



Dumfries and Galloway Council

External Audit Plan for the financial year ending 31 March 2019

Audit, Risk and Scrutiny Committee 7 February 2019

Final Audit Plan

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Our audit at a glance



Materiality is set at 1.7% of gross expenditure based on 2017/18 audited information. For Group (Council, Integration Joint Board and SWestrans) this is £7.930 million (Council only: £7.910 million).

This is based on our assessment of what misstatement either individually or in aggregate could be significant as to be misleading to the users of financial statements.



During 2018/19 we will consider wider factors that may impact on the Council including: EU Withdrawal, changing landscape for public financial management, dependency on key suppliers and openness and transparency in reporting. We will consider these throughout our audit planning process.



Performance materiality is set at 75% of overall materiality. This is consistent with the prior year reflecting our audit knowledge and understanding with no material adjustments in the prior year.



Significant audit risks are: management override of controls and revenue recognition as set out in International Standards on Auditing (ISAs UK), expenditure recognition as set out in FRC Practice Note 10 and PFI accounting (reversal).

An audit underpinned by quality and adding value to you



Dumfries and Galloway Council face significant financial and operational challenges. The Council is required to make £79 million savings by 2022/23. Achieving this will be challenging and elected members will need to make difficult decisions about services. During 2018/19 we will review the progress made by the Council in identifying and evaluating potential savings options as well as the delivery of sustainable savings in year.



Our audit is undertaken in accordance with the Audit Scotland Code of Audit Practice and reflects the wider scope nature of public audit. Through our audit planning we have identified wider scope risks reflecting the financial and operational challenges facing the Council, including delivery of a sustainable financial operating model. We will follow up on the recommendations contained within the Controller of Audit's Best Value Assurance Report on the Council (December 2018).

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Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the International Standards on Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016 ('the Code').

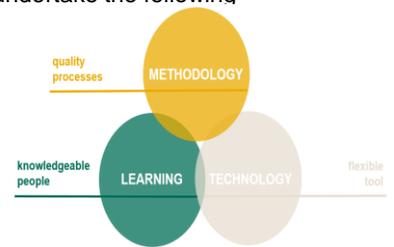
Our overall objective is a effective, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- ✓ professional scepticism
- ✓ a focus on audit risks and key areas of officer judgement
- ✓ Delivering a quality audit through our experienced public sector audit team, use of data analytics to focus our audit and understanding of the organisation
- ✓ clear and upfront communications, with regular communication during the year
- ✓ reporting with focused actions which will support you in improving your controls/operations

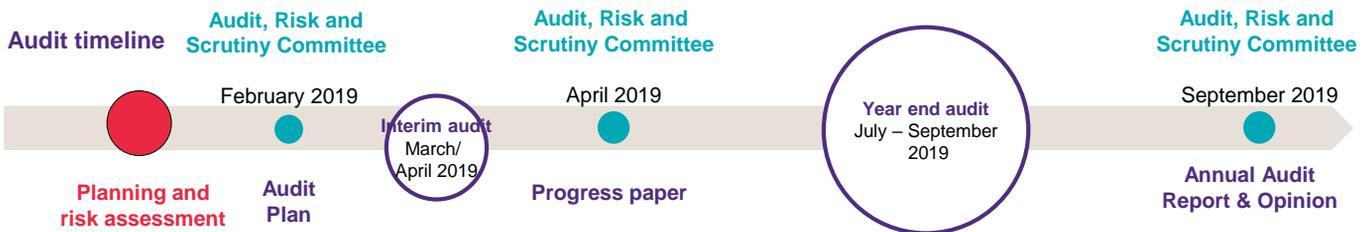
Adding value

Our aim is to add value to Dumfries and Galloway Council through our external audit work. This will be delivered through delivering a high quality audit. Specifically for Dumfries and Galloway Council we will also undertake the following arrangements:

- **Robust and effective audit methodology:** Our ISA compliant audit methodology is tailored to **focus audit resource on significant risk areas** and key estimates and judgements.
- **Investing in our people:** Our resourcing model is designed to ensure you have a **skilled, experienced and knowledgeable audit team**.
- **Investing in technology:** We continue to invest in data analysis and audit software to deliver more **efficient ISA compliant audit processes**.



We will share relevant Audit Scotland and Grant Thornton publications with senior officers and the Audit, Risk and Scrutiny Committee, identifying particular areas for consideration. We will pro-actively work with officers during the year to discuss any new or emerging matters (see **Technical Updates** included as an appendix to the plan).



Key audit deliverables

2018/19 Deliverables as set out in the Audit Scotland planning guidance (October 2018)

- Confirmation of agreed fee by end of February 2019.
- Submission of progress reports to Audit Scotland on a quarterly basis.
- National Fraud Initiative - completed Auditor questionnaire (30 June 2019).
- Current issues returns to Audit Scotland (21 January 2019, 22 March 2019, 19 July 2019 and 18 Oct 2019).
- Submission of fraud cases to Audit Scotland on a quarterly basis.
- Submission of annual audit report and audited accounts (deadline 30 September 2019).
- Submission of Housing Benefits subsidy claim to DWP (November 2019)

Planned Audit Scotland publications which may be relevant to the Council

- Local government in Scotland: Challenges and performance 2019 (To be published spring 2019).
- Supporting Scotland's Economic growth (Winter 2018)
- Early Learning and childcare (Summer 2019)
- Equal pay in Scottish Councils (Spring 2019)
- Self-directed support: 2017 progress report (Spring 2019)

External Audit deliverables for 2018/19 – Audit, Risk and Scrutiny Committee

- External Audit Plan (this document).
- Progress paper (April 2019).
- Annual Report to those Charged with Governance and the Controller of Audit (September 2019).
- Audit opinion & management letter of representation (September 2019).

Materiality



We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code
- have been properly prepared in accordance with International Financial Reporting standards as adopted by the European Union, as interpreted and adapted by the 2018/19 Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003
- The information contained within Management Commentary and Annual Governance Statement is consistent with the financial statements and prepared in accordance with applicable guidance.
- The audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) regulations 2014.

Basis for materiality

We determine financial statement materiality based on a proportion of the total gross expenditure adjusted for the Integration Joint Board. This approach is consistent with our prior year materiality determination. We have determined materiality to be **£7.930 million** for the Group (Council, Integration Joint Board and Swestrans) (Council only: £7.910 million), which equates to approximately **1.7%** of your prior year total gross expenditure for the year. This is based on our judgement and our consideration of what is material to the user of the account based on understanding of the Council.

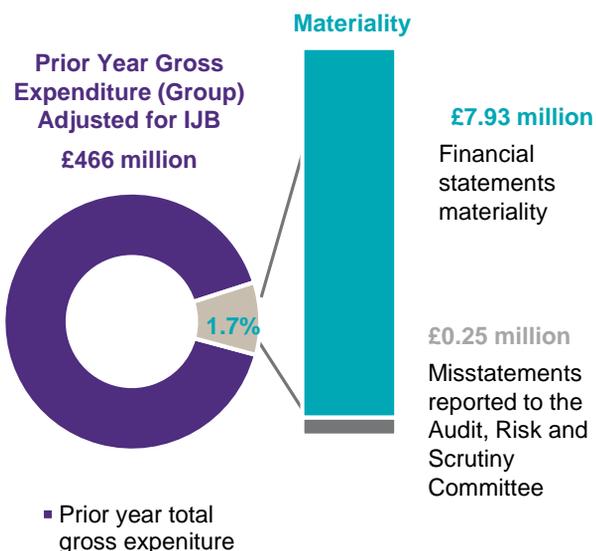
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. We will update our materiality at year end based on the unaudited 2018/19 accounts gross expenditure adjusted for the Integration Joint Board.

Performance materiality

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience in 2017/18 we have retained this for 2018/19 at **75%**. Performance materiality determines the level of sample testing performed where applicable.

Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk and Scrutiny Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. In accordance with Audit Scotland planning guidance the maximum threshold for this balance is **£250,000**.



A risk based audit methodology

Understanding Dumfries and Galloway Council and its environment

A core part of audit planning is understanding the Council and the wider Local government sector. This is our third year as the external auditors of the Council appointed under the Audit Scotland framework.

Dumfries and Galloway Council's four strategic priorities are: Build the local economy; provide the best start in life for our children; protect our most vulnerable people; and be an inclusive council. The Council Plan (2017-2022) outlines how these will be delivered over the next five years. The priorities are set against backdrop of increasing financial pressures. Since 2010, the Council has delivered £86 million of savings and forecast that over the next three years a further £48 million will need to be achieved. To deliver this, the Council recognises that they need to continue to transform how it delivers services to the local population.

During 2018/19, the Best Value Assurance Report (BVAR) was published by Audit Scotland, which highlighted a number of key messages and recommendations. We will follow up on these key messages and recommendations as part of our wider scope work and report progress in our year end audit report.

Significant 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. The only material component of the Group is the Council. We have not identified any significant risks attributable to the other components of the Group. Therefore the risks below are applicable to the Council.

Overview of our significant audit risks identified at planning and our proposed approach

| Risk area | Description of risk | Planned response |
|--------------------------------------|---|--|
| Risk of fraud in revenue recognition | As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. For annual grant funding we consider this to be well forecast and agreed directly to grant allocation letters. Likewise, for council tax and non-domestic rate income streams, we consider these revenue streams to be well forecast and not inherently at risk of manipulation. For these revenue streams, we therefore rebut the presumed risk of fraud in revenue recognition. We consider the risk to be prevalent in other service income with a focus around the year end transactions and balances where financial performance is subject to greater external scrutiny. Therefore, we focus our testing on cut-off of service income. | <ul style="list-style-type: none"> Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate. Evaluation of the existence of debtor balances held at 31 March 2019. Using our data analytics tools to provide assurance that income recognised is in line with expectation. Consider income cut off procedures and substantive testing over pre and post year end balances. A focus on recoverability of balances. |
| Management override of controls | As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Management override of controls significant risk is present in all entities. | <ul style="list-style-type: none"> A focus on understanding how/where management override of controls may occur. Review of the controls over journal entries using our journal analyser tool to focus on higher risk journals. Understanding key areas of judgement and accounting estimates within the financial statements and the basis for these judgements and the application of accounting policies. This include assumptions around IAS 19 defined benefit obligations. Reviewing unusual and/or significant transactions that are out with the normal course of business for the entity to understand the rationale for these transactions. |

Overview of our significant audit risks identified at planning and our proposed approach

| Risk area | Description of risk | Planned response |
|--|---|---|
| Fraud in expenditure recognition as set out in Practice Note 10. | Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on other material non-pay expenditure streams. As financial performance targets are measured externally on year end outturn, we consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure. | <ul style="list-style-type: none"> Perform cut off at year end on pre and post year end transactions and recordings. Reviewing the completeness of creditors (and expenditure) recognised. Using data analytics to support our assessment of transactions around the year end. Walkthrough of the key expenditure controls in place. |
| PFI accounting (reversal) | <p>In September 2018, the Council agreed the early termination of the Waste Management PFI agreement with Renewi UK Services Limited. The services previously provided under the contract will subsequently be provided in-house by the Council following a short transition period.</p> <p>The termination of the agreement will be reflected in the 2018/19 financial statements. This will require the existing PFI liability to be removed from the accounts and the termination costs reflected appropriately in the accounts. The transactions involved are complex and therefore inherently of higher risk of material misstatement.</p> | <ul style="list-style-type: none"> Review the Council's proposed accounting treatment for the transaction including removal of PFI liabilities and recognition of any settlement cost paid Review the final settlement agreement, including payments made under the arrangement to ensure that these are reflected appropriately in the financial statements Review the implications on existing PFI assets to ensure that the Council has appropriately reflected the contract termination within the financial statements. |

Going concern considerations

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of officer's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

We will review officer's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Working with Internal Audit

We will aim to not duplicate the work of your internal auditors. We will consider the internal audit plan for 2018/19 and identify any particular areas of risks that we either need to reflect in our approach or are relevant to our wider scope audit work. We will continue to consider internal audit work throughout the year and maintain an ongoing, open, dialogue with internal audit.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform procedures around IT general controls.
- Liaison with Dumfries and Galloway Pension Fund over relevant controls around pension data and transfer to actuary to support actuarial valuation
- Perform walkthrough procedures on key controls around identified risk areas including revenue, payroll, non-payroll expenditure and the recognition and valuation of property, plant and equipment.

Wider scope audit

– Audit dimensions and best value

Our responsibilities under Audit Scotland's Code of Audit Practice extend beyond the audit of the financial statements.

The Code sets out four dimensions that frame wider scope audit work into identifiable areas. Alongside Best Value, the audit dimensions set a common framework for our audit work and we review and conclude on the four dimensions and that there are organisational arrangements in place to secure Best Value. Audit Scotland Audit Planning guidance outlines key areas for consideration. Relevant to the Council we will consider the following:

- EU Withdrawal,
- changing landscape for public financial management,
- dependency on key suppliers and
- openness and transparency.



Details included in the appendix; **additional planning considerations of wider scope for 2018/19.**

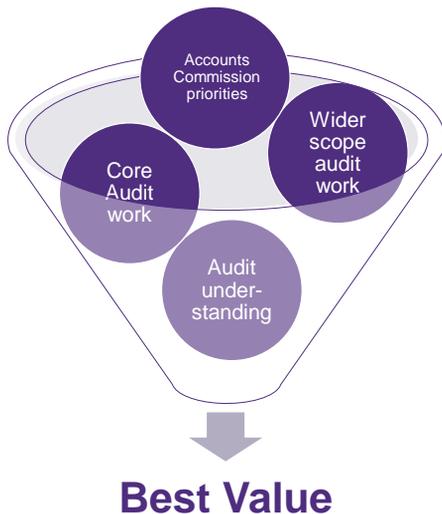
Strategic audit priorities

As part of our best value work, we will consider the five strategic audit priorities agreed by the Accounts Commission. The key areas of focus are:

- Having clear priorities with a focus on outcomes, supported by effective long term planning.
- Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
- Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
- Empowering local communities and involving them in the design and delivery of local services and planning for their local area.
- Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.

We incorporate these audit priorities into our wider scope audit work, informing both the scope of our local audit work and the wider BVAR review.

Wider scope approach



Our wider scope audit work is a **risk based** approach. It is built upon our understanding of the organisation and consideration of:

- Four audit dimensions defined within the Audit Scotland Code of Audit Practice
- Accounts Commission's strategic priorities
- Our core audit work and audit knowledge

We consider each of these areas through our audit planning process. We note that our work is undertaken to both inform, and informed by the BVAR work undertaken during 2018/19.

Statutory performance

In line with the Accounts Commission's statutory Performance Information Direction (2015), the Council has a responsibility to publish performance information to allow citizens to gauge their performance comparatively. One of the Accounts Commission's Strategic Audit Priorities is 'reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes'.

We incorporate reporting and accountability through our risk assessment. We consider and report on the suitability of the arrangements in place at the Council for preparing and publishing performance information.

Local Scrutiny

As the Council's appointed auditor, we are responsible for leading the Local Area Network (LAN) to support the coordinated scrutiny at the Council. LANs bring together relevant scrutiny bodies, typically Audit Scotland, Care Inspectorate, Education Scotland and the Scottish Housing Regulator, to share information and intelligence on an ongoing basis and to carry out a Shared Risk Assessment (SRA). The purpose of the SRA is to inform discussions between the LAN and its council and to inform the National Scrutiny Plan (NSP) for local government. For 2018/19, there is no longer a requirement for LANs to produce local scrutiny plans. LANs can produce local outputs if they determine, in consultation with the Council, that this would be useful. The new approach looks to embed a discussion about risks and responses between scrutiny bodies across the year.

Best Value Assurance Report (BVAR)

In October 2016, Audit Scotland developed a new approach to auditing best value across Scottish local authorities. Under the new approach, the Controller of Audit and Accounts Commission will provide a BVAR for each council at least once in a five year period.

The Dumfries and Galloway Council BVAR audit work was carried out by a joint team from Audit Scotland and Grant Thornton UK LLP and was published in December 2018.

As part of our wider scope audit work in 2018/19, we will include a follow-up on the findings from the BVAR as well as additional audit work on other Best Value characteristics as appropriate.

Financial sustainability

Our understanding

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

The budget gap on the mid-term (2018/19 to 2020/21) is £47.7 million, increasing to £79 million savings required by 2022/23. On 27 February 2018, the council agreed measures to reduce the three-year funding gap to £30.2 million, agreeing savings of £17.5 million, which should help in supporting the delivery of the financial plan in 2018/19. This reflects operational demand pressures as well as rising cost pressures including staff and inflationary pressures, which is compounded by the rural nature of the Council.

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

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

EU Withdrawal

Dumfries and Galloway Council has recognised that the impact of EU Withdrawal could have significant implications for the organisation. With its functions and responsibilities entrenched in legislation, there could be significant consequences from the departure from EU.

Significant risk response

Wider scope significant risk pinpointed to the Councils financial sustainability due to the level of savings not yet identified (£30.2 million) for 2018/19 to 2020/21. This extends to the achievability of the savings already identified (£17.5 million) and the related assumptions.

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

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

Significant risk response

Wider scope significant risk pinpointed to the Councils Workforce planning arrangements. We will assess the progress made by the organisation in identifying, assessing and managing the opportunities and risks of EU Withdrawal..

Our understanding

Since 2010, the Council has achieved its financial savings targets and this was acknowledged in the BVAR report which highlighted that the Financial management arrangements have effectively supported the Council to deliver savings, with the Council delivering £86 million of savings between 2010/11 and 2017/18.

Service committees and the council's Policy and Resources Committee monitor financial performance effectively. Financial performance reported throughout the year is in line with the approved budget.

The council has maintained its uncommitted general fund balance at two per cent of annual expenditure (£6.8 million). The Council requires savings of £14.3 million in 2018/19 representing a challenging financial target. While the Council has historically demonstrated effective financial management arrangements, the identification and delivery of savings becomes increasingly challenging year on year as scope for efficiencies reduces.

While we have not identified any significant risks in this area during our audit planning, we will continue to review the Council's financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.

Value for money

Our understanding

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

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

Waste Management PFI

To support the delivery of waste management services, the Council had a PFI arrangement with a third party supplier, Renewi UK Services Limited, a subsidiary of Renewi PLC. Under the contract, waste management facilities were developed and operated by the third party and utilised by the Council.

The contract was due to continue until November 2029 but has encountered difficulties mainly associated with reaching agreement with regard to changes required to meet new zero waste legislation. Full Council therefore agreed, on 3 September 2018, to the early termination of the Waste PFI contract and the contract was formally terminated on 10 September 2018. The services previously provided under the contract will subsequently be provided in-house by the Council following a short transition period.

North West Community Campus

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

The Scottish Futures Trust appointed a consultant to carry out root cause analysis of construction quality failure at North West Community Campus. In October 2018, the contractors indicated they plan to complete necessary remedial works in December 2018.

Significant risk response

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

Significant risk response

As part of our wider scope audit work we will consider the early termination of the Waste Management PFI agreement, including the governance and transparency of the process as well as considering the arrangements in place at the Council to satisfy itself that the decision represented value for money. We will also consider the wider financial and operational implications on the Council, including potential impact on Scottish Government funding which was previously received to support PFI costs.

Significant risk response

We have identified a significant risk around the North West Community Campus focusing on performance and service delivery. We will review the report prepared by the appointed consultants and consider the actions taken and any lessons learned by Officers from the review.

Governance and transparency

Our understanding

In May 2017, the Council approved the amalgamation of the Audit and Risk Committee and a committee tasked with wider scrutiny, into a new Audit, Risk and Scrutiny Committee. The Committee is comprised of 11 elected members who are opposition councillors.

The 2017/18 BVAR and our annual external audit report highlighted opportunities to enhance the Council's governance arrangements. The reports reflected that the revised governance arrangements, including the Audit, Risk and Scrutiny Committee were embedding and the recommendations included:

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

Significant risk response

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

Our planned work, like our financial statements work, is risk based and proportionate. We will continue to develop our understanding over the four dimensions and conclude on these in our final report, based on the work we have undertaken during the year. In particular, we will consider the findings and recommendations from the BVAR.

Other areas of assurance

Other responsibilities under the Code of Audit Practice

Under Audit Scotland's Code of Audit Practice we have additional responsibilities associated with our audit. These are summarised below

| Area of understanding | Our response |
|--|--|
| <p>Statutory trading operations (STO's)</p> <p>Dumfries and Galloway Council has two significant trading operations (STO): Roads Maintenance and Building Maintenance. In accordance with the Local Government (Scotland) Act (2003), the STOs are required to break even over a rolling three year period.</p> | <ul style="list-style-type: none">• We will review officers evaluation of the STOs to ensure that they continues to meet the requirements to be classified as STOs.• We will review the STOs' financial performance to determine if they continue to meets their statutory financial targets. |
| <p>Nithsdale Connected Trust Fund</p> <p>Our audit appointment includes the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charities Regulator (OSCR). Auditors, appointed under the Accounts Commission are eligible under the charities regulations to audit a charity's statement of accounts.</p> <p>As part of our audit work in the current year we will provide an opinion over the Council's registered charity: Nithsdale Connected Trust Fund. As part of our audit planning we have not identified an further audit risks in relation to this audit.</p> | <ul style="list-style-type: none">• We will provide you with an independent audit opinion on the financial statements of the Nithsdale Connected Trust Fund for the year ended 31 March 2019. |
| <p>Whole of government accounts and grant claims</p> <p>The Code of Audit Practice requires appointed external auditors to review and report on WGA returns prepared by audited bodies. External auditors of local authorities, NDPBs and the Scottish Government are required to provide an assurance statement on 2018/19 WGA returns for bodies over a prescribed threshold determined by NAO. While we are not informed of the threshold until July 2019, we anticipate that we will be required to provide an assurance statement for the Council for 2018/19. Local government auditors are required to review and report on approved grant claims prepared by local authorities. This includes certification of Housing Benefit claim.</p> | <ul style="list-style-type: none">• We will work with officers to ensure the timely completion and audit inspection of the WGA return and HBCOUNT returns. |

Appendices

Key audit deliverables and our team

Fees and independence

Fraud arrangements

Respective responsibilities

Technical updates

Additional planning areas for wider scope for 2018/19

Communication of audit matters with those charged with governance

Key audit deliverables and our team

Activity

2019

Key audit deliverables

Planning and Interim Work

January to February 2019

- Meeting with the officers and finance team to reflect on 2017/18 lessons learned and start planning conversations for 2018/19.
- Review of minutes and completion of our internal planning processes.

During February to April

- Completion of risk assessment.
- Interim audit visit including;
 - Substantive testing of balances for the first 9 months of the financial year – focused on management accounts reporting
 - Walkthroughs of the key controls and validation of controls (to inform year end substantive testing)
- Review of internal audit.
- Initial assessment of our wider scope audit areas.

Jan

Feb

Mar

Apr

November 2018

- Submit fraud cases in quarter (quarter 1)
- ### January 2019
- Submission of current issues (return 1 to Audit Scotland deadline 21 January).

February 2019

- Presentation of our External Audit 2018/19 plan to the Audit, Risk and Scrutiny Committee.
- Audit, Risk and Scrutiny Committee discussion on fraud and completion of fraud risk questionnaire.
- Submit fraud cases in quarter (quarter 2).

March 2019

- Submission of current issues (return 2 to Audit Scotland deadline 22 March).

May

May 2019

- Submit fraud cases in quarter (quarter 3).

Final accounts visit

June to July 2019

- Year end audit fieldwork commences.
- Audit findings meeting.

Jun / Jul

June to July 2019

- Submit NFI questionnaire
- Submit technical database return
- Submission of current issues (return 2 to Audit Scotland deadline 19 July).
- Certify grant claims: EMA / Concessionary travel

Completion/ reporting

August to September 2019

- Clearance meeting with the Head of Finance and Procurement.
- Annual Report to those charged with governance (Audit, Risk and Scrutiny Committee).
- Sign financial statements opinion.

Aug / Sep

August 2019

- Submit fraud cases in quarter (quarter 4).
- Submission of current issues (return 3 to Audit Scotland deadline 9 August 2019).

September 2019

- Presentation of Annual External Audit report to the Audit, Risk and Scrutiny Committee.
- Certify WGA consolidation pack.

Oct

Debrief

November 2018

- Debrief and learning meeting

Nov

October 2019

- Submit minimum dataset for financial overview.
- Certify NDR return.
- Submission of current issues (return 1 to Audit Scotland deadline 18 October 2019).

November 2018

- Certify Housing Benefit return

Our team

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Fees and independence

External Audit Fee

| Service | Fees £ |
|--|----------------|
| External Auditor Remuneration | 196,950 |
| Pooled Costs | 19,100 |
| Contribution to Audit Scotland costs | 12,360 |
| Contribution to Performance Audit and Best Value | 95,930 |
| 2018-19 Fee | 324,340 |

Fees for other services

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

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. The audit fee is still to be agreed with officers. The fee will be based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- the scope of the audit, and the Council activities will not change significantly from planned.
- Dumfries and Galloway Council will make available officers and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final).
- Specific balances such as valuation of assets are supported by appropriate experts reports

We have noted in our report areas where potential additional work may be required, such as around the implications of IFRS 9 and 15 accounting standards coming into effect. However, we will review Officer's impact assessment before determining if there is a material impact from this. Where further additional work is required, fees will be agreed with management and reported to the Audit and Scrutiny Committee in our 2018/19 Annual Audit Report

Client service

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

Independence and ethics

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

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

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

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

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

We can confirm no independence concerns have been identified.

Fraud arrangements

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

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- leading a discussion with those charged of governance (for Dumfries and Galloway Council this is assumed to be the Audit, Risk and Scrutiny Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud.
- responding appropriately to any fraud or suspected fraud identified during the audit.

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

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

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

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

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

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

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing Dumfries and Galloway Council arrangements in response to the national fraud initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Anti-Money Laundering Arrangements

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

Should we be informed of any instances of money laundering at the Council we will report these to the Auditor General for Scotland.

Respective responsibilities

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

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

Our responsibilities



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

How do we do this in practice



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

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Technical updates

For 2018/19, new accounting standards (International Financial Reporting Standards (IFRS)), will apply covering revenue (IFRS 15) and financial instruments (IFRS 9).

IFRS 9: Financial Instruments

The introduction of IFRS 9 produces a more principles based approach to the accounting of financial instruments, including their classification and measurement. The main features of the new standard are summarised in the table.

| IFRS 9 | Impact |
|---|---|
| Criteria for classification of financial assets | IFRS 9 applies a single classification and measurement approach to all types of financial assets based on: <ul style="list-style-type: none"> - The body's business model for managing financial assets; - The contractual cash flow characteristics of the financial asset. This represent a departure from IAS 39's reliance on the terms of an instrument (traded or not). |
| Measurement categories for financial assets | The new measurement categories for financial assets are as follows: <ul style="list-style-type: none"> - Financial assets measured at amortised cost - Financial assets measured at fair value through other comprehensive income - Financial assets measured at fair vale through profit or loss |
| Impairment | IFRS 9 contains a forward looking expected loss impairment model and requires the same measurement basis for impairment for all items subject to its impairment requirements. |

Implementation:
IFRS 9 has a mandatory effective date for annual periods beginning on or after 1 January 2018. Under the Code of Practice on Local Authority Accounting in the UK, on transition there will be no restatement of comparatives, and any impact of transition will be recognised as a reserves movement in 2018/19.

IMPACT

The key practical change in IFRS 9 for most public bodies is the introduction of a new approach to recognising impairments of debtors and other financial instruments.

ACTION

The Council should undertake an assessment of the potential impact IFRS 9 has on financial instruments held to ensure it has sufficient information to ensure compliance with the standard for the year end accounts.

Technical updates

IFRS 15: Revenue from Contracts with Customers

According to the Code of Practice on Local Authority Accounting in the UK, the core principle in IFRS 15 is that local authorities will be required to recognise revenue to present the transfer of promised goods or services to service recipients as an amount which the authority expects to receive in exchange for those goods or services. To assist local authorities with the understanding of the processes required to achieve that objective, the Code sets out the five-step process which is featured in IFRS 15. The five-step process is summarised below.

1. Identify the contract(s) with a service recipient
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the authority satisfies a performance obligation

Implementation: IFRS 15 has a mandatory effective date for annual periods beginning on or after 1 January 2018. Under the Code, on transition there will be no restatement of comparatives, and any impact of transition will be recognised as a reserves movement in 2018/19.

The impact of the introduction of IFRS 15 will vary across organisations.

IMPACT

The impact of the introduction of IFRS 15 will vary across organisations. For the Council, careful consideration will need to be given to any contractual arrangement and the potential performance obligations contained within these.

ACTION

The Council should undertake an assessment of the potential impact IFRS 15 across its material revenue streams to ensure it has sufficient information to allow compliance with the standard. Early evaluation is advised as this may impact on final outturn reported in the financial statements, and budgetary implications.

Audit action

We will continue to work with officers to understand the impact of the introduction of IFRS 9 and IFRS 15 on the entity's financial statements and any potential changes in accounting policy that arise from these. We do not anticipate that IFRS 9 will have a material impact on the entity's financial statements. However, further assessment is required around the impact of IFRS 15, particularly over contract arrangements. We will provide an early review of the proposed year end accounting treatment, providing relevant technical insight and challenge to provide assurance that the year end financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the UK and applicable accounting standards.

Additional planning considerations of wider scope for 2018/19

In accordance with the Audit Scotland Planning Guidance, we consider the following areas of focus as part of our audit work:

EU Withdrawal

There are uncertainties surrounding the terms of the UK's withdrawal from the European Union in March 2019 and these are subject to ongoing negotiation between the UK government and EU. Whatever the outcome of these negotiations there is inevitably implications for devolved government in Scotland and for the Council.

Planning consideration

There is considerable uncertainty around the potential impact of Brexit. Likely areas to impact the Council are: workforce implications; funding; and regulation. We will consider the work done by the Council with regards assessing the potential risks faced and readiness for EU withdrawal.

Changing Landscape for public financial management

Recognising the changing landscape of Scottish public finances, including significant tax raising powers as well responsibility for 11 social security benefits provides the Scottish Parliament with more policy choices. Subsequently, there is potentially greater volatility and complexity around Scottish budget and greater focus on the use of Scottish funds. This is likely to increase the scrutiny of public sector annual accounts and audit reports.

Planning consideration

The focus on public entities performance reporting will be under increasing security, including that of the Council and how public funds are used. As part of our audit we will consider the extent to which the performance report provides an accessible account of the Council's overall performance and impact of its public spending and transparency of reporting.

Dependency on key suppliers

The collapse of Carillion and the subsequent impact across the public sector, has brought into focus the risk of key supplier failure and underperformance. We will consider the arrangements in place for identifying key supplier and risks, if any associated with these and how effectively these are being managed.

Planning consideration

We consider the risk to the Council with regards key supplier dependencies as limited given the nature of operating activity. We will consider these arrangements during our audit.

Openness and transparency

There is an increased focus on how public money is used and what is achieved. This includes the extent to which the Council keeps pace with public expectations and good practices in this area. Including: increased public availability of papers, insight into why any business is conducted in private and development of the form and content of annual reporting.

Planning consideration

We will consider Audit Scotland's guidance around openness and transparency as we consider the Council's governance arrangements during 2018/19.

Care income, financial assessments and financial guardianship

Audit Scotland have identified issues across a few local government audits which may indicate potential wider issues with the systems or processes for collecting care income, undertaking financial assessments on individuals receiving care and financial guardianship.

Planning consideration

We will consider the arrangements for financial assessment of those requiring care and whether there is potential backlogs in the reporting of these. We will complete an Audit Scotland questionnaire to provide intelligence on the extent to which officers undertake financial guardianship roles.

Communication of audit matters with those charged with governance

| Our communication plan | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant matters in relation to going concern | • | • |
| Views about the qualitative aspects of Dumfries and Galloway 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 | | • |

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

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

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



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