this assessment.

### Conclusion – Land and Buildings

We have engaged our valuations expert who have assessed the instructions issued by the council to your valuation expert, no issues were noted by our valuation expert regarding the instructions issued.

We have performed substantive testing of the assumptions underpinning the valuation as well as review of accounting treatment and impairment assessment. We encountered some difficulties in corroborating some of the assumptions made by your external valuer which has resulted in a potential overstatement of land and building valuations of £5.879million. This is an uncertainty where we could not obtain corroborate evidence to support assumptions and therefore is not a defined error in the accounts. Refer to Appendix 2 of this report for further information.

**Our work has not identified any material issues in relation to the valuation of land and buildings.**

## Risks identified in our Audit Plan

## Commentary

### Defined benefit pension scheme – Valuation

The Council participates in the Dumfries and Galloway Council Pension Fund, a local government pension scheme. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Dumfries and Galloway Council is required to recognise its share of the scheme assets and liabilities on the statement of financial position. As at 31 March 2021 the Council had pension fund liabilities of £494.3 million.

Hymans Robertson UK LLP provide an annual IAS 19 actuarial valuation of Dumfries and Galloway Council's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme could be materially misstated within the financial statements. We focus this risk on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and suitability of these for the Council.

In response to the risk highlighted in the audit plan we have undertaken the following work:

- performed walkthroughs of the controls and procedures over the valuation of defined benefit pension liabilities, including Officers oversight of the valuation;
- considered the work of the actuary (Hymans Robertson UK LLP), including the assumptions applied, using the work performed by Pricewaterhouse Coopers (PwC) (commissioned on behalf of Audit Scotland to review actuarial assumptions proposed by LGPS actuaries);
- performed substantive analytical procedures over the pension fund movements, investigating any deviations from audit expectation;
- reviewed the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.
- obtained assurance letters from the Dumfries and Galloway Pension Fund auditor and reviewed in order to support our audit work on the valuation of the pension liability

### Conclusion

Assurance letters obtained from the Dumfries and Galloway Pension Fund auditor identified an understatement of pension asset investments of £11m which resulted in an adjustment to the Dumfries and Galloway Pension Fund Accounts. On identification of this error the Council obtained an updated IAS19 actuary valuation report. The movement of the liability within the updated actuary report resulted in a £100k increase in the pension liability, management have decided to adjust for this error. This is a disclosure amendment only and does not impact on the financial position of the Council.

**Our work has not identified any other material issues in relation to valuation of the pension fund net liability.**

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## Risks identified in our Audit Plan

## Commentary

### The revenue cycle includes fraudulent transactions

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

**(rebutted)**

Auditing standards require us to consider the risk of fraud in Revenue. This is considered a presumed risk in all entities. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Dumfries and Galloway Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition, opportunities to manipulate revenue recognition are deemed to be limited and the culture and ethical frameworks of local authorities, including Dumfries and Galloway Council, mean that all forms of fraud are seen as unacceptable.

### Conclusion

Our work has not identified any material issues in relation to revenue recognition.

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## Infrastructure Assets

Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset created. For Dumfries and Galloway Council, infrastructure assets include roads, bridges, street lightening, traffic management systems, harbours, piers and other similar type harbour assets. Under the Local Authority Code these are measured at historical cost.

In accordance with the accounting code when a component asset is replaced the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and the gross cost and accumulated depreciation of the old component derecognised to avoid double counting.

However, during 2021 an issue was identified by auditors across the UK, auditing Local Authorities, that accounting for infrastructure assets was not correct, in that the old components were not being appropriately derecognised, due to the nature of the underlying infrastructure assets accounting records maintained.

An approach to rectify this issue was not agreed, via a consultation on temporary code changes. As a result Scottish Government have issued a temporary statutory override, until 2024, until permanent solution can be reached. This is a national issue that all councils within Scotland are experiencing with material infrastructure assets.

Dumfries and Galloway Council have updated the annual report and accounts to recognise this statutory override. As a result:

- Dumfries and Galloway Council are not reporting gross carrying value and accumulated depreciation for infrastructure assets in the accounts; and
- The carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be accounted for, at a nil amount, and no subsequent adjustment made to the carrying amount of the asset, related to that part.

This use of the statutory override is referenced in the Council's updated Accounting policies and the changes made in the PPE disclosure note, within the annual report and accounts.

However, the challenge for auditors is the accounts show a highly material net-book value of £140million, compared to our materiality level of £10.9million. To gain sufficient audit assurance we need to be able to determine that the Council's useful economic lives (UELs) adopted for Infrastructure assets are reasonable. It is UELs that drive depreciation, which effectively determines the resultant net book balance within the accounts.

In response to this risk we employed an auditor's expert to provide assurance on the reasonableness of the UELs applied by management.

The Council are aware that they will need to review their infrastructure accounting records, in order to undertake proper accounting, per the CIPFA Accounting Code once the statutory override ends. This will include careful consideration of UELs and the records to support additions and disposals. We have not raised an action point as management are taking this forward and will discuss this further with the new auditors, Audit Scotland, for the 2022/23 audit.

**Conclusion: Our work has not identified any material issues in relation to the net book value of infrastructure assets accounted for in the council and group financial statements.**

## Detecting irregularities, including fraud

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Dumfries and Galloway Council and its Group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2021/22 Local Government Accounting Code of Practice.
- We enquired of Senior Officers and the Chair of the Audit, Risk and Scrutiny Committee, concerning the Council's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Chair of the Audit, Risk and Scrutiny Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Council and its group financial statements to material misstatement, including how fraud might occur, by evaluating officers incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Council's financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of land and the estimations in respect of the Council's defined pension liability. Our audit procedures are documented within our response to the significant risk of management override of controls.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in in certain account balances and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - Dumfries and Galloway Council and its group operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Council's control environment, including the policies and procedures implemented by the Council to ensure compliance with the requirements of the financial reporting framework.

## Key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Land and Building valuations – £93m</b>	<p>Land and buildings comprises £86m of specialised assets such as schools and waste facilities, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£7m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council also hold £210k of other assets (surplus assets and assets held for sale) which are valued at market value. The Council have engaged Colliers to complete the valuation of properties as at 30 March 2022 on a five yearly cyclical basis.</p> <p>Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2022. In order to ensure the carrying value of assets is not materially different from the current value at the balance sheet date, management apply indices provided by management's external valuer to determine whether there has been a material change in the total value of these assets. Our review of management's assessment of non-revalued assets is currently in progress.</p> <p>The total year end net book value of land and buildings was £691m, a net decrease of £12m from 2020/21 (£703m).</p>	<p>We reviewed your assessment of the estimate considering:</p> <ul style="list-style-type: none"> <li>• Revised ISA540 requirements;</li> <li>• Assessment of management's expert to be competent, capable and objective;</li> <li>• Completeness and accuracy of the underlying information used to determine the estimate;</li> <li>• The appropriateness of your alternative site assumptions which remain consistent with previous years;</li> <li>• Reasonableness of increase/decrease in estimates on individual assets;</li> <li>• Consistency of estimate against relevant indices on property market trends, and reasonableness of the decrease in the estimate; and</li> <li>• Adequacy of disclosure of estimate in the financial statements.</li> </ul> <p><b>Conclusion</b></p> <p>We have performed substantive testing of the assumptions underpinning the valuation as well as review of accounting treatment and impairment assessment. We encountered some difficulties in corroborating some of the assumptions made by your external valuer which has resulted in a potential overstatement of land and building valuations of £5.879million. This is an uncertainty where we could not obtain corroborate evidence to support assumptions and therefore is not a defined error in the accounts. Refer to Appendix 2 of this report for further information.</p> <p><b>Our work has not identified any material issues in relation to the valuation of land and buildings</b></p>	<b>Yellow</b>

### Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Orange] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Yellow] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
<b>Net pension liability £370m</b>	<p>The council's net pension liability at 31 March 2022 is £370m (PY £494m) comprising the Dumfries and Galloway Local Government and unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2020. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £163m net actuarial gain during 2021/22.</p>	<ul style="list-style-type: none"> <li>We have obtained an understanding of the processes and controls put in place by management to ensure the council's pension fund net liability is not materially misstated and evaluated the design of associated controls;</li> <li>We have assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;</li> <li>We have assessed the impact of any changes to the valuation method;</li> <li>We have assessed the accuracy and completeness of information provided by the council to the actuary to estimate the liability;</li> <li>We have used PwC as our auditors expert to assess the actuary and assumptions made by actuary – see table below for comparison with Actuary assumptions.</li> </ul> <p>As assumptions applied have been found to be within the appropriate range by our auditor's expert we have determined the overall assessment of assumptions applied as reasonable.</p>	<b>Green</b>																								
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<p><b>Our work has not identified any material issues in relation to valuation of the pension fund net liability.</b></p>																											

## Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Orange] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Yellow] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious



# Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Other estimates and judgements include:</p> <ul style="list-style-type: none"> <li>Property, Plant and Equipment: depreciation including useful economic lives (UELs).</li> </ul>	<p>Buildings are depreciated in accordance with the valuers estimation of value/remaining life. Vehicles, plant, furniture and equipment is depreciated based on standard lives and estimates from relevant managers and contract lengths where relevant. For existing assets the source data is the carrying value at the start of the year. For buildings this is the revaluation performed at year end. For new assets it is the purchase cost during the year. The point estimate for depreciation is generated by the asset register based on the inputs of costs and expected lives for each asset.</p>	<p>Our work in respect of the estimate of your depreciation charge has not identified any material issues.</p> <p>Our engineering experts were unable to conclude on the reasonableness of the UELs applied to bridges and structural assets. This is due to lack of record keeping of componentisation of these assets which makes it difficult to evidence whether the UELs applied match the improvement works carried out on these assets. We therefore performed a sensitivity analysis to determine whether the difference between the UEL applied by management and the UEL suggested by our engineering experts and other evidence would result in a material difference in the net book value of these assets. The result was that a change in UEL adopted for these assets on a cumulative basis would result in a £10.6m difference to the current net book value reported. This is below materiality levels and therefore we are satisfied that the net book value of infrastructure assets is free from material misstatement.</p>	Yellow
<ul style="list-style-type: none"> <li>Provisions for debt impairment</li> </ul>	<p><b>Council tax provision</b> The council review the in-year collection levels against the budgeted Council Tax yield (which includes an estimate for Bad Debt). The extent of Bad Debt provision for prior years is reassessed, depending on the number of years the debt has been outstanding, with 100% provision provided for any debt in excess of 5 years old. While there is provision for these debts, recovery is still sought – with any income received during the year released as “windfall” resources.</p> <p><b>Debtors provision</b> The debtor provision is based on a review of the overall level of Debt held by the Council at the end of the financial year, with assessments based on the categorisation of debt into short term and long term, the length of time that the debt has been outstanding, the risk of non-payment based on where/who the Debt relates to and any issues that have previously been experienced with repayments/recovery. A bad debt assumption (percentage) is then applied against the Debtor based on this review and reflected within the Annual Accounts.</p>	<p>Our work in respect of the estimate of your provisions for debt impairment has not identified any material issues.</p>	Green

## Assessment

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## Significant estimates and judgements (continued)

As required in the Council's Accounting Policies note, Officers outline critical judgements in applying accounting policies and in addition, assumptions about the future and other sources of estimation uncertainty. In particular, where estimates and judgements are identified, these should be quantified. The council has reviewed its critical judgement and estimation uncertainty disclosures in light of a prior year finding regarding disclosure (see Appendix 4). The council has therefore reduced the number of critical judgements and disclosures of estimation uncertainty to those in which the council deem are material to the accounts and are in the council's view critical judgements. Whilst what is currently disclosed, is representative of judgements and estimates, they are not all, in our view, critical judgements in the context of the financial statements. This is an area of judgement in which we as auditors have differing view from management and therefore is disclosed within this report.

We have sought assurance from Officers of other accounting estimates in the accounts and tailored our work appropriately. These are not significant or material.

### Assessment

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## Other key elements of the financial statements

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

Issue	Commentary
<b>Matters in relation to fraud and irregularity</b>	It is Dumfries and Galloway Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from Officers regarding management's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
<b>Accounting practices</b>	We have evaluated the appropriateness of Dumfries and Galloway Council's accounting policies, accounting estimates and financial statement disclosures. We have identified disclosure adjustments required to the financial statements which have been detailed in Appendix 2.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Other information</b>	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified from work performed.

Issue	Commentary
Governance statement	We are required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016). No inconsistencies have been identified, we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required by the Accounts Commission to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Written representations	A letter of representation will be requested from the Council.
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

Issue	Commentary
<b>National Fraud Initiative</b>	<p>The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including the Council, receive matches for investigation. We reported to Audit Scotland during the year the Council's progress in the data matching exercise and the overall approach to NFI. No issues were identified to highlight to the Committee and the Council continue to be committed to the NFI exercise.</p>
<b>Grants and WGA return</b>	<p>In accordance with Audit Scotland planning guidance, as appointed auditors we undertake grant certification work on behalf of the Council. For 2021/22 we are required to provide the following certifications:</p> <ul style="list-style-type: none"> <li>• Education Maintenance Allowance 2021/22</li> <li>• National Non-Domestic Rates Income Return (NDR) and</li> <li>• Housing Benefit certification</li> </ul> <p>In addition to the grants noted above we are required to also conclude on Whole of Government Accounts (WGA). We will conclude this once we have concluded our audit.</p> <p>Our work on the grant claims will be concluded in March 2023 before handing over to your new external auditors, Audit Scotland.</p>
<b>Nithsdale Charitable Fund</b>	<p>We have audited the Nithsdale charitable fund providing a separate unmodified opinion. This fund has been tested in accordance with the Audit Scotland guidance. A separate fee has been charged (see Fee Appendix). There were no matters arising in this work which we wish to bring to your attention.</p>

**Wider scope and best value  
conclusions**

# Wider scope audit

This section of our report sets out our conclusions from our audit work on the wider scope audit dimensions. We take a risk based audit approach to wider scope. Within our audit plan we identified three significant wider scope risks. As part of our audit work during the year we have not identified any additional wider scope audit risks.

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion																
<p><b>Financial Management</b></p> <p>Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<p>No significant wider scope risks identified</p>	<p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to the Council's financial management arrangements.</p> <p><b>Financial performance</b></p> <p>The Council reported total comprehensive income for the year of £643 million. Income sources include Scottish Government funding, Council tax and NDR income, as well as fees, charges and other service income</p> <table border="1"> <thead> <tr> <th>Council outturn 2021/22</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>2021/22 Budget</td> <td>371</td> </tr> <tr> <td>2021/22 Outturn</td> <td>368</td> </tr> <tr> <td><b>(Underspend)</b></td> <td><b>(2.8)</b></td> </tr> <tr> <td>Transfer to Earmarked Reserves</td> <td>2.4</td> </tr> <tr> <td><b>Surplus impacting general fund</b></td> <td><b>0.48</b></td> </tr> <tr> <td>Corporate Variances*</td> <td>4.64</td> </tr> <tr> <td><b>Net Corporate Surplus</b></td> <td><b>5.12</b></td> </tr> </tbody> </table> <p>The Council effectively managed income and expenditure in-year. The budget set for 2021/22 did reflect a degree of uncertainty, particularly in respect of costs and any associated Covid-19 funding, to be received centrally. As a result, of additional income, with costs being lower than forecast certain services were underspent, compared to budget, at year-end.</p> <p>*Corporate variances are made up of items such as business rates incentivization schemes and release of pay award provision as a result of addition SG funding.</p> <p>The Council ended the financial year with £90million, general funds in reserve. This included £8.1 million unallocated reserves, which equates to 2% of the Council's net revenue expenditure (NRE), in line with the reserves strategy. The remaining £81.9 million of these reserves have been earmarked for specific purposes.</p> <p>The council delivered a surplus against its annual budget.</p>	Council outturn 2021/22	£m	2021/22 Budget	371	2021/22 Outturn	368	<b>(Underspend)</b>	<b>(2.8)</b>	Transfer to Earmarked Reserves	2.4	<b>Surplus impacting general fund</b>	<b>0.48</b>	Corporate Variances*	4.64	<b>Net Corporate Surplus</b>	<b>5.12</b>	<p>Year on year the Council has continued to improve its financial position and maintain good progress in achieving its KPIs.</p> <p>From our work performed we are satisfied the finance team currently in place holds the necessary skills to ensure financial management. This is evident from our review of committee papers, budget reports, budget setting and delivery of services and balanced budget</p>
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Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Financial Management (continued)		<p>The Council's financial position is well set out in the annual report and accounts narrative, at the start of the report with good use of info-graphics to show spend compared with budget and explanations of key movements, for the users of the accounts. The narrative report also outlines key financial indicators and comparisons from the prior financial year. Council tax collection rates have improved compared to the prior year however the number of invoices paid by the council within 30 days of receiving the invoice has decreased slightly from the prior year. From our review of KPIs we are satisfied there are no significant risks relating to the financial management of the council.</p> <p><b>Covid-19 Funding</b></p> <p>The council received covid funding to support the council in addressing the impacts of COVID, including Education Recovery. At the beginning of the year resources of £11.8 million were brought forward to support these requirements, with additional Scottish Government funding of £9.9 million received in the year, providing total funding of £21.7 million. At the end of the financial year, the Council had utilised £7.6 million of these resources and released £6.5 million to support other council initiatives to be determined by Members. The remaining £7.6 million has been carried forward to support commitments and estimated residual requirements in 2022/23.</p> <p>During the 2021/22 financial year, the Council administered £26.9 million in grant funding to businesses and individuals on behalf of the government. This was done on an agency basis and therefore, in accordance with accounting requirements, whilst disclosed in the accounts, these grants are not in the Council's Comprehensive Income and Expenditure Statement. The Council does not anticipate receiving further Covid-19 funding in 2022/23, and certainly not of the same magnitude.</p> <p>The Council is reporting increased financial pressures, from 2022/23 onwards as a result of the current financial climate. The council has reflected these assumptions within budgets and financial plans and has identified contingencies for future financial years to ensure there are sufficient levels of reserves to address any future financial uncertainties.</p>	<p>Through covid grants and the achievement of savings programmes in-year the Council has managed to further build on its reserve position at year-end. The uncertainty that was reflected in the 2021/22 budget was not fully realised and this supported the achievement of a small surplus compared with the budget forecast.</p> <p>Financial reports continue to be presented to full Council and the Finance, Procurement and Transformation Committee. From our review these are detailed reports, which are accompanied by an overview and presentation from the S95 officer. Based on our review of on-line committees questions are well answered and a mechanism in place to follow up, where needed.</p>



Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Financial Management (continued)		<p>Council Financial Management Arrangement's</p> <p>The Council has processes in place which detail the responsibilities of finance, procurement and transformation committee members and senior management for planning and managing the Council's finances. These are set out in the Council's standing financial orders. The Council identifies future cost pressures as part of its initial budget setting process, which involves meetings between budget holders and members of the finance team, and on an ongoing basis throughout the year, usually through budget monitoring meetings.</p> <p>Budget proposals are presented to full Council. This provides elected members opportunities to review, challenge and scrutinise budget proposals. Full Council review and approve the annual budget each financial year.</p> <p>The Finance, Procurement and Transformation Committee is a formal committee where the purpose is to provide scrutiny, challenge and gain assurance with regard to all aspects of finance, procurement and transformation in order to provide assurance to full Council in line with the Council Plan. Where issues need to be addressed, these are escalated first to the Finance, Procurement and Transformation Committee, and then to the Council as appropriate.</p> <p>We are satisfied the council holds appropriate arrangements in place to ensure financial management of council finances.</p>	<p>The council has a number of arrangements in place to ensure finances are properly managed and that there is opportunity for scrutiny and challenge of council finances and budgets through the Finance, Procurement and Transformation Committee as well as full Council where necessary.</p>

**Wider scope dimension****Plan risk****Wider scope audit response and findings****External Audit conclusion****Financial sustainability**

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

**Significant risk identified- COVID-19 recovery and remobilisation:**

While the Council continues to report strong financial performance in 2021/22, the outturn position in the current year and 2022/23 reflects the planned use of Covid-19 funding. The Council faces more significant challenges in dealing with the longer term uncertainty of the impact of Covid-19 and not anticipating continued future financial support. We will focus on in-year financial performance for 2021/22 as well as considering the impact of the Council's performance on its medium to long term financial sustainability.

**Response to significant risk:**

The Council's financial projections highlight a period of significant uncertainty for the Council. Financial plans project a potential budget gap of £50m over the next five years. Therefore, the Council needs to ensure they continue to monitor financial forecasts, ensuring financial plans reflect best available information to support effective use of resources in a financially sustainable way.

In February 2022, the Council approved a balanced revenue budget for 2022/23. The budget identified an initial budget gap of £9 million in-year as a result of anticipated pay and other cost pressures. After initial budget was reported to full Council, the Council received £3m of late funding from SG which brought down the initial funding gap to £5. The Council agreed, in February, the following measures to close the initial budget gap in 2022/23:

	£m
Budget gap	9.119
Impact of Council tax increase (3%)	(2.335)
Savings options	(2.771)
Additional Scottish Government Funding (non-recurring)	(3.440)
Temporary use of non-recurring funding	(0.573)
Residual budget gap	-

As at 30 September 2022, the Council is currently on track to deliver a balanced budget. The impact of Covid-19 has significantly reduced in the 2022/23 financial year, with the main focus of budget monitoring now concentrated on the key financial risks associated with significant inflationary increases, pay award negotiations and the support being provided by the Council for Ukrainian guests.

Inflationary pressures have now increased beyond that which was anticipated in the drafting of the 2022/23 budget. The Council has revisited these assumptions and budgeted an additional £4.87m expected to costs. The Council has set aside centrally held funding of £3.3m to address this expected increase with a shortfall of £1.5m proposed to be funded through the application of non-recurring resources from the Council's agreed budget pressures/resilience fund.

The Council faces a period of increased uncertainty. The Council's medium term financial plan has identified a funding gap of £50m over the next five years. The council currently holds a strong financial position however with the continued reduction in funding and expected increase of costs and demand for services the council should ensure it embeds elements of these uncertainties within continuous financial planning and reviews including risk and sensitivity analyses to assess and mitigate against the impact of any future risks on delivery of the financial position before they crystallise.

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Financial sustainability (continued)	<p>We will review the extent to which savings delivered during 2021/22 represent sustainable recurring savings and consider the levels of reserves used by Dumfries and Galloway Council during the year.</p> <p>We will seek to understand the Council's future plans, including their consideration of recovery and re-mobilisation beyond the pandemic and possibly of less COVID-19 monies being made available to the Council going forward. We will review the Council's consideration and assessment of these matters as well as the plans set out by the Council to ensure future financial sustainability.</p>	<p>Financial risks that have also been highlighted by the council for the 2022/23 financial year include the 2022/23 pay award. There are ongoing discussions with Trade Unions, including teaching, however this has not yet been concluded. The Scottish Government has agreed to provide additional funding of £7.468m to the council to support the cost of the pay award for all staff. There is a current projected shortfall of £1.6m and as negotiations have not yet concluded there is a risk that increased costs could be greater than the current estimates.</p> <p>It is positive to note that the council are revisiting budgets and financial plans in light of increased financial risks. In an uncertain financial climate where inflation is increasing at record rates and the cost-of-living crises is pushing up costs for all areas of the economy, it is important that the council seeks to embed elements of these uncertainties within continuous financial planning and reviews including risk and sensitivity analyses to assess and mitigate against the impact of any future risks on delivery of the financial position before they crystallise.</p> <p><b>Medium Term Financial Planning</b></p> <p>Twelve month funding settlements provided by the Scottish Government for 2022/23 have made it incredibly difficult for Council's to plan for longer term financial sustainability as a result of uncertainty in future funding arrangements. Grant funding received by the Scottish Government represents approximately 82% of total income from the Council therefore any decrease in future funding creates greater risk to the Council delivering a balanced budget.</p> <p>On 29 September 2022, the council received the medium term financial strategy report which estimated a five year funding gap of £50m.</p> <p>The 2022/23 budget reflected a savings target of £2.771m, as at September 2022, 83% of the agreed savings have been achieved in full with an anticipated shortfall in the delivery of the remaining budgeted savings due to a timing issue relating to sale of council properties at year end, the savings are therefore likely to be recognised in 23/24.</p> <p>Since 2010/11 the council has identified, agreed and delivered savings of £116m. Although this has had a positive contribution to delivering balanced budgets in previous years, the funding gap over the next five years will require the council to identify new and innovative ways to identify significant recurring savings for the medium to longer term.</p>	<p>Based on our review of budget setting guidance and processes we are satisfied the council hold appropriate arrangements in place to deliver a balanced budget.</p> <p>Underpinning the identified savings are savings plans which are monitored and reported against. Based on our review, these are reasonable and consistent with other areas of focus within Scottish Local Government.</p>

Wider scope dimension	Wider scope audit response and findings	External Audit conclusion
Financial sustainability (continued)	<p>As set out in the governance section of this report, a cross-party budget panel is in the process of being established to allow panel members to contribute and provide opportunities to develop strategic thinking in relation to the council's medium term financial strategy, alignment with the Council Plan and development of the Council Budget. It is positive to see ways in which the council is prioritising its financial planning processes through increasing governance in this area.</p> <p>On 31 May 2022, the Scottish Government published its resource spending review which sets out spending level plans up to the financial year 2026/27 however funding settlements have continued to be provided on a twelve month basis. It is hoped that the Scottish Government may move to providing a three year settlement, however due to the current financial climate this looks more unlikely. The Scottish Government should look to move to a three year settlement as this would help provide councils with more certainty over funding arrangements and allow councils to better plan for the medium to longer term.</p> <p>Our review of the arrangements in place over budgeting and planning for the medium financial term have demonstrated a sound understanding of financial planning and risk awareness which has been carefully considered and incorporated into financial plans. We are satisfied that the council has a good track record of delivering savings targets in the past however it cannot be underestimated the challenge the council faces in the next five years to identify and deliver savings to fund the expected funding gap.</p>	Based on our review of budget setting guidance and processes we are satisfied the council hold appropriate arrangements in place to deliver a balanced budget.

## Wider scope dimension

## Plan risk

## Wider scope audit response and findings

## External Audit conclusion

### Governance and transparency

Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

### Significant risk identified:

In April 2021, due to a period of absence of the Chief Executive, an interim Chief Executive was in post to provide cover. This interim arrangement was only temporary and the Chief Executive returned to post in September 2021. In December 2021 the Chief Executive announced his retirement from post and the Council has established interim governance arrangements, including the Director of Communities being newly appointed as Interim Chief Executive, as it actively seeks to recruit permanently to the post. With the pending local council elections and ongoing recovery activity in response to Covid-19, it will be important for the Council to have effective governance arrangements in place. We will review the governance arrangements in place during 2021/22 and future planned arrangements for 2022/23 and beyond. The next scheduled election is the Scottish Local Government Election which will be held on 5 May 2022. 43 members will be elected to represent the 12 Wards of Dumfries and Galloway Council. We will consider the plans the Council has in place for newly elected members, including elected member training and support provided by the Council to new Councillors.

In June 2021 interim arrangements were reviewed by full council where it was agreed that arrangements for the interim CEO would be extended until the CEO returned to post in September. In December 2021 the CEO retired from Council employment. At this point full council agreed that the Director of Communities would fill the CEO post on an interim basis until a permanent CEO and Head of Paid Service appointment was made by the Council. It was also agreed that external support was required to backfill the position of Interim Director Communities due to short timescales and immediate capacity needs.

The council undertook a vote regarding the timeliness for recruitment of a new Chief Executive and Returning Officer taking into consideration the Local Government Elections in May 2022.

On 5<sup>th</sup> April 2022 at full council, the council agreed to offer the appointment to the post of Chief Executive, Head of Paid Service and Returning Officer to Dawn Roberts. The new CEO took up post in July 2022.

During the 2021/22 financial year governance arrangements remained consistent through the post of the interim CEO. The council continued to meet on a regular basis with key decisions being taken. The scheme of delegation and responsibilities was reviewed and approved alongside other key governing documents such as the Council's standing orders. The Council's unaudited accounts were also presented to full council for review.

We are satisfied that the council held appropriate arrangements during the year to ensure continuity of governance arrangements during the period where an interim CEO was appointed.

Wider scope dimension	Wider scope audit response and findings	External Audit conclusion
Governance and transparency (continued)	<p data-bbox="421 252 1016 282"><b>Response to significant risk (continued):</b></p> <p data-bbox="421 309 1608 727">We also noted evolving governance arrangements were discussed which brought about arrangements for new inclusive political leadership forums. This established the creation of a leaders panel of leaders of all groups, a budget panel involving finance leads from all groups and a business bureau involving business managers from all groups. These groups do not have decision making powers in the same way as Committees however were established to provide a forum for all groups to discuss key issues ahead of papers being brought to full council and committees for decisions. This inclusive leadership arrangement was approved in June 2022 and therefore is at the embryonic stages of implementation however we acknowledge the positive steps taken by leaders to work together to strengthen governance arrangements.</p> <p data-bbox="421 772 1608 1114">In May 2022, local government elections were held across Scotland. Forty-three councilors were elected to represent the twelve wards of Dumfries and Galloway Council. In addition, new co-leaders of the Council were appointed. The appointment of new members and leaders resulted in an induction programme and training and development programme being implemented. These programme's were developed by drawing on national guidance from the Improvement Service, previous decisions by members and recommendations from a review of financial internal controls and procurement standing orders and a scrutiny review on support for elected members. Training provided in May-June 2022 focused on</p> <ul data-bbox="421 1121 1608 1342" style="list-style-type: none"> <li data-bbox="421 1121 1608 1190">• Conduct, Governance and the different roles of Elected Members in the first phase of Induction;</li> <li data-bbox="421 1198 1608 1342">• Training in quasi-judicial and regulatory functions, which is necessary in order for Elected Members to take part in decision making relating to formal or statutory process. Without having had this training, Members were unable to be part of certain forums.</li> </ul>	<p data-bbox="1630 331 2056 673">We are satisfied that the council has looked to strengthen governance arrangements through new inclusive panels. It is positive to note the steps taken by the council to ensure all members work together in carrying out governing duties.</p> <p data-bbox="1630 794 2056 1059">The council holds appropriate arrangements in place to ensure newly elected members have undertaken relevant training to undertake their role and governance responsibilities.</p>

**Wider scope dimension****Wider scope audit response and findings****External Audit conclusion****Governance and transparency (continued)****Response to significant risk (continued):**

After summer recess, a further round of training was implemented between August and December. This included completion of a political skills assessment toolkit, skills development (for example in using IT, engagement methodologies and being an effective chair), information and knowledge transfer (this includes Briefings and Workshops on Service activities, to support Members in navigating the Council and the issues that they will be making decisions about) and improvement service support. Attendance at every training event is recorded and feedback sought from attendees. E-learning completion was also registered and recorded on the system. Members were advised of their progress in relation to the Personal Development Plans and any additional skills development or knowledge transfer events were added to the programme to meet the needs identified in the Personal Development Plans.

We are satisfied that the council holds arrangements in place to provide the necessary and relevant training to newly elected members in order to carry out their duties of governance over the Council.

Wider scope dimension	Audit Plan risk	Wider scope audit response and findings	External Audit conclusion
<p><b>Value for money</b></p> <p>Value for money is concerned with using resources effectively and continually improving services.</p>	<p><b>Significant risk identified: Borderlands Deal</b></p> <p>The Borderlands Deal brings together the five cross-border local authorities of Carlisle City Council, Cumbria County Council, Dumfries &amp; Galloway Council, Northumberland County Council and Scottish Borders Council to promote economic growth and competitiveness of the area that straddles the Scotland-England border. The Borderlands Deal partners are working together to deliver transformative change across the region to maximise the benefits of growth. This includes two key economic challenges - the need for population growth and improved productivity – and a focus on the factors which make places attractive to investors, visitors and those who may wish to relocate. The shared ambition is to play our full part in the Scottish and wider UK economy.</p>	<p>Central to the Borderlands' governance arrangements is the Partnership Board, which is responsible for oversight and decision making relating to the delivery of the Deal and the strategic programme of investment. The Board is supported by Chief Executives, Chief Economic Development Officers and Finance Officers from the partner authorities. There are six seats on the Partnership Board, made up of one representative from each of the partner local authorities, and one for the Chair of the Economic Forum.</p> <p>Dumfries and Galloway Council has the role of accountable body as regards both the Scottish Government funding for the Growth Deal and that part of the UK Government funding which relates to Growth Deal Projects physically located in Scotland. D&amp;G as an accountable body enters into the financial legal agreements with the UK and Scottish Government in respect of the Growth Deal. Following the agreement of the Borderlands Inclusive Growth Deal on the 18th March 2021 the Borderlands Partnership governance structure has moved from the initial shadow arrangements to formal meetings in line with the governance arrangements set out in the Collaboration Agreement. This places the Partnership on the formal basis to deliver the Deal with responsibility for oversight on progress with the projects and programmes within the Deal. The first formal partnership board meeting took place on 18 June 2021. Partnership Board meetings are held quarterly with a standing agenda including progress review of Borderlands deal which also incorporates a review of the risk register, review of financial performance, review of communications plan as well as assessing forward plan and approval/discussion of any business cases and other areas for review and approval.</p>	<p>Our review of arrangements over the Borderlands Deal evidenced arrangements are in place to provide best value. Progress, risks and delivery of the deal is monitored and tracked on a quarterly basis with evidence of members providing sufficient challenge over delivery.</p> <p>We are also satisfied that arrangements are in place to ensure resources are used effectively and there are arrangements to ensure services are improved through benefits realisation plans.</p>



Wider scope dimension	Audit plan risk	Wider scope audit response and findings	External Audit conclusion
Value for money (continued)	We will review arrangements in place by Dumfries and Galloway Council in relation to partnership working and the Borderlands Deal and the controls the Council has in place to ensure value for money.	<p>The quarterly update/progress reports provide sufficient detail to allow members to perform their roles and responsibilities to challenge, monitor and scrutinise progress, financial costs and delivery of the Borderlands Deal. From our review of the progress reports the project/programme tracker could be enhanced to provide each project with a RAG rating to allow members to clearly identify projects that are on track/not on track for delivery. A detailed risk register is held for each project which details risk/cause/impact, likelihood/impact of risk, mitigating actions, risk owner, date raised, RAG risk rating and last updated date of risk. This risk register provides sufficient detail on risks impacting on delivery and the actions in place to mitigate the risk however, this level of detail is not supplied within progress reports with only a description and risk rating being disclosed. It is recommended that further detail is provided within progress reports where the detailed risk register is not presented. This will allow members the opportunity to review and monitor risks and escalate actions where necessary to ensure risks are mitigated and contributes to successful delivery of the Borderlands Deal.</p> <p>Our review of governance arrangements within the Partnership Board also noted review, challenge and scrutiny of business cases by the Partnership Board prior to approval. We also found good practice where any changes to business cases were communicated within reports to the Partnership Board for approval.</p> <p>During our review of minutes we noted that on commencement of the initial Partnership Board, the Board reviewed and approved standing orders and the scheme of delegation. The Partnership Board also reviewed and approved the implementation plan, governance plan, financial plan, benefits realisation plan and communication protocol on an annual basis. This demonstrates good practice governance arrangements where plans are reviewed and updated where necessary on an annual basis to take into consideration any changes that may impact on the plans in any given year.</p>	

Wider scope dimension	Wider scope audit response and findings	External Audit conclusion
Value for money (continued)	<p>The Partnership Board also undertook an annual governance review against the governance plan. The review found that the partnership board has been working well during the year with some areas where experience in the first year had identified opportunities to streamline and enhance the approach. From our review findings were not indicative of any significant failings or risks in the governance structures of the Borders Deal. Findings highlighted areas where governance could be strengthened however, is based on a baseline of working good practice. It is pleasing to note that the Partnership Board are proposing to undertake a review of the governance processes as part of their approach to assurance during the next twelve months to ensure governance processes remain fit for purpose.</p> <p>Delivery of projects within the Borderlands Deal are at an early stage however it is encouraging to see that consideration has been taken in relation to benefits monitoring and realisation. The Partnership Board has agreed a benefits realisation plan which takes into account expected outcomes and benefits through delivery of projects. It is important that the council through the partnership board continue to monitor and track delivery of benefits in line with approved business cases to ensure outcomes of projects are delivered as expected and where there is non delivery of benefits, post implementation reviews are undertaken to understand and learn from past experience to inform future project delivery.</p> <p>Reporting of performance of the Borderlands Deal is transparent and allows stakeholders sufficient information to assess performance and delivery. Communication plans are discussed at each Partnership board meeting and in the past year has consisted of; publishing minutes/agenda packs of meetings on the website, newsletters to subscribers and press releases to mark key Deal project milestones. We are satisfied that there are appropriate arrangements in place to report progress and performance to key stakeholders.</p> <p>Our review of council minutes also noted that updates relating to the Borderlands Deal were reported to full committee. The council also reviewed and approved the next phases of towns to be entered into the Borderlands Place Programme.</p> <p>Our review of arrangements over the Borderlands Deal evidenced arrangements are in place to provide value for money. Progress, risks and delivery of the deal is monitored and tracked on a quarterly basis with evidence of members providing sufficient challenge over delivery.</p>	

Risk area (planning guidance)	Wider scope audit response and findings	External Audit conclusion
<p><b>Best Value- Equal Opportunities</b></p> <p>Whilst not identified as an audit wider scope risk, this is an area of focus identified in the Audit Scotland planning guidance (specifically the Best Value Assurance guidance) and an area of interest for the Accounts Commission.</p>	<p>We have considered, at a high level, how the Council ensures it delivers fairness and equality. This includes tackling poverty, reducing inequality and promoting fairness, respect and dignity for all citizens. These are key priorities for local authorities and their partners, including local communities.</p> <p>The Council continues to demonstrate a commitment to deliver fairer outcomes for staff and the people of Dumfries and Galloway. The Council has set key equality outcomes, refreshing every four years, which are based on local and national priorities. The current Equality Outcomes runs from 2021-2025.</p> <p>As required under the Specific Equality Duty Regulations (Scotland) 2012, the Council reports every two years on progress on equality. This is reported to committee and is publicly available on the Council website.</p> <p>The Council continues to look to engage with key stakeholders and groups to improve accessibility and use of services. This includes:</p> <ul style="list-style-type: none"> <li>• Monitoring equality- The council routinely monitors equality and diversity information, for example as part of forms and surveys.</li> <li>• British Sign Language(BSL)- The council have developed a shared BSL Plan in partnership with NHS Dumfries and Galloway, Police Scotland V Division and Dumfries and Galloway Council. The plan sets out how the council promotes and supports BSL in Dumfries and Galloway.</li> <li>• Recite Me Web Accessibility and Language Toolbar- To ensure the council website is accessible and inclusive a Recite Me toolbar is included within the website which allows visitors to view the website in a way which works for them for example translating web content into over 100 different languages.</li> </ul>	<p>The Council complies with the Equality Duty Regulations (Scotland) 2012 Act.</p> <p>This continues to be an important area for the Council, and for local communities who are seeking to understand and influence the Council's arrangements.</p> <p>Impact assessment are carried out where there is a policy change with results published on the Council website to ensure transparency.</p> <p>We are satisfied the Council holds arrangements in place to ensure compliance with the Equality Duty Regulations (Scotland) 2012 Act and to provide equal opportunities.</p>

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Best Value- Equal Opportunities (continued)	Whilst not identified as an audit wider scope risk, this is an area of focus identified in the Audit Scotland planning guidance (specifically the Best Value Assurance guidance) and an area of interest for the Accounts Commission.	<p>The Council recognise the challenges it faces in engaging with a large dispersed and diverse population. In order to tackle these challenges, the council forms part of a Community Planning Partnership along with representation from a range of partners. The council use this partnership to challenge the barriers that individuals face arising from discrimination and disadvantage in line with nine protected characteristics.</p> <p>The Council has a process in place to consider equality and socio-economic disadvantage in the review and development of policies, practices and decision (Impact Assessments) and record the outcome for relevant committee reports.</p> <p>The results of impact assessment allow the service to highlight any barriers or discrimination that may affect people using services. The council publish a copy of the impact assessment toolkit as well as a summary of the results from all of the assessments completed in the past six months. It is positive to note that the council provide transparency to the public of the results of impact assessment and has a dedicated email address to respond to questions regarding impact assessments from the public.</p>	

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Best Value- Statutory Performance Indicators	We will review the arrangements in place at the Council for the collection, recording and publishing of statutory performance information (SPI). This will include consideration of the impact of Covid-19 on performance reporting.	<p>The Council continues to develop its performance management arrangements, including transparent reporting of its performance during the year.</p> <p>In accordance with SPI 1, the Council is required to report on: performance in improving local public services, provided by both (i) the council itself and (ii) by the council in conjunction with its partners and communities; and progress against the desired outcomes agreed with its partners and communities. Under SPI 2: Demonstrating best value the guidance requires authorities to report on:</p> <ul style="list-style-type: none"> <li>• The council's assessment of how it is performing against its duty of Best Value, and how it plans to improve against this assessment;</li> <li>• audit assessments of its performance against its Best Value duty, and how it has responded to these assessments; and</li> <li>• how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities.</li> </ul> <p>Council priorities and targets are detailed within the Council Plan 2017-22. This plan is underpinned by individual service business plans running from 2019-2023 and were refreshed in 2021-22.</p> <p>Performance is monitored through the relevant service and area committees on a six-monthly basis. Our review of performance reports highlighted reporting of performance measures showing targets and priorities as either "on track", "target not met, but, within acceptable limits", "target not met and out with acceptable limits", "data only (baseline being established)" and "information not available". Detailed reports are also published which identify the individual KPIs per the business plan alongside the values and targets and current status and trends. The reports provide members with sufficient detail to monitor and track delivery of performance and outcomes of KPIs. The performance reports are made publicly available on the Councils website to ensure transparency and are updated every six months. Our review of individual business performance reports identified that performance reporting was up to date.</p>	The council hold appropriate arrangements in place to collect, record and publish statutory performance information for individual service business plans. However our follow up review of a prior year recommendation has continued to identify that updated performance against the Council Plan has not been published on the performance section of the Council's website.

## Wider scope dimension

## Wider scope audit response and findings

## External Audit conclusion

### Best Value- Statutory Performance Indicators (continued)

The Council's priorities and commitments are published on the Council's website alongside the Council Plan 2017-22. A mid-term review performance report of the plan was undertaken by the Council in 2020 which was published on the website alongside end of year progress reports for 2013 - 2016. As part of our work on best value reported in the prior year we noted that *"The Council has published a mid-year review against the Council's business plan which does provide performance against key Council priorities as at 31 March 2020. However, there are opportunities to enhance performance information reported. In line with the Accounts Commission guidance, this should demonstrate the Council's performance over time and progress against improvement plans, currently not reported on the Performance Section of the website."*

Our review of the performance section of the council's website has noted that there has been no updated progress report of performance published of the Council's Plan since September 2020. We did however identify that a performance update on the Council Plan 2017-22 was reported to full council on 31 March 2022. The Council should ensure that performance of the Council Plan is published on the performance section of its website on a regular and timely basis to ensure transparency for stakeholders.

There is an inherent challenge to know where performance should be and what is considered 'good performance'. The changing landscape of services as a result of the pandemic has made it even more difficult to assess "true" performance and benchmark performance with previous years. Performance and financial data is derived across various business streams, and it is key that there is a cohesive link between the collection and quality assurance of data across departments. As the council recovers from the effects of the global pandemic, the Council have continued to benchmark and monitor and track performance against baselines.

The current Council Plan is due to be delivered by 2022, where a refresh of the plan for the next five years will then be published. As the Council plan for the next iteration of outcomes and priorities in the coming year, the Council should establish performance monitoring for delivery of its new Council Plan to provide for transparency of reporting on delivery and appropriate measures.

**ACTION 1:** The Council has provided regular updates to full Council on performance against the Council Plan. The detail of performance is published within full Council agenda packs and meeting minutes however, the Council should ensure that performance of the Council Plan is published on the performance section of its website on a regular and timely basis to ensure transparency for stakeholders.

The next iteration of the Council's five year plan is due to be refreshed in the coming year.

**ACTION 2:** The Council should establish performance monitoring for delivery of its new Council Plan to provide for transparency of reporting on delivery and appropriate measures.

# Appendices

# 1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We are pleased to report that there were no uncorrected misstatements to the financial statements identified during our audit.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<b>Pension Liability</b> Assurance letters obtained from the Dumfries and Galloway Pension Fund auditor identified an understatement of pension asset investments of £11m which resulted in an adjustment to the Dumfries and Galloway Pension Fund Accounts. On identification of this error the council obtained an updated IAS19 actuary valuation report. The movement of the liability within the updated actuary report resulted in a £100k increase in the pension liability, management have decided to adjust for this error. This does not impact on the general fund position of the council as the increase in liability is reversed out through the MIRS into the pension reserve.	Council and Group	CR Remeasurement of net defined liability £100 DR General Fund £100	CR Pension Liability £100 DR Pension Reserve (Unusable Reserves) £100	Nil
<b>Overall impact</b>		Nil	CR Pension Liability £100 DR Unusable Reserves £100	Nil



# 1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We are pleased to report that there were no uncorrected misstatements to the financial statements identified during our audit.

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p><b>Expenditure Completeness</b></p> <p>Our completeness testing of invoices in April and May 2022 identified two invoices, one for £12k and one for £7k that related to 2021/22 expenditure however had not been accrued for in 2021/22 and was accounted for in 2022/23. We extrapolated the error across all invoices recorded in April and May 2022 which resulted in an estimated misstatement of £295k</p>	Council and Group	DR Expenditure £295	CR Creditors £295	Dr Expenditure £295
<p><b>Land and Building Valuations</b></p> <p>As part of our testing of land and building valuations we selected a sample of assets to test the assumptions used by your valuer back to corroborative evidence, this includes a range of assumptions including gross internal floor areas (GIA), build cost (BCIS) indices and rental yields. We found difficulties in obtaining corroborative evidence from your external valuer for a number of these assumptions. We therefore estimated the potential impact of misstatement were these assumptions assumed to be incorrect where no further evidence could be obtained. We extrapolated these uncertainties over the sampled population of revalued assets which resulted in a potential overstatement of £5,046k. This is not regarded as an error but is regarded as a potential uncertainty where we were unable to obtain evidence for some of the assumptions used by your valuer.</p>	Council and Group	DR (Surplus)/Deficit on revaluation of non-current assets £5,046 CR General Fund £5,046	CR Property, Plant and Equipment £5,046 DR Revaluations Reserve £5,046	Nil
<b>Overall impact</b>		DR £295	CR £295	Nil

## Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests.

The below list of misclassification and disclosure changes reflect presentational adjustments to the financial statements and have no impact on the council's reported financial position.

Disclosure	Auditor recommendations	Adjusted?
Note 5. Assumptions made about the future and other major sources of estimation uncertainty	The disclosure of estimation uncertainty should cover those areas where there is a significant risk of material change over the next twelve months in the estimation due to the sensitivity / nature of the estimate. The depreciation note does not appear to represent a major source of estimation uncertainty. Similarly arrears provision does not appear to be material. It is recommended these elements be removed from the disclosure narrative.	No- Management has judged these disclosures to be material to the user of the accounts and therefore will continue to disclose within the notes to the financial statements.
Note 33. Financial Instruments	<p>£28.4m of receipts in advance have been included as a financial instrument within short term creditors. Receipts in advance are not settled by the transfer of cash and therefore does not meet the requirements of IFRS 9 as a financial instrument. £28.4m should be removed from the current disclosed balance within short term creditors within the financial instruments note.</p> <p>Prior year comparators have also included £33m of receipts in advance within financial instruments. Comparator should be restated to ensure £33m is removed from the prior year disclosed balance within short term creditors within the financial instruments note.</p> <p>£9.5m of prepayments had been included as a financial instrument within short term debtors for 2021/22 and £7.7m for 2020/21. Prepayments are not a financial instrument per IFRS 9 and therefore should be removed from the current disclosed balance within the financial instruments note.</p> <p>Disclosure within the financial instruments note highlights that all financial assets and liabilities are measured at level one. We have identified financial instruments within this disclosure which are not measured on a level one basis. Further disclosure requirements are required for financial instruments measured at level two and level three in order to meet Code requirements.</p>	Yes

## Misclassification and disclosure changes (Continued)

Disclosure	Auditor recommendations	Adjusted?
Group CIES	The group CIES reports gross expenditure for the IJB which is £3.5m less than the single entity accounts. This was due to a formula error where expenditure had been removed from the incorrect row against IJB. IJB gross expenditure should therefore be increased to match the single entity accounts with the reduction of £3.5m being made against Communities service line. There is nil impact on the net cost of services and is a disclosure adjustment between service lines reported within the CIES.	Yes
Group MIRS	<p>The Code requires authorities to include ‘adjustments between group accounts and authority accounts’ within the Group MIRS. This line within the Group MIRS is currently missing and should be included.</p> <p>The ‘adjustments between accounting basis and funding basis under regulations’ and ‘transfers to/{from}’ other statutory reserves should net to nil within total group reserves. There are misstatements within these lines which do not reconcile back to the single entity MIRS. Disclosure adjustment required to reconcile to single entity MIRS.</p>	Yes
Group Balance Sheet	Property, Plant and Equipment line should state £877,045k, this was a casting error within the consolidation workings which fed through to the financial statements. Short term debtors line should state £22,640k, this was a casting error within the consolidation workings which fed through to the financial statements.	Yes
Single entity and Group Balance Sheet	£10m of market loans was repaid in 2021/22, in the prior year this was classified as long term liability however should have been classified as a short term liability as was due for repayment in less than 12 months. This is a classification issue only and is not material and therefore no prior period adjustment is required.	No- non material prior period classification error
Grant Income and EFA Note	Grant income per the EFA did not reconcile to the Grant Income note within the accounts, this was due to a classification error between grant income and fees and charges income. Management have updated the final accounts to correct this classification error.	Yes
Note 27 LGPS Scheme Assets	The pension liability note discloses the composition of LGPS scheme assets, these were identified as being understated by £11m by the D&G Pension Fund Auditor. A revised actuary report obtained by the council highlighted the difference in composition of scheme assets. The net impact is trivial at £100k however the gross impact on the composition of scheme assets is material and the disclosure has been updated to reflect the updated actuarial valuation disclosure.	Yes

## Misclassification and disclosure changes (Continued)

Disclosure	Auditor recommendations	Adjusted?
Note 2 Historic vs Current Cost Depreciation	A reconciliation between this disclosure note and the MIRS highlighted that the 'adjustments between accounting and funding basis under regulations' lines did not reconcile to the audited MIRS. This note has been updated to reflect the MIRS movements.	Yes
Capital Commitments	We noted a number of capital commitments that had not been correctly disclosed within the accounts. Management has updated the accounts to correctly disclose capital commitments as at 31 March 2022.	Yes
Remuneration Report	Accrued pension details for the pension benefits of senior councillors had not been updated for 2021/22 financial year and had been carried forward from the previous financial year. Management has agreed to update disclosure in accrued benefits for the current financial year.	Yes
IT Assets	We identified a number of IT assets which were fully depreciated and no longer in use however were still being recorded within the fixed asset register and being accounted for within the property, plant and equipment note. This has no impact on the net book value of assets however the gross book value of assets is potentially overstated by £7m.	No- management will perform a review of assets no longer in use and derecognise them from the fixed asset register in 2022/23. A control recommendation has been raised in Appendix 2.
Management Commentary	Trust Funds and Common Goods have been referred to in the management commentary as supplementary statements. Trust Funds and Common Good are not supplementary statements and the commentary should refer to these as notes to the financial statements.	Yes
Note 2- Adjustments to the 2020/21 Audited Annual Accounts- Leases	Under the requirements of IAS 8 only material errors identified in the prior period are required to be corrected. The error identified relating to leases in the prior period is not material and therefore there is no requirement to disclose and adjust for the prior period error. Management has however decided to include this as a prior period error in the draft financial statements.	Management has decided to adjust and disclose for a non-material prior period error in the draft financial statements.
Various	A number of other minor disclosure and presentational amendments were identified and corrected by management.	Yes

## 2. Wider scope Action plan and recommendations

We have set out below, based on our audit work undertaken in 2021/22, the key recommendations arising from our wider scope audit work:

### Recommendation

### Agreed management response

#### Council Plan Delivery

The Council has provided regular updates to full Council on performance against the Council Plan. The detail of performance is published within full Council agenda packs and meeting minutes however, the Council should ensure that performance of the Council Plan is published on the performance section of its website on a regular and timely basis to ensure transparency for stakeholders.

Management response: Agreed

Action owner: Head of People and Transformation

Timescale for implementation: December 2023

#### Council Plan

The Council should establish performance monitoring for delivery of its new Council Plan to provide for transparency of reporting on delivery and appropriate measures.

Management response: Agreed

Action owner: Director Economy and Resources

Timescale for implementation: March 2023

# 3. Follow up of prior year recommendations

We have set out below, our follow up of prior year agreed recommendations and management's progress in implementation:

## Recommendation

### 1. Critical estimates and judgement disclosures

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

## Agreed officer response

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

**Follow up: IN PROGRESS-** The council has reviewed its critical judgement and estimation uncertainty disclosures in light of the prior year finding. The council has therefore reduced the number of critical judgements and disclosures of estimation uncertainty to those in which the council deem are material to the accounts and are in the council's view critical judgements. Whilst what is currently disclosed, is representative of judgements and estimates, they are not all, in our view, critical judgements in the context of the financial statements. This is an area of judgement in which we as auditors have differing view from management. There is further scope to refine the critical estimates and judgement disclosures in order to satisfy requirements of IAS 1.

## Recommendation

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

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

### 3. Enhancing performance reporting to demonstrate best value

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

## Agreed officer response

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

**Follow up: IN PROGRESS-** The Council has made progress in continuing to review financial plans and budgets and build in strategic priorities and pressures from the COVID-19 response and recovery. The funding gaps over the next 3-5 years span from £30m to £50m and work is in progress by the council to review the MTFP to address future funding gaps.

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

**Follow up: OPEN-** Our review of the performance section of the council's website has noted that there has been no updated progress report of performance published of the Council's Plan since September 2020. We did however identify that a performance update on the Council Plan 2017-22 was reported to full council on 31 March 2022. The Council should ensure that performance of the Council Plan is published on the performance section of its website on a regular and timely basis to ensure transparency for stakeholders. Related recommendation has been raised within Appendix 3 of this report.

# 4. Follow up of 2019/20 recommendations

We have set out below, our follow up of 2019/20 agreed recommendations and management's progress in implementation:

## Recommendation

## Agreed officer response

### 1. Governance statement

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

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

**Follow up: OPEN-** We have continued to identify areas where there are references to other published documents or council papers although this has reduced. The Internal Audit Opinion has not been included within the draft Governance Statement for 2021/22.

### 2. Waste Management PFI

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

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

**Follow up: IN PROGRESS-** The Council continues to review costs at each implementation stage. There are areas that are not scheduled for operation until future years and therefore VfM of service delivery is to be determined. We are satisfied arrangements are held by the council to monitor efficiency and effectiveness of use of resources in this area.



# 5. Audit fees and independence

## External Audit Fee

Service	Fees £
External Auditor Remuneration	£214,410
Pooled Costs	£22,100
Contribution to Audit Scotland costs	£11,320
Contribution to Performance Audit and Best Value	£100,550
<b>2021-22 Audit Fee</b>	<b>£348,380</b>
Audit of Nithsdale Connected Trust Fund	£1,000
<b>Total 2021-22 Fee</b>	<b>£349,380</b>

## Fees for other services

Service	Fees £
We confirm that for 2021/22 we did not receive any fees for non-audit services	Nil

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.

## Client service

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

## Transparency

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

# 6. Communication of audit matters

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

<b>Our communication plan</b>	<b>Audit Plan</b>	<b>Annual Report (ISA 260)</b>
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of the Council's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter.		•

