Scottish Borders Council

Annual report on the 2010/11 audit

AUDIT SCOTLAND

Prepared for Scottish Borders Council
November 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key Messages

We have given an unqualified opinion on the financial statements of Scottish Borders Council.

The council ended the year with cash backed reserves of £19.2 million (2009/10: £15.4 million). The non-earmarked element of this was £6.9 million (2009/10: £5.9 million) and is in accordance with the council's reserves strategy (2 - 4% of revenue expenditure). The continued reduction in income streams and the increasing demand for council services arising from the economic recession requires the policy on reserves to be kept under review. The planned capital expenditure for 2010/11 was £34.7 million, but this was reduced by £7.5 million or 21.5% during the year, representing slippage on capital projects.

Total council borrowing is £233.0 million as at 31 March 2011 (2009/10: £236.9 million). This is within approved borrowing limits and should be kept under review to ensure future affordability.

The council has prepared the financial statements assuming that the council and its group can continue to operate as a going concern into the future. The council has a net asset position of £108.0 million at 31 March 2011 (£47.9 million at the end of 2009/10 - restated from a net liability position of £26.5 million), but the group account has a net liability position of £119.4 million as at 31 March 2011(net liability of £204.4 million, restated from £282.3 million in 2009/10). This is because the Group net worth reflects both the IAS 19 pension liability in the council, and the IAS 19 liability which arises from the unfunded pension schemes in associate bodies: Lothian and Borders Police Board and Lothian and Borders Fire and Rescue Board.

In November 2010 the Convention of Scottish Local Authorities (COSLA) and the Scottish Government agreed a package of measures which resulted in a drop of 2.6% in cash terms in the revenue funding provided to Local Authorities for 2011/12, compared to 2010/11. For Scottish Borders council, the decrease over 2010/11 funding was 2.3% or £4.9 million. The council has been proactive in preparing financial plans and identifying savings to reflect the reduced local government settlements. We note the high level of member awareness, particularly with regard to financial pressures, and the focus on business transformation to address service delivery challenges and secure budget reductions. In 2010/11 budget reductions of £2.45 million were earmarked to meet the implications of the initial reduction of public sector spending.

As at 31 March 2011, 176 staff had been given permission to leave under a voluntary severance scheme introduced by the council in late 2010, at a total cost of £4.8 million. All applicants were evaluated against a number of criteria including length of service, skills held, cost and financial payback. The financial payback for the 176 staff varies, ranging from 2 months to 5 years. The average payback period for those staff given permission to leave under the scheme is 1.3 years.

In 2011, the council received confirmation of their priority creditor status in relation to their Icelandic deposits with Landsbanki Islands hf. This decision was appealed to the Icelandic

Supreme Court, the result of which was issued in October 2011. The Icelandic Supreme Court upheld the decision of the Icelandic District Court. Therefore, the council continues to recognise 95% of the original claim as recoverable, with the first expected repayment due in December 2011. In respect of the deposits with Heritable bank plc, the council expect to recover 85% in due course, of which £2.5 million (50% of the claim) has been received as at 31 March 2011.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. This will require the council to be kept fully informed and aware of the challenges ahead to enable them to continue to respond positively. In addition the Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for councils to consider given the financial constraints being faced.

The co-operation and assistance given to us by Scottish Borders Council members and officers is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Scottish Borders Council (the council) and other relevant work carried out by Audit Scotland. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect our public sector audit model.

2. A number of reports have been issued in the course of the year, some of which include recommendations for improvement (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our wider review of the council.

3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:

   - The cost of public sector pensions in Scotland
   - How councils work: an improvement series for councillors and officers - Arms-length external organisations
   - Scotland's public finances: responding to the challenges
   - Maintaining Scotland's roads: a follow-up report
   - Physical recreation services in local government
   - An overview of local government in Scotland 2010
   - Community Health Partnerships
   - Improving energy efficiency: a follow-up report
   - Transport for health and social care

4. All of these reports have been sent to the council for consideration and we do not consider them in this report. They are available on our website www.audit-scotland.gov.uk

5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed 'Planned Management Action'. We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.

6. This report is addressed to members and the Controller of Audit and forms a key part of discussions with the Audit Committee, as soon as possible after the formal completion of the

audit of the financial statements. Audit is an essential element of accountability and the process of public reporting.

7. The report will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits prepared by the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.

8. Management is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors 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 internal control.

Financial statements

9. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

10. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:

- whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

11. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the system of internal financial control and the remuneration report. Auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

Audit Opinion

12. We have given an unqualified opinion that the financial statements of Scottish Borders Council for 2010/11 give a true and fair view of the financial position and income and expenditure of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Going concern

13. The council has prepared the financial statements assuming that the council and its group can continue to operate as a going concern into the future. The council has a net asset position of £108.0 million at 31 March 2011 (£47.9 million at the end of 2009/10 - restated from a net liability position of £26.5 million). However, the group account has a net liability position of £119.3 million as at 31 March 2011(net liability of £204.4 million, restated from £282.3 million in 2009/10), because the Group net worth reflects both the IAS 19 pension liability in the council, and the IAS 19 liability which arises from the unfunded pension schemes in associate bodies: Lothian and Borders Police Board and Lothian and Borders Fire Board.

14. The council has considered the scale and reason for the net liability position and determined that it is appropriate to prepare the accounts on a going concern basis and we concur with this assessment. Whilst the deficit funding position of the pension funds indicates that the expected liabilities are not fully met at the balance sheet date, pension liabilities will be funded as they fall due through employee and employer contributions, government grants and council tax.

15. The improvement in the net asset position of the entity and the reduction in the net liabilities of the group between years results in part from the change in financial assumptions. Future public sector pension increases will now be linked to the consumer price index (CPI) rather than the retail price index (RPI), which has resulted in a reduction in employer's pension liabilities.

Legality

16. Through our planned audit work we consider the legality of the council's financial transactions. In addition the interim s.95 Officer confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Statement on the System of Internal Financial Control

17. We were satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the council to obtain assurances on systems of control.

18. CIPFA guidance Delivering Good Governance in Local Government recommends that the review of effectiveness of internal control should be reported in an Annual Governance Statement. In Scotland, this requirement is voluntary. Whilst the council prepares an Annual Governance Statement, and it is approved by the Audit Committee, it is not incorporated in the annual accounts. In accordance with good practice the council is working to incorporate an Annual Governance Statement in the 2011/12 accounts.

Remuneration report

19. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant council officers and elected members.

Accounts submission

20. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011 at which point the audited accounts were available for presentation to members and are now available on the council's website.

Accounting issues

21. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). The 2010 Code dictated that

2010/11 was the first year in which local authority financial statements were to be prepared on a fully compliant International Financial Reporting Standards (IFRS). IFRS financial statements are in many aspects substantially different to previous years' financial statements, including differences in the main financial statements, differences in the accounting policies and disclosure notes. The transition to producing the IFRS compliant financial statements was a substantial piece of work for Accounting Services. It also meant that there was an increase in the volume of material which required to be audited compared to previous years. We are satisfied that the council prepared the 2010/11 financial statements on an IFRS basis in accordance with the 2010 Code.

22. During the final accounts audit process we identified the following issues in relation to internal control systems within the council:

- slippage in the implementation of the corporate debt recovery plan. The council confirmed that all debt recovery and write-off processes, systems and procedures are currently being reviewed and they have brought in an external credit controller with 20 year experience to support the collection of older debt.
- the account code structure of the Financial Information System (FIS) includes a large number of account codes that are not utilised or could be merged to create a simplified account code structure. A reduction in accounts codes utilised will help with the annual accounts preparation process. The council has a major exercise under way to reduce the number of account codes.

Prior year adjustments

23. The transition to IFRS required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the treatment of capital grants, the inclusion of an accrual for employee benefits such as annual leave and the classification of assets and leases. These changes resulted in the net liability position of the council of £26.5 million as at 31 March 2010 changing to net asset position of £47.9 million. The accounting nature of these adjustments means that there has been no change to the usable reserves of the council.

Accounting presentation and monetary adjustments

24. Monetary errors identified during the audit have been corrected in the final version of the accounts. None of these adjustments were material either by value or nature.

25. There were a significant number of presentational amendments identified as part of the final accounts audit process, mainly due to the accounts being produced for the first time under IFRS requirements in 2010/11 compared to UK GAAP in 2009/10. All required presentational amendments were made in the final version of the accounts.

Group financial statements

26. The diversity of service delivery vehicles used by local authorities' means that consolidated group financial statements are required in order to give a true and fair view of all council income and expenditure.

27. The council has interests in four associates:

- Borders Sport and Leisure Trust
- Jedburgh Leisure Facilities Trust
- Lothian and Borders Police Board
- Lothian and Borders Fire and Rescue Board

28. These associates have been included in the group accounts, along with the Trusts and Common Good, in accordance with the 2010 Code. Audit assurances were obtained through review of board minutes, internal audit reports and audited accounts. We completed this work through a mix of audit questionnaires and discussions with auditors of the more significant boards. There were no qualifications to the accounts of four associates. The overall effect of inclusion of these group entities is to reduce net worth by £227 million, from £108 million to (£119 million).

Trust funds

29. Scottish Borders has over 200 trusts and endowments, 39 of which are registered for charitable status with the Office of the Scottish Charity Regulator (OSCR). Charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However, OSCR has deferred full implementation until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional working papers. The council will need to ensure it is prepared for the end of the transition period.

Key risk area 1

30. OSCR's feedback on last year's submissions from each local authority allocates councils to one of four categories, fully compliant (0 councils), above average (2 councils), average (20 councils) and below average (8 councils). Scottish Borders Council's submission fell into the 'below average' category and the council is currently reviewing arrangements to enable full compliance by 31 March 2012.

31. The net assets of the trusts at 31 March 2011 amounted to £3.4 million (2009/10: £1.9 million). During 2010/11 several assets previously held on the council's balance sheet were identified as trust properties. This resulted in the assets, with a net book value of £1.1 million, being transferred to the Trust Fund Balance Sheet at 31 March 2011.

Common good fund

32. For the past three years, objections have been lodged against the council in respect of the completeness of the common good asset register, and associated income and expenditure. The objection raised in 2010/11 relates to the sale of a quarry by the council for £68k. The council has subsequently acknowledged that the land sold was Selkirk common good land. We recommended that the council make good the net assets of the Selkirk Common Good Fund by this amount, plus interest for the intervening period. In September 2011 the full council agreed to adopt new principles for the future management of common good heritable assets. The principles include details on where an asset has been sold that is subsequently identified as a common good asset, it is considered appropriate, where practicable, to offset any capital expenditure incurred by the general fund against any sums due to the relevant common good fund. For the sale proceeds from the quarry, this has been offset against significant capital expenditure on assets within the relevant common good fund.

33. It is a complex exercise to conclude the provenance of assets and, as a result of objections lodged in prior years, officers from Legal Services, Estates and Finance have been involved in investigatory work to determine whether certain council assets ought to be transferred to the common good asset register. Additional resource has been invested in this task in 2010/11 and the exercise has been extended. At the end of the 2010/11 a number of assets, with a value of approximately £0.9 million, were transferred from the council's asset register to the Selkirk Common Good Fund asset register.

34. The council has now established principles which will apply in respect of council occupation of common good heritable assets and associated financial issues arising from the on-going review of these assets. The council is continuing the exercise to investigate whether there should be any further transfers of asset between the council and CGF and Trust funds.

Key risk area 2

Pension fund

35. A full actuarial valuation of the pension fund was undertaken as at 31 March 2008 and the actuary's final report was presented in February 2009. This recommended the employer's contribution rates required for 2009/10 to 2011/12 in order to ensure that sufficient funds were available to pay future benefits. As at 31 March 2008 (date of last full actuarial valuation) the pension fund had a funding level of 96.5% with a deficit of £10.8 million and the actuary recommended an employer contribution rate of 290% of employee contributions for the period 1 April 2009 to 31 March 2012 (1 April 2008 to 31 March 2009 – 300%), equating to 18% of payroll costs. The asset value reported by the actuary at the valuation date was £299.3 million. The next actuarial valuation will be as at 31 March 2011.

36. The net pension liability disclosed in the Financial Statements, as at 31 March 2011, is £81.9 million (£154.2 million in 2009/10). The liability has been calculated in accordance with IAS 19 - Retirement Benefits and shows the council's long term underlying retirement benefits commitment. The reduction in the council's long term liability compared to the previous year is in part due to the change to how future pension increases are calculated. Pension increases

are now based on the consumer prices index rather than the retail prices index which has resulted in a reduction in employer's pension liabilities. This change had the effect of creating an exceptional accounting past service gain of £33.5 million for Scottish Borders Council, which was credited to the 2010/11 revenue account.

Significant trading operations

37. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.

38. The council has one STO (SBc Contracts) which undertakes a range of revenue and capital works mainly on highways and bridge construction. In the three years to 31 March 2011, the STO met the statutory target of a rolling three year cumulative surplus.

Whole of government accounts

39. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to the Scottish Government prior to the deadline of 29 July and the audited return was certified and submitted to the Scottish Government on 3 October 2011.

Outlook

40. 2010/11 saw significant changes in the accounting requirements for local authorities which the Council successfully introduced. Change on such a significant level is not planned for 2011/12.

Carbon Trading

41. From April 2010, a new and complex system for charging for carbon emissions was introduced. Councils are required to purchase and account for carbon credits to cover all of its-non-transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. No charges were made in 2010/11 but the council will need to develop a plan for carbon trading going forward.

Audit appointment for 2011/12

42. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) KPMG will be the appointed auditor for Scottish Borders Council.

Financial position

43. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

44. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

45. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial Results

46. In 2010/11, Scottish Borders Council spent £306.9 million on the provision of public services and £27.6 million on capital projects. The council's net operating expenditure in 2010/11 was £260.3 million. This was met by central government and local taxation of £283.4 million, resulting in a surplus of £23.1 million. The budget set for 2010/11 was based on a Band D council tax level of £1,084.

Budgetary control

47. The council monitors expenditure closely with the Executive committee receiving regular monitoring reports with action being taken to address variances. Exhibit 1 below highlights where the main movements in the budget occurred, mainly as a result of business transformation:

Exhibit 1 - Budget comparison

Departments	Original Budget £m	Final Budget £m	Movement £m	Movement %
Chief Executive	4.226	3.240	(0.986)	(23.3)
Resources	13.985	17.160	3.175	22.7
Education & Lifelong Learning	96.327	94.653	(1.674)	(1.7)
Planning & Economic Development	2.534	3.223	0.689	27.2
Social Work	76.851	78.807	1.956	2.5

Departments	Original Budget £m	Final Budget £m	Movement £m	Movement %
Technical Services	31.203	31.098	(0.105)	(0.3)
Corporate partnerships	2.560	1.799	(0.761)	(29.7)
Other	41.190	39.434	(1.756)	(4.3)
TOTAL	268.876	269.414	0.538	0.2

48. The original budget was subject to the usual type of amendments during the year as service pressures and savings were identified and these were dealt with through budget virements between and within departments along with additional Revenue Support Grant received from the Scottish Government. The significant decrease in the 'Other' budget related to a reduction in the expected loan charges in year (£1.8 million).

Reserves and balances

49. Exhibit 2 shows the balance in the council's funds at 31 March 2011 compared to the previous two years. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a property maintenance fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. At 31 March 2011, the council had total funds of £19.2 million, an increase of £4.0 million on the previous year.

Exhibit 2 - Reserves

Description	31 March 2011 £ million	31 March 2010 £ million	31 March 2009 £ million
General Fund	11.475	10.128	10.949
Property Maintenance Fund	0.175	0.049	0.039
Insurance Fund	1.507	1.568	1.660
Capital Fund	6.070	3.669	7.248
TOTAL	19.227	15.414	19.896

50. The council was proactive in 20101/11 by reducing its in-year budget by £2.5 million in response to the expected funding reductions agreed between COSLA and the Scottish Government of 2.6% for 2011/12. The budget reduction was transferred to the reserves to help with the future reduced local government settlements.

51. The general fund increased by £1.3 million during the year to a balance of £11.5 million which equates to 4.4% of the council's net operating expenditure. Of this balance £4.6 million has been earmarked for specific purposes: devolved schools management balances held by individual schools and specific departmental reserves. This leaves an unallocated balance of £6.9 million, 2.7% of net budgeted operating expenditure, which is approximately the mid-

point of the council's policy of maintaining un-earmarked reserves of between 2 - 4% of revenue expenditure.

Financial indicators

52. A suite of financial indicators has been developed in consultation with the CIPFA Directors of Finance working group. The indicators are designed to assist in evaluating the council's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. These will be issued as a separate supplementary report in due course.

Capital investment and performance

53. The 2010/11 financial statements detail capital expenditure of £27.5 million (2009/10: £73.4 million, which includes capital expenditure of £28.4 million on PPP assets). With the removal of the £28.4 million, the year on year movement in capital expenditure is a reduction of £17.5 million. The level of capital spend was expected to significantly reduce in 2010/11 as per the council's capital plans.

54. The planned capital expenditure for 2010/11 was £34.7 million, but this was reduced by £7.5 million or 21.5% during the year, representing slippage on capital projects. Slippage was mainly due to delays in the Borders railway construction project (slippage of £3.5 million) and delays in purchases from the Plant and Vehicle fund of £0.6 million for equipment ordered in late 2010/11 but not delivered by 31 March 2011. The council has indicated they are addressing the continued capital slippages by implementing from the Blair report on Best Practice on Capital Management recommendations. The council's capital projects have suffered significant slippage in the last 2 years and it will need to improve its project management arrangements to ensure it can deliver its capital plans within the planned timescales.

Key risk area 3

Borders Railway project

55. Scottish Borders council spent £3.9 million on the railway construction project during 2010/11, with slippage of £3.5 million. The slippage related to delays in the utilities work programme and the voluntary purchase scheme. These are enabling works carried out on behalf of Transport Scotland. The project expenditure each year is funded by a grant from Transport Scotland who carry the risks.

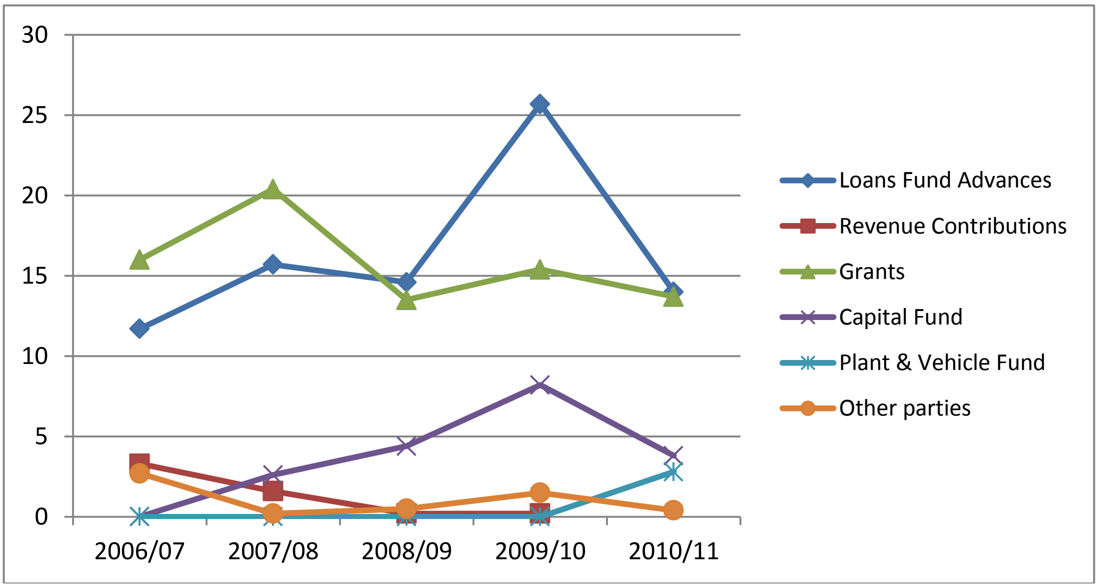
School projects

56. The council continues to invest in the school estate with £3.2 million being spent in 2010/11 on the construction of new primary schools in Clovenfords and Halyrude along with property extensions and major improvements of £5.8 million.

Waste Treatment facility

57. A Waste Treatment Procurement Project started in April 2009 by Scottish Borders Council to provide the council with a waste treatment solution that would minimise the amount of waste being landfilled to meet EU directives and mitigate the predicted rise in Landfill Tax over the coming years and the risk of Landfill Allowances fines. The facility will meet the EU directives and the targets of the Government's Zero Waste Plan which was published in June 2010. Scottish Borders Council signed a 24-year contract (in April 2011) with a waste treatment company to construct and operate a new refuse plant near Galashiels. There has been capital expenditure during 2010/11 in anticipation of the commencement of this new facility and upgrading of other waste facilities in the Borders region.

58. Exhibit 3 shows the sources of finance for capital expenditure in 2010/11 and the previous 4 years:



Treasury management

59. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.

60. As at 31 March 2011, Scottish Borders Council held cash and temporary deposits totalling £16.3 million (31 March 2010: £9.7 million). The council's borrowings at 31 March 2011 were £233.0 million, including PFI costs of £61.9 million (31 March 2010: £236.9 million, including PFI costs of £63.6 million).

61. Scottish Borders Council had investments of £5.0 million deposited with Landsbanki Islands hf, and £5.0 million with Heritable Bank plc when the Icelandic Banks collapsed in October

2008. The banks have been subject to administration and receivership processes since then. The council recognised an impairment of £3.1 million in the 2009/10 accounts, in line with the guidance provided in Local Authority Accounting Panel (LAAP) Bulletin 82, update no.2, May 2010.

62. In respect of the £5.0 million at Heritable Bank plc, a UK bank, the council has preferential creditor status and can expect to recover 85% of the claim in due course. £2.5 million (50% of the claim) has been received to date.

63. In respect of the £5.0 million at Landsbanki Islands hf, the council has also been given priority status. However, Landsbanki Islands hf is an Icelandic entity and in 2010, the Winding Up board for another Icelandic bank, Glitnir (in administration under Icelandic law), expressed the view that local authority deposits did not have priority status, contrary to the view of the Landsbanki Winding up Board.

64. However, confirmation of priority status came in 2011 when the Reykjavik District Court issued a verdict on 1 April 2011 confirming that the UK local authorities' claims qualified for priority under Article 112 of the Icelandic Bankruptcy legislation. This decision is being appealed to the Icelandic Supreme Court with a decision expected towards the end of 2011. In the meantime, the asset is valued on the basis of the council retaining preferential status. Due to the continuing court action, no repayments have been received from Landsbanki Islands hf to date, but the council continue to recognise 95% of the original claim as recoverable, with the first expected repayment due in December 2011.

65. The impairment losses for the Icelandic banks were recognised in 2008/09 but statutory guidance allowed the impact on the general fund to be deferred. Interest has continued to be credited each year through the Comprehensive Income and Expenditure Statement. This interest has been reversed out of the general fund and credited to the financial instruments adjustment account. The statutory guidance required councils to reverse the transfers by 2010/11.

66. The council had taken advantage of regulations introduced by the Scottish Government to defer the impact of the impairment charge on the General Fund until 2010/11. As a result of this decision, both the impairment charge and the interest credited to the Comprehensive Income and Expenditure Account have been transferred to the Financial Instruments Adjustment Account. For 2010/11, the impairment of £1.021 million has been recognised as a charge on the General Fund. The council obtained a 'consent to borrow' from the Scottish government for the extent of the impairment although the council has not used this consent.

Financial planning

67. The council is projecting a breakeven position for its 2011/12 revenue budget. Initially, the council had identified a budget gap of £13.0 million. This balance includes the cut in public spending announced by the Scottish Government which resulted in a reduction in the revenue funding for Scottish Local Authorities of 2.6%. To meet the identified budget gap the council's approach to financial planning has included a council wide review of services, review of saving options presented by departments, savings already identified in 2010/11 (£2.5 million

reduction in budget) and the approval by council in November 2010 of these savings to allow earlier implementation. The council also introduced a voluntary severance scheme in late 2010 to help ensure that budget gap was met for 2011/12. The council continues to run the voluntary severance scheme in 2011/12 as part of its ongoing financial planning process.

68. It is likely the council may be required to revisit its policy on reserves in the near future, especially with the continued economic downturn and potential for unexpected events such as another severe winter. There is a risk that the council will not be able to sustain its reserve levels within the range of 2 - 4% of net revenue budget, as currently set out in their 2011/12 Financial Strategy.

Key risk area 4

Asset Management

69. In 2010, the council approved a corporate Property Asset Strategy and Management Plan (CPASMP) 2010/11 to 2014/15. The key section of the plan is the Corporate Strategy Implementation Plan which sets out the ongoing and future property review work derived from the Business Transformation Programme, the Single Outcome Agreement and the council's priorities. The plan also sets out the action to help ensure the council migrates to a full property asset management planning regime in conjunction with the ongoing review of the capital programme management arrangement.

Procurement

70. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. Assessments have been undertaken by Scotland Excel, to monitor how far public bodies adopt good purchasing practice, to enable the sharing of best procurement practice and to promote continuous improvement in procurement across the public sector.

71. Two PCA's have been undertaken since July 2009 at most Scottish local authorities (including Scottish Borders Council) and many other public bodies. In 2009 the council were assessed as 'non-conforming' although this changed when the council were reassessed in November 2010 when they obtained a 'conforming' assessment. The council has set itself a target of 'Improved Performance' for their November 2011 PCA. Gaps in capability were again identified in supplier strategy and policy, corporate and social responsibility and e-procurement. An improvement plan to address these gaps was prepared.

72. The council has a 3 year procurement strategy spanning 2009 to 2012 that was approved by the Executive committee in June 2009. The strategy contained a list of targets which has been updated and presented at each half yearly update on procurement to ensure progress is being made. Currently, the council is reviewing the Strategy and consultation will take place in 2011 with a view to launching a new Strategy in April 2012. This strategy will cover 2012 to 2015.

73. The Corporate Procurement Service continues to review the possibility of fewer, but longer term, contracts and frameworks with services which may reduce time spent on tendering and allow more strategic supplier relationships. Spend across the council will continue to be reviewed to identify common areas of independent spend in each Department which could be combined to gain a better market price with combined buying power through one contract.

74. The half yearly reports to the full council provide updates on the progress towards the cash benefits targets outlined in the Corporate Procurement strategy. Savings through the use of national contracts (Scotland Excel) for SBC have been formally monitored since June 2009 when the council's corporate procurement service was set up. In 2009/10, savings were £164,758. A paper presented to council in August indicated that the council has exceeded the 2010/11 cashable benefits target of between £600,000 and £1,000,000, with final total cashable benefits from activity in 2010/11 of £4,286,171 (Some revenue contracts awarded in 2011/12, for a period of more than one year, have recurring cashable benefits in future years but are included in this total). However, savings associated with procurement are finite, and are therefore likely to decrease as opportunities are exploited.

Managing People

2010/11

75. The council introduced a voluntary severance scheme in late 2010. Expressions of interest were sought between November 2010 and January 2011. Out of over 600 expressions of interest which were initially received, 180 applicants remained interested following more detailed evaluation, with their applications being supported by their Departmental Director and Chief Executive. If all 180 applications were approved this would result in total one-off costs of £4.6 million broken down between severance costs of £2.8 million and strain on fund costs of £1.8 million with the financial payback of each proposal ranging from 2 months to 5 years.

76. The one-off costs will be funded through various options, including in year funding. The only area where affordability may be in question is in relation to the £1.3 million residual requirement. The council applied for and received the Scottish Government's 'consent to borrow' up to £1.7 million to meet eligible expenditure relating to severance costs.

77. In total, based on the 180 applicants approved by departmental Directors and the Chief Executive, £4.8 million of direct recurring employee cost savings would be delivered each year. This would be partially offset by additional costs of £1.4 million due to re-grading existing staff to reflect the allocation of associated increased responsibilities, resulting in a net annual recurrent saving of £3.4 million.

78. The full council approved 176 of the applications on the 24 February 2011 and delegated power to the Chief Executive/Director of Resources to agree any further applications that remain outstanding.

2011/12 and beyond

79. As part of the process of delivering an affordable balanced financial plan for 2011/12 and beyond, the council agreed revised policies for compulsory redundancy and voluntary severance / early retirement schemes, including the creation of a budget provision to fund such applications in future years. These revised policies would be indefinitely open to all staff, except teachers, thus allowing the council to reduce its overall staff numbers. The council also approved a freeze on pay and increments in 2011/12 and 2012/13 although as part of this the council committed to no compulsory redundancies within the pay freeze period.

80. Expressions of interest for voluntary severance or early retirement were sought in August 2011 and, of 79 expressions of interest initially received 35 applications are supported by Directors. There is a risk that the council does not agree sufficient voluntary severance / early retirements during 2011/12 to enable the council to deliver the commitments in its 2011/12 financial plan.

Key risk area 5

81. In addition, the Chief Executive left his post in August 2011 under the voluntary severance arrangements.

Outlook

82. The council, like all public sector organisations, faces a very challenging financial climate. Budget savings required in 2011/12 are far in excess of those needed in previous years and this requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring.

83. When setting the 2011/12 budget the council identified a potential funding gap of £13.0 million. In January 2011 the council approved a balanced budget for 2011/12, incorporating budget reductions across service departments, including the workforce reductions detailed above.

Financial forecasts beyond 2011/12

84. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years.

Governance and accountability

85. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

86. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

87. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

88. In this part of the report we comment on key areas of governance.

Corporate Governance

Processes and committees

89. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The Audit Committee's remit includes assessment of the adequacy and effectiveness of the council's internal financial controls, internal control framework, risk management and corporate governance arrangements. The committee also has a wider role in terms of promoting, monitoring and developing continuous improvement of internal control and governance. The committee is well attended and its remit and working practices are in accordance with good practice principles.

90. The council operates an executive/scrutiny committee structure. The "Executive" consists of twelve elected members from the coalition administration and makes most of the decisions arising from council policies and strategies. The Scrutiny Committee is comprised of nine elected members, excluding any members on the Executive and exists, among other things, to ensure that the Executive makes decisions which reflect the best option for the council.

Training

91. In anticipation of the next Local Government elections in May 2012 the council has started to review its members' training and development programme. In order to meet the needs of all

members in 2012 (newly elected and re-elected members) the council is reviewing its elected members' induction programme and its continuing training and development programme.

Roles and relationships

Chief Financial Officer and Chief Executive

92. The role of Chief Financial Officer (s.95 officer role) was vacant from January 2011 to 19 September 2011, when a new Chief Financial Officer started in post. In this interim period, the Director of Resources took on the role of s.95 officer and, as she does not hold an accountancy qualification, delegated specific powers for the proper administration of financial affairs to the three senior managers. For the purpose of concluding the 2010/11 audited financial statements, the Director of Resources, as acting s.95 Officer, signed the relevant parts of the accounts.

93. In August 2011, the Chief Executive left the council. In the short term, the Chief Executive position was rotated between the three council Directors, including the Director of Resources, until the recruitment of a new Chief Executive. At the conclusion of their recruitment process the council announced, in October 2011, that the Director of Resources would be the new Chief Executive.

Partnership working

94. The BV2 pathfinder report found that the council works well with its partners. The council and local partners have a comprehensive set of local priorities for the area. These are based on a good understanding of the local context, and local partners have reported progress against the majority of these priorities. However, outcome reporting and monitoring is not yet well developed. The council is addressing this through its ongoing review of performance management, and it is involved at a national level in developing outcome reporting.

Key Risk area 6

Community engagement

95. Effective community engagement has been an important aspect of ensuring commitment to, and successful delivery of the business transformation programme at SBC. Extensive consultation has been undertaken for all of the specific programmes, such as children's services and transforming older people' services. Officers and members have gone out to the community, consulting with practitioners and service users. The Community Planning Partnership makes good use of the people's panel and the council web-site has a readily accessible 'Borders Consults' page for easy access and response to current consultations.

96. The BV2 pathfinder report found that customer satisfaction is significantly above the national average. The council and its partners recognise that while local priorities reflect stakeholder views, there is a need to consult further, particularly with hard to-reach groups. The council has taken measures to increase public consultation and participation to inform the local priorities. Community Planning meetings allow for regular stakeholder meetings, and a voluntary sector liaison group was consulted over the local strategic priorities in the SOA. The

council has a range of measures in place to engage local residents including surveys and specific consultation events for service reviews. It has plans in place to evaluate the overall effectiveness of its community engagement activity. “Excellent progress’ has been reported against previous areas of concern - community capacity building and provision for young people.

Public performance reporting

97. The council recently updated its website and their performance against a range of priorities and performance indicators is readily available. The Single Outcome Agreement (SOA) has committed the council and its Community Planning Partners to improving their performance and service quality, and progress against the SOA is reported each year to the Scottish Government. We welcome the development of the council’s website and the improved accessibility of performance information.

ICT

98. During our year we carried out a review of a number of ICT areas. We raised a number of points through our ‘review of internal controls’ report presented to the June 2011 Audit Committee. A summary of the points raised in our report have been included below along with the councils responses:

- Information asset register: The council did not have an information asset register in place and no immediate plans to compile one. It was hoped that funding may be available to bring in staff to specifically concentrate on this area but this has not been forthcoming. The council confirmed that funding has not been received for an information management team, but work is still on-going to improve information management at the council with the expectation that an Information Asset Register would be in place for March 2012.
- ICT strategy: Whilst an overall ICT strategy had been devised and approved in the past year, the council still do not have more specific strategies in place for high risk areas such as information management. The council confirmed that work is on-going to develop specific ICT strategies and these will be appended to the overall ICT strategy once complete.
- PCI DSS compliance: The council are still not PCI DSS compliant. They have employed consultants to assess how close they are to compliance and highlight where future efforts need to be focused. The council confirmed work is on-going in this area and it will continue to be seen as a priority. The report from the consultants highlighted the areas that need to be targeted next to achieve compliance and work will continue in these areas. The CIVICA Icon capital project will ensure full compliance with regulatory requirements by March 2012.

Prevention and detection of fraud and irregularities

99. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements. Scottish Borders Council has appropriate arrangements in place to help prevent and detect fraud, inappropriate

conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistleblowing policy; codes of conduct for elected members and staff; and defined remits for committees.

NFI in Scotland

100. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud. The council has made good progress in reviewing the NFI reports and taking appropriate action.

Housing Benefit

101. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team are carrying out a programme of risk assessments of benefits services in all councils over a two year period.

102. The risks to Scottish Borders' benefits service were assessed and a detailed report was issued in October 2009. The council has responded to the risks we identified with an action plan. We believe the actions will make a positive contribution to improving the benefits service. The council has been selected for a second risk assessment in January 2012, where risks to continuous improvement and progress made in implementing previous risks will be assessed.

Outlook

103. The introduction of Single Outcome Agreements has formalised the way that the council works with community planning partners, to agree outcomes to meet the needs of the local population, reflecting national priorities. Measuring and monitoring achievement of milestones on the way to securing those outcomes is challenging, when it involves different partners. However, such a monitoring report is now submitted to the Scottish government each September.

104. Looking ahead, the establishment of those new ways of working provide a good foundation for planning ahead, jointly, and for the consideration of the joint delivery of certain services. At the same time the restriction of resources will add to the challenge in reaching decisions over priorities and attainable outcomes. This is where robust governance arrangements and clear lines of accountability will become of paramount importance.

Best Value, use of resources and performance

105. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

106. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

107. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

108. This section includes a commentary on the Best Value / performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

Performance overview

Performance management

109. The SOA is a strategic document for Scottish Borders Council, to which all other plans align. It is essential that the council and its partners have arrangements in place to monitor its delivery. A progress report is submitted to the Scottish Government each September which covers the year to 31 March. This is placed on the web-site page: Borders Performs.

110. Separately the council has a Priorities document with 59 priorities. These are the key areas of delivery for the council and part of the remit of the Performance Monitoring Panel (PMP) is to monitor their delivery and impact on a regular basis using a rolling timetable. The priorities are split into four topic areas which are reviewed by the PMP 3 times a year. The topic areas are:

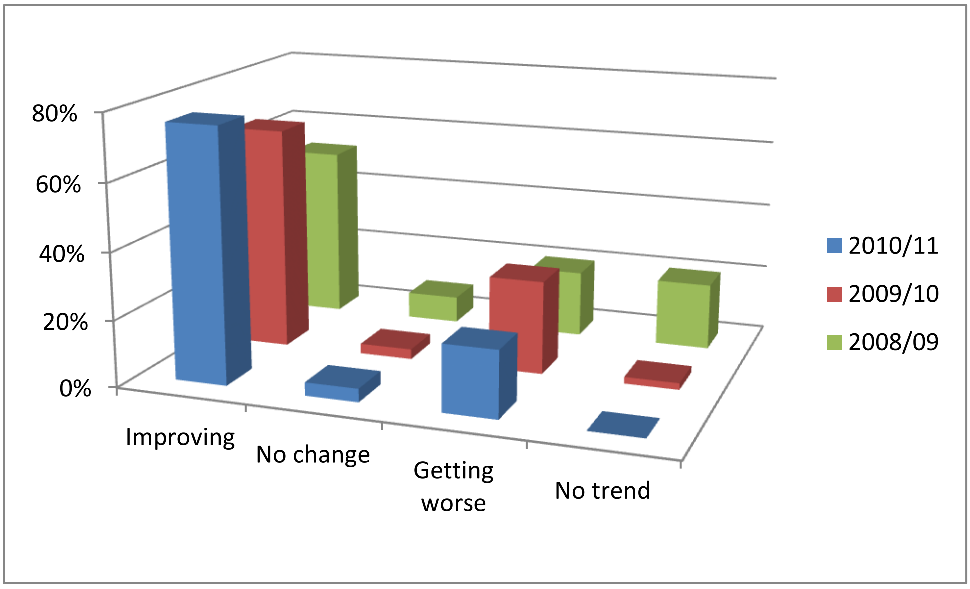
- Economy and Transport

- Education, children and Health
- Inequalities, Community and Environment
- Resources, Efficiencies and staff

111. Each of the priorities in the document has been specified into one or more high level business plan actions. Council priorities also contain a number of high level performance measures to ensure delivery of the priorities can be measured for their impact. Each performance report presented to PMP is structured to include a commentary update, delivery and results.

112. Exhibit 4 summarises the council's progress against the performance indicators as set out in their SOA since its inception in 2008/09 (113 targets are measured through the balanced scorecard).

Exhibit 4 - Comparison of Achievement of Scottish Borders Council targets



113. The performance in 2010/11 against the SOA targets can be summarised as follows:

- 80% of measures demonstrate an improving or stable performance trend (76% improving and 4% no change). This is an improvement over the previous years.
- 20% of trends are getting worse which is again an improvement on the prior year.
- 65% of performance measures are on or above target
- The percentage of measures where a trend cannot be drawn has reduced from 20% in 2008/09 to 0% in 2010/11.

114. Overall, performance has continued to improve and performance trends can now be drawn for 100% of the measures. The council will need to review its targets to ensure they are balanced between being stretching, to drive improvement, and being realistic.

Statutory performance indicators (SPIs)

115. The Accounts Commission has significantly reduced the range of statutory performance information that all councils must report. This reflects the developing scrutiny arrangements, single outcome agreements and proposals for the next stage of the Best Value audit regime. The SPI information is published on the council's 'Borders Performs' website.

116. In 2010/11, a total of 20 SPIs were required and these indicate a mixed picture of performance. The indicators that had the most significant movements between years were as follows:

- **Payment of invoices:** The number of invoices paid within 30 calendar days of receipt significantly increased to 91.2% from 87.4%. This follows an equally significant increase from the 2008/09 results of 76.5%
- **Asset management:** The council has continued to improve its operational accommodation which is suitable for current use. In 2008/09 it was 46.7%, increasing to 68.6% in 2009/10 and now sitting at 82.0% in 2010/11
- **Planning applications processing time:** There has been a significant drop in the number of applications received: dropping from 853 applications in 2007/08 to 450 applications in 2010/11. The number of these applications dealt with within 2 months has only increased slightly since last year even though the number of applications has dropped 60.1% since 2009/10.
- **Trading standard enquiries, complaints and advice:** The number of customer complaints has reduced by 17.2% since 2009/10. The percentage dealt with within 14 days has deteriorated from 58.4% to 52.3%.

Risk Management

117. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.

118. The council has a sound approach to managing risk. The council uses its Covalent Performance Management System to maintain corporate, strategic and operational risk registers for all business units. All are subject to quarterly review. The risk management team follows up issues arising from reviews with responsible officers.

Shared Risk Assessment (SRA)

119. The statutory duty of Best Value in local government was introduced in the Local Government in Scotland Act 2003. In response, the Accounts Commission consulted on, and implemented, the audit of Best Value and Community Planning. The Commission has now published a first phase of Best Value audit reports on all 32 councils in Scotland. Audit Scotland carries out Best Value audits on behalf of the Accounts Commission.

120. Best Value 2 (BV2) is the next phase of Best Value audit. Its approach has moved on significantly from the first phase, and is designed to be more risk-based and proportionate but

it is carried out and reported under the same legislative framework. In order to shape the scope of the BV2 audit, Audit Scotland worked closely with inspectorates, and in June 2009 undertook a shared risk assessment (SRA) of Scottish Borders Council. This ensured that our audit was proportionate and risk based.

121. The initial BV2 audit SRA was updated in early 2010, as part of the roll out of the shared risk assessment process to all 32 councils in Scotland. As part of ongoing partnership work with other scrutiny bodies, the issues arising from this audit and other audit and inspection activity have been fed into the council's Assurance and Improvement Plan (AIP).

122. During 2010/11, the SRA process for 2011/12 was to revisit the Assurance and Improvement Plan for 2010/11 to update risk assessments and to propose scrutiny plans, taking account of any new evidence.

123. Over the past year the council has continued to progress with service objectives, in the form of its Single Outcome Agreement (SOA) and to progress with internal service redesign through the Business Transformation Programme and a series of strategic reviews. From a collation of updated evidence and discussion across all members of the Local Area Network (LAN), positive developments were noted in a number of areas, in particular in the areas of: improving the health and well being of the Scottish Borders population; in the provision of homecare for people aged over 65; and in education and lifelong learning.

124. Areas where risk assessments have changed as a result of updated evidence or a change in circumstances are detailed below. In the previous assessment, no area of significant scrutiny risk was identified. However, in light of the substantial reductions in government funding for all public sector areas, we have identified 'use of resources' as an area of significant risk. Further explanation is given below.

- SOA priority: reduce alcohol related problems among young people and adults and the harmful impact on communities in the Scottish Borders – The 2010/11 AIP identified this SOA priority as an area where no significant risks had been identified. Looking at recent evidence, we have concluded that this is, from the perspective of the LAN, an area of uncertainty.
- SOA priority: develop greater community resilience within Scottish Borders – The 2010/11 AIP identified this SOA priority as an area of uncertainty. Through review of SBC material and from the contribution of LAN members there is now considerably more evidence to illustrate the extent to which the council is developing greater community resilience. On balance the evidence is mainly positive and therefore the LAN concludes no significant risks have been identified in this area.
- Corporate assessment area: performance management and improvement – The 2010/11 AIP identified this corporate assessment area as an area of uncertainty. Through review of SBC material and from the contribution of LAN members there is now considerably more evidence to illustrate how the council is addressing these areas. As a result we consider there is no significant scrutiny risk in this area.

- Corporate assessment area: use of resources – The 2010/11 AIP identified this corporate assessment area as one where no significant risks had been identified. The council has demonstrated a good understanding of the financial challenges it faces and has been pro-active in preparing financial plans to manage budget reductions. However, in common with a handful of other Scottish councils, the creditor status of the council in relation to Icelandic Bank deposits was being appealed at the time the SRA was prepared. Consequently use of resources was identified as an area of significant concern.

Outlook

125. The long term and complex nature of many of the outcome targets, many of which can only be delivered in partnership with community planning partners, pose many challenges for performance management. We recognise the challenges and whilst we have no plans to audit the outcome progress reports in 2010/11, we will pay attention to the systems Scottish Borders have in place to monitor progress and take remedial action.

Appendix A: Audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	28 February 2011	21 March 2011
Review of adequacy of internal audit	28 February 2011	21 March 2011
Review of IFRS shadow financial statements	5 May 2011	20 June 2011
Shared Risk Assessment / Assurance and Improvement Plan	11 May 2011	20 June 2011
Review of internal controls	20 June 2011	20 June 2011
Report to those charged with governance on the 2010/11 audit	16 September 2011	26 September 2011
Audit opinion on the 2010/11 financial statements	30 September 2011	26 September 2011

Appendix B: Action plan

Key risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Management Action	Responsible Officer /	Target Date
1.	**Charity Accounts** OSCR has deferred full implementation until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional working papers. The Council will need to ensure it is prepared for the end of the transition period.	Programme of work in place, in conjunction with OSCR, to achieve full compliance, with particular regard to issues around governance and audit certification	Paddy Fagan	31/03/13
2.	**Common Good Funds (CGF)** The council is continuing the exercise to investigate whether there should be any further transfers of asset between the council and CGF and Trust funds.	Policy now agreed by Council and work ongoing to finalise exercise for all Common Goods	Ian Wilkie	31/12/12
3.	**Capital projects slippage** The council's capital projects have had significant slippage in the last 2 years and it will need to improve its project arrangements to ensure it can deliver its capital plans within the planned timescales.	Ongoing improvements in the capital bidding process and consideration of use of advance fees budget to accelerate project design	Paddy Fagan / Lynn Mirley	09/02/12
4.	**Reserves** There is a risk that the council will not be able to sustain its reserve levels within the range of 2 – 4% of net revenue budget, as currently set out in their 2011/12 Financial Strategy.	Reserves and Financial Strategy under review, in advance of presentation to members as part of 2012/13 > budget process	David Robertson / Paddy Fagan / Debbie Collins	09/02/12

Action Point	Risk Identified	Planned Management Action	Responsible Officer /	Target Date
5.	**Voluntary severance** There is a risk that the council does not agree sufficient voluntary severance / early retirements from 2012/13 to be able to balance its budget for 2012/13 and subsequent years.	Acknowledge risk, particularly in relation to the policy of no compulsory redundancies. Position will be regularly monitored	David Robertson / Debbie Collins	31/03/13
6.	**Partnership working** The council and local partners have a comprehensive set of local priorities for the area. However, outcome reporting and monitoring is not yet well developed.	Continue to work with partners to develop and improve outcome reporting	Tracey Logan	31/03/12