

# Scottish Borders Council

2016/17 Annual Audit Report



 AUDIT SCOTLAND

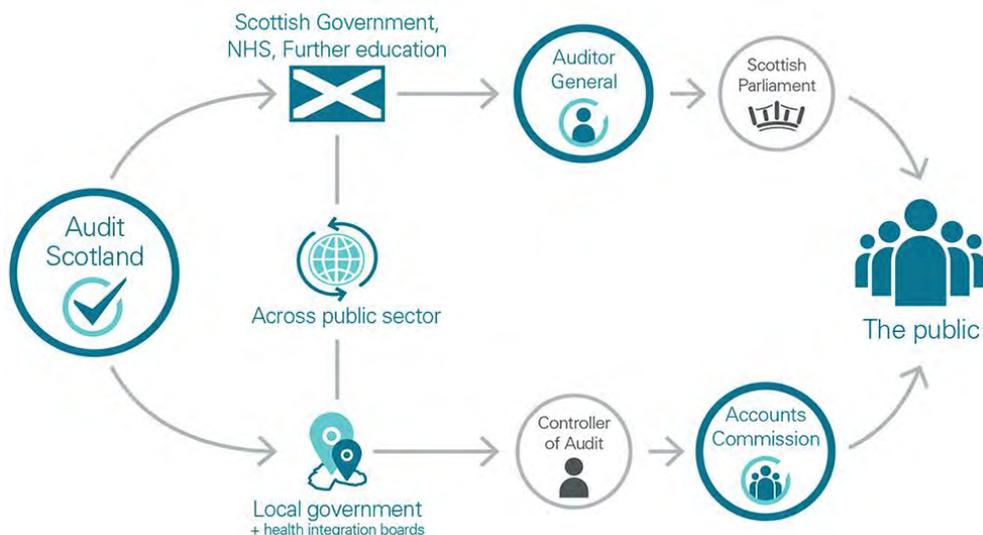
To Members of Scottish Borders Council and the Controller of Audit

25 September 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## Audit of the 2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.
- 2 Unqualified opinions were issued for the seven charitable trusts administered by the Council.

## Financial management

- 3 Financial management is effective with a budget setting process focused on the Council's priorities.
- 4 The Council has a good track record of delivering services within its budget.
- 5 The Council has appropriate internal controls in place within main financial systems and our testing confirmed that these were operating effectively. We did not identify any significant internal control weaknesses.

## Financial sustainability

- 6 The Council's financial position is sustainable in the foreseeable future although rising demand, increasing costs of services and reductions to central government funding will continue to place a strain on the Council's capacity to deliver services at the current levels.
- 7 The Council has an adequate level of reserves and has medium-term financial plans that are aligned to Council priorities and demonstrate how it will address future budget challenges. This is in line with good practice.

## Governance and transparency

- 8 The Council has appropriate governance arrangements in place that support the scrutiny of decisions made by the Council. The Council is open and transparent in the way it conducts its business and the public can attend meetings of the Council and its standing committees.

## Value for money

- 9 Our Best Value work during the year concluded that the Council has effective arrangements in place regarding financial management, financial sustainability and the use of resources, with good progress made since the last Best Value report.
- 10 The Council has appropriate arrangements in place for the collection, monitoring and reporting of performance information.

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# Introduction

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1. This report is a summary of the findings arising from the 2016/17 audit of Scottish Borders Council ('the Council' or 'SBC').
2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit & Risk Committee. This report comprises:
  - an audit of the annual accounts
  - consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:
  - an interim audit of the Council's main financial systems and governance arrangements
  - audit work covering the Council's arrangements for securing Best Value relating to financial management, financial sustainability and the use of resources
  - an audit of the Council's 2016/17 annual accounts including the issue of an independent auditor's report setting out our opinions
  - a local risk assessment of the Council's housing benefits service.

4. Scottish Borders Council is responsible for preparing the annual accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.
5. Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
6. As public sector auditors we provide an independent auditor's report on the annual accounts. We also review and report on the arrangements within Scottish Borders Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the Council's best value arrangements. In doing this, we aim to support improvement and accountability.
7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
8. This report raises matters from the audit of the annual accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
9. Our annual audit report contains an action plan at [Appendix 1 \(page 26\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
12. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

# Part 1

## Audit of 2016/17 annual accounts



### Main judgements

**Unqualified audit opinions on the Council's annual accounts.**

**Unqualified audit opinions on the seven charitable trusts administered by the Council.**

### Unqualified audit opinions

- 13.** The annual accounts for the year ended 31 March 2017 were considered by the Audit and Scrutiny Committee on 25 September 2017 and approved by the Council on 28 September 2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements
  - unqualified opinions on the management commentary, remuneration report and annual governance statement.
- 14.** Additionally, we have nothing to report in respect of those matters which we are required to report by exception.

The Council's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

### Audit of charitable trusts administered by Scottish Borders Council

- 15.** Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of Scottish Borders Council are sole trustees, irrespective of the size of the charity.
- 16.** Our duties as auditors of the seven charitable trusts administered by Scottish Borders Council are to:
- express an opinion on whether the financial statements properly present the charitable trusts' financial position and are properly prepared in accordance with charities legislation
  - read the trustees' annual reports and express an opinion as to whether they are consistent with the financial statements
  - report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator.
- 17.** We received the trusts' accounts in line with the agreed timetable and after completing our audit we issued unqualified audit opinions in respect of the 2016/17 financial statements of SBC Charitable Trusts, SBC Community

Enhancement Trusts, SBC Education Trust, SBC Ormiston Trust for Institute, SBC Thomas Howden Wildlife Award Fund, SBC Welfare Trusts and the SBC Common Good Funds.

18. The Ormiston Trust for Institute accounts included a tangible asset in its balance sheet at a value of £216k. When agreeing this asset to the asset register we identified that the value had been overstated by £17k. This is material in the context of the trust's accounts. The value of the asset was corrected in the audited version of the accounts.

#### [Appendix 1, Action plan point 1](#)

19. Work is ongoing to reorganise the Council's registered and unregistered trusts and charities. In March 2014 the registered Charitable Trusts covering Community Enhancement, Education and Welfare were established. Where appropriate a number of the existing trust funds were transferred into these charities. The purpose and governance of these Trusts were approved by the Council in May 2015.
20. This left a further group of 76 Trusts registered within a separate SBC Charitable Trust, 177 unregistered Trusts, and two individual registered Trusts, the Thomas Howden Wildlife Trust and the Ormiston Institute. The next phase of the charitable reorganisation now looks to amalgamate, where possible, the remaining Trusts into the established charitable trusts.
21. The charitable trusts are consolidated into the Council's group accounts.

### **Submission of the Council's annual accounts for audit**

22. We received the unaudited annual accounts on 28 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. In 2016/17, for the first time, the Council's group accounts included the financial results of Scottish Borders Integration Joint Board.
23. The working papers provided with the unaudited accounts were of a reasonable standard, although we identified areas where we consider improvements could be made. The introduction of a new financial system for 2017/18 should allow for a higher standard of working papers for the 2017/18 audit. Finance staff provided good support to the audit team during the audit.

### **Risk of material misstatement**

24. [Appendix 2 \(page 28\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

### **Materiality**

25. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.
26. Our initial assessment of materiality for the annual accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2 \(page 9\)](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

27. On receipt of the unaudited 2016/17 annual accounts we reviewed our original materiality calculations and concluded that they remained appropriate.

## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£4.01 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£2.00 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality, rounded to £40,000.	£40,000

Source: Audit Scotland Annual Audit Plan 2016/17

## How we evaluate misstatements

28. There were no material adjustments to the unaudited financial statements arising from our audit. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. There are no unadjusted errors arising from the audit.

## Significant findings

29. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 3](#) below.

## Exhibit 3

### Significant findings from the audit of Scottish Borders Council

Issue	Resolution
<p><b>1. Carbon Reduction Commitment</b></p> <p>The unaudited Council accounts included two provisions relating to the Council's carbon reduction commitment, one for £225k and one for £411k. Following review of these provisions we identified they had not been accounted for correctly and neither should have been accounted for as a provision.</p>	<p>The £225k provision for the energy efficiency scheme should have been treated as a creditor rather than a provision.</p> <p>The £411k provision for purchased allowances was not required in the accounts. This had also been included as a prepayment within debtors. Provisions and debtors were therefore both overstated by this amount.</p> <p>The audited accounts were adjusted to correct these misstatements.</p>

Issue	Resolution
<p><b>2. Creditor with SBC Pension Fund</b></p> <p>Debtors/creditors due from/to Scottish Borders Council Pension Fund were overstated by £168k. This error is due to the respective creditor not being netted off against the creditor in the accounts.</p>	<p>The accounts have been adjusted to correct this error.</p>
<p><b>3. Group accounts</b></p> <p>The Council's group accounts are based on unaudited accounts for the group entities. Due to timing of the receipt of audited accounts from the group entities the figures are not able to be updated for the audited accounts until after the Council's audited accounts are finalised.</p>	<p>We have recommended that the Council should request audited accounts for group entities to be provided earlier to allow the group accounts to use the audited figures.</p> <p><a href="#">See appendix 1, action point 2</a></p>

## Going concern

- 30.** The financial statements of the Council, its group and the associated charitable trusts have been prepared on the going concern basis.

## Other findings

- 31.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

## Objections and Whole of Government Accounts

- 32.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations. No objections were received on the 2016/17 annual accounts.
- 33.** The Council submitted a consolidation pack for the whole of government accounts audit on 20 July 2017.

# Part 2

## Financial management



### Main judgements

**Financial management is effective with a budget setting process focused on the Council's priorities.**

**The Council has a good track record of delivering services within its budget.**

**The Council has appropriate internal controls in place within main financial systems and our testing confirmed that these were operating effectively. We did not identify any significant internal control weaknesses.**

### Financial performance in 2016/17

- 34.** In February 2016 the Council approved a budget of £263.2 million for 2016/17. The actual outturn for the year was expenditure of £261.6 million, which was an underspend of £0.8 million against the revised budget of £262.4 million for the year. Following adjustments for earmarked balances, the overall net underspend for the year was £0.1 million. The Council has a good track record in delivering services within budget over the last few years.
- 35.** While the Council's spending has remained in line with its overall budget, there are significant variations in how different services have performed. The largest areas of over and underspends are summarised in [Exhibit 4](#) below.

**Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.**

### Exhibit 4

Summary of largest areas of over and under spends against budget

Area	Under/over spend (£m)	Reason(s) for variance
<b>Underspends</b>		
Children and Young People	£0.4	Lower than expected expenditure in Central Schools and staffing savings.

Area	Under/over spend (£m)	Reason(s) for variance
Neighbourhood services	£0.2	Reduced costs due to favourable weather conditions as well as underspends on staffing, premises, materials.
<b>Overspends</b>		
Chief Executive	£0.5	Scottish Wide Area Network additional costs due to slippage in the project caused by the failure of an external partner to migrate sites.

Source: Scottish Borders Council 2016/17 Revenue Outturn Report

## Efficiency savings

- 36.** With reduced funding from government and increased demand for services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.
- 37.** Savings of £12.4 million were delivered during 2016/17. This was a significant increase in the amount of savings compared to previous years, with £7.8 million having been delivered in 2015/16 and £8.1 million in 2014/15. However the proportion of savings achieved on a recurring (permanent) basis has decreased compared to previous years, with 73% (£9.0 million) achieved on a permanent basis in 2016/17 compared to 85% (£6.6 million) in 2015/16. The remaining 27% (£3.4 million) were delivered on a non-recurring (temporary) basis and will need to be addressed in future years.

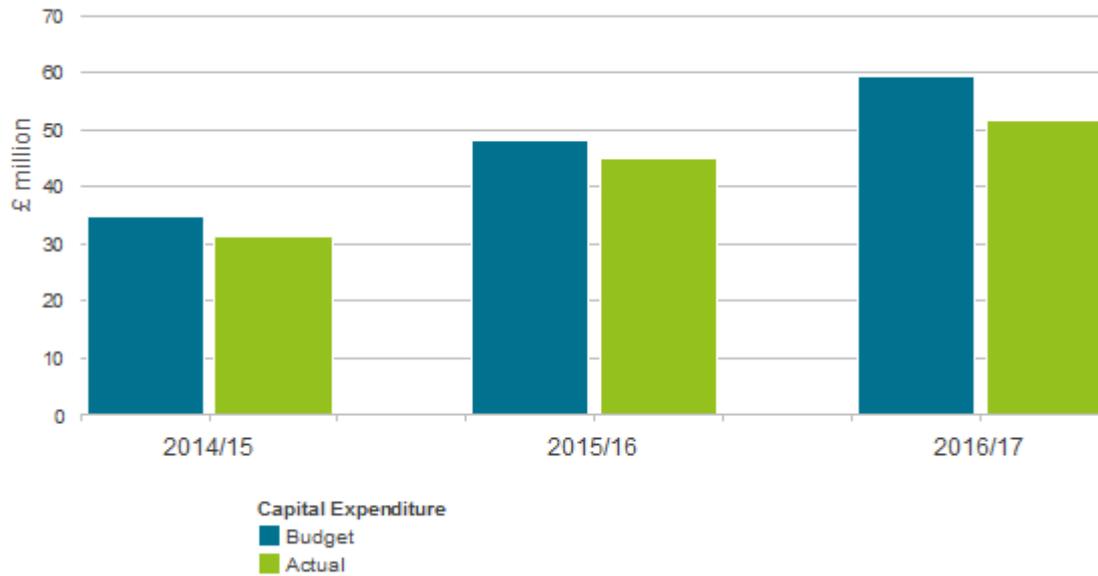
[Appendix 1, Action plan point 3](#)

## Capital programme 2016/17

- 38.** Total capital expenditure in 2016/17 was £51.8 million, with significant expenditure on the Council's school estate, flood protection schemes and transport infrastructure. Total capital spend was £7.7 million below the revised budget for the year, with £7.4 million taken forward to future years. The Council has a history of slippage in its capital programme as outlined in [Exhibit 6 \(page 13\)](#).

## Exhibit 6

### Capital expenditure compared to budget



Source: SBC annual accounts

39. The main areas of slippage were in the reprofiling of Broomland Primary School due to contractor delays, delayed implementation of digital customer access and delays in the street lighting energy efficiency project due to purchasing delays.
40. Internal Audit carried out a review of capital investment as part of their work in 2016/17. They found that improvements have been made to the information that members receive as part of budget monitoring reports and that arrangements in place are sound. However they noted that further improvements could be made, including having Strategic Asset Management Plans in place for all asset classes and having additional information included in monitoring reports regarding quality, risk and delivery of benefits.

### Budgetary monitoring and control

41. The *Local Government in Scotland: Financial overview 2015/16* (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for Councils with decreasing (or low levels) of usable reserves to rely on.
42. Within the Council the detailed scrutiny of financial performance is delegated to the Executive Committee which receives quarterly revenue and capital monitoring reports. From our review of these reports we concluded that they provided an overall picture of the budget position at service level. Also, the reports forecast out-turn position for the year and include good narrative explanations for significant variances against budget. They allow both members and officers to carry out scrutiny of the Council's finances.

### Internal controls

43. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

44. Our findings were included in our interim audit report that was presented to the Audit and Scrutiny Committee in June 2017. We concluded that key controls were operating effectively. No significant control weaknesses were identified which could affect the Council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

### Prevention and detection of fraud

45. We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, fraud prevention and fraud response plan.
46. Based on the evidence reviewed by us, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud

### National Fraud Initiative

47. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.
48. The latest position on NFI investigations by the Council, excluding Council Tax data matches, is summarised in [Exhibit 7](#) below.

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## Exhibit 7

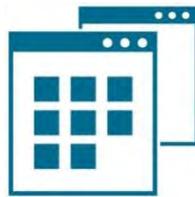
### National Fraud Initiative

Total number of matches



1,020

Number recommended for investigation



164

Completed/closed investigations



324

Source: NFI website

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49. NFI progress and outcomes are reported to the Audit and Scrutiny Committee as part of the annual counter fraud report. The Corporate Fraud and Compliance Officer oversees NFI work at the Council, investigation work is currently ongoing and will be completed by the end of 2017.

# Part 3

## Financial sustainability



### Main judgements

**The Council's financial position is sustainable in the foreseeable future although rising demand, increasing costs of services and reductions to central government funding will continue to place a strain on the Council's capacity to deliver services at the current levels.**

**The Council has an adequate level of reserves and has medium-term financial plans that are aligned to Council priorities and demonstrate how it will address future budget challenges. This is in line with good practice.**

### Financial planning

51. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. Although councillors are only required to approve a budget for a single year, this should be supported by indicative future spending plans that forecast the impact of relevant pressures on the Council.
52. The Council has a financial strategy covering five years, which is in line with good practice, and which is reviewed as part of the annual budget setting process. Although longer term financial scenarios are inherently difficult to predict, in line with best practice we recommend that Councils consider the recommendations set out in the Accounts Commission report on [Scotland's public finances – a follow-up audit: Progress in meeting the challenges](#) (June 2014), including making use of longer term scenario planning within their financial strategies.

[Appendix 1, Action plan point 4](#)

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

### Funding position

53. The Council approved its 2017/18 budget in February 2017. The budget was set at £264.8 million, which is based on achieving £9.5 million of savings, as well as a planned drawdown from reserves of £2.9 million.
54. The Council is facing a number of challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in central government funding.

### Savings plans

55. As outlined in paragraphs 36 to 37 the Council achieved its efficiency savings target in 2016/17. Scottish Borders Council has identified that it needs to make recurring savings of £12.3 million for 2017/18 and additional savings of £9.5 million over the following four years as part of its plans to maintain financial

balance. The Council has been proactive in trying to effectively manage this by preparing medium-term financial plans as part of its budgeting process. The financial plans set out the expected pressures, along with details of the proposed actions to achieve savings over the period of the plan. 2017/18 is the final year of a five year plan initially agreed in 2013/14, which has been updated each year.

## Reserves

- 56.** One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the Council decreased from £31.2 million in 2015/16 to £25.9 million in 2016/17, mostly due to the use of earmarked balances from the general fund.
- 57.** The general fund reserve is the largest reserve. This reserve has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.
- 58.** The Council reviews the level of its uncommitted reserves when setting the budget each year. The review is based upon an assessment of corporate risks, with each risk being assigned a likely financial amount as well as a likelihood of the risk occurring. As part of the budget setting process for 2017/18 the Corporate Financial Risk Register was considered by the Council in February 2017. At this time the financial risk in the risk register was assessed as being £10.9 million. The unallocated general fund balance of £5.4 million is sufficient to cover 52% of these risks at that time. This is a slight improvement on the prior year position which covered 48% of the assessed risks at that time.
- 59.** We consider the Council's approach to reserves to be prudent and are satisfied that reserves are being regularly reviewed to confirm that they remain at an appropriate level.
- 60.** [Exhibit 9](#) provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. This shows that the general fund balance has tended to increase over recent years, although there has been a reduction between 2015/16 and 2016/17 as the Council has utilised earmarked balances within the reserve.

## Exhibit 9

### Analysis of general fund over last five years



## Business transformation

- 61.** A key element of the Council's ability to achieve efficiency savings is its Corporate Transformation Programme which is intended to provide a framework for the delivery of activities and projects over a five year period.
- 62.** As part of the Transformation Programme, the Council has agreed a 13 year contract with an external partner, CGI, to transform its ICT services. During the year 46 Council ICT staff transferred to CGI as part of this arrangement. The Council monitor the arrangement with CGI through a Digital Transformation Board, with regular meetings taking place between Council officers and CGI officers. Internal Audit reviewed the arrangements in place as part of their work on ICT Change Management and concluded that appropriate governance arrangements are in place for monitoring and reporting on the progress of the programme to elected members, and to senior officers. There are appropriate governance structures in place between the Council and CGI with regard to the delivery of the services.
- 63.** As part of the ICT changes taking place at the Council a new Enterprise Resources Planning (ERP) system was introduced and went live from 1 April 2017. This new system provides an integrated financial system including general ledger, payroll and purchasing services. The introduction of this system was co-ordinated by a project board which meets regularly.
- 64.** From discussion with officers, and review of project board papers, we are aware that there were a few issues with the introduction of the new system, including delays in implementing changes to the method of corporate financial monitoring and reporting. However, we recognise that the scale of the change required was significant and that the transfer to the new system has largely gone as anticipated. We will be reviewing the introduction and operation of the ERP system as part of our 2017/18 audit work.
- 65.** The Corporate Transformation Programme also includes other areas such as the property and estates rationalisation, school estates review, workforce transformation and energy efficiency programmes. It provides the framework for the delivery of projects to ensure the Council remains financially sustainable, and progress is reported quarterly to the Executive Committee.

# Part 4

## Governance and transparency



### Main Judgements

**The Council has appropriate arrangements in place that support scrutiny of decisions made by the Council and its standing committees.**

**The Council is open and transparent in the way that it conducts its business, with the public able to attend meetings of the Council and its committees. Minutes of committee meetings and agenda papers are readily available on the Council's website for public inspection.**

### Council changes

**66.** The Council saw significant changes in its elected members following the local government elections in May 2017, with nineteen of its thirty four members being elected for the first time. The Council recognise this brings opportunities with new ideas and approaches from the members but it also provides challenges for the Council in ensuring members have the skills they need to be effective in their roles.

### Members' induction and development

**67.** Following the local government elections in May 2017 there has been a sustained period of elected member training, recognising the number of newly elected members. A series of training events have been held to support elected members and help them develop an understanding of their role. We reviewed the induction programme and materials provided to new members and concluded that effective arrangements were in place to provide councillors with the required training for their role.

### Governance arrangements

**68.** We reviewed the Council's governance and accountability arrangements which included:

- confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective
- assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body
- confirming that there is effective scrutiny and challenge in place over policy decisions, service performance, and programme management

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

- confirming that decision makers have the information they need to scrutinise, challenge and make transparent decisions
- ensuring that it is clear what decisions have been made, who made them and the rationale supporting those decisions.

- 69.** A revised Scheme of Administration was agreed by the Council following the election in May 2017. The functions previously delegated or referred to the Scrutiny Committee by the Council have now been included within the functions of the Audit and Scrutiny Committee which has replaced the previous Audit and Risk Committee.
- 70.** The Audit and Scrutiny Committee includes up to three external members for considering audit related matters, which was also the case for the previous Audit and Risk Committee. This allows for external expertise to be considered when carrying out the committee's remit of assessing arrangements and monitoring systems of internal control.
- 71.** We concluded that the Council's arrangements are appropriate and adequate in that they support good governance and accountability.

### Management commentary, annual governance statement and remuneration report

- 72.** The [Code of Audit Practice 2016](#) requires Councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.
- 73.** Based on our knowledge and work performed, we concluded that the annual governance statement and remuneration report are consistent with the financial statements.
- 74.** The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. We concluded that the Council's management commentary was balanced, well presented and understandable, and consistent with the financial statements.

### Internal audit

- 75.** Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes.
- 76.** The internal audit function is carried out by an in-house team. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
- 77.** To avoid duplication effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work in the following areas: creditors payments, salaries (including expenses) and revenues (council tax). We also considered internal audit report findings as part of our wider dimension work.

### Transparency

- 78.** Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Council is

taking decisions and how it is using resources such as money, people and assets.

79. There is evidence from a number of sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council, executive and other committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website.
80. The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint.
81. The Council makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the Council.
82. Overall, we concluded that the Council conducts its business in an open and transparent manner.

### Freedom of Information handling

83. During 2017 the Scottish Information Commissioner has issued two rulings against the Council regarding its handling of a Freedom of Information (FoI) request from a member of the public. These decisions found that the Council had not complied with the requirements of the FoI legislation and had incorrectly withheld information.
84. As part of our audit work we held meetings with Council officers to discuss how the Council had responded to the FoI requests, and to determine whether the Council had identified any lessons to be learned from the handling of the request or any improvements to its process for dealing with requests. Based on the work carried out, we are satisfied that the Council has an appropriate system in place for responding to FoI requests and that improvements have been adopted.

### Lender Option Borrower Option

85. During the year Audit Scotland received correspondence on a number of councils using Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose, on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan. Scottish Borders Council has around £43 million of these standard LOBOs within its market debt portfolio, totalling £197 million.
86. We have held discussions with council officers and reviewed supporting papers including an analysis of the LOBOs held by the Council and comparable PWLB rates of interest and the Council's treasury management policies and controls.
87. Based on our work we can conclude that:
  - the use of LOBOs has been undertaken in line with the Council's treasury management policy, which has been reviewed and approved annually by councillors
  - the interest rates on the standard LOBOs were lower than the comparable PWLB rates available at the time, and the Council's interest costs to date on these loans have been less than the PWLB equivalent

- the option to propose or impose a new fixed interest rate has never been exercised by the lenders
- the potential for debt restructuring is kept under regular review by the Council as part of its treasury management arrangements.

88. There are no further issues we wish to raise in this report.

### Integration of health and social care

89. Legislation to implement health and social care integration was passed by the Scottish Parliament in February 2014. This brings together NHS and local council care services under one partnership arrangement for each area.
90. The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is seen as a means of achieving this.
91. The Scottish Borders Integration Joint Board (IJB) is provided in partnership with NHS Borders and was established on 6 February April 2016. It assumed responsibility for the delegated health and social care services set out in its Integration Scheme from 1 April 2016. The financial transactions of the Scottish Borders IJB have been consolidated into the Council's group accounts.
92. It is still too early for the Council or its partner to demonstrate any significant examples of new ways of working arising from the integration, the impact or improvements to services. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This is due in spring 2018.

### Local scrutiny plan

93. The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted to Scottish Borders Council on 30 May 2017. It was also presented to the Audit and Scrutiny Committee on 28 June 2017. The LAN did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2017/18. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

### Equalities

94. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
95. We reviewed the current (April 2017) equalities report and concluded the Council has met its statutory duty to:
- publish information on progress made in mainstreaming equality within the Council
  - report on progress made towards achieving equality outcomes published in 2013
  - publish annual employee information and details of the progress made in gathering and using information to better meet the duty

- publish updated gender pay gap information.

**96.** We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed.

## **Equal pay**

**97.** In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government. The audit found that councils underestimated the challenges involved in implementing the Single Status Agreement (SSA) and some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory. Scottish Borders Council implemented single status in November 2008 and reports that between 2004/05 and 2015/16 it has spent £5.9 million compensating workers who had been unfairly paid and settling equal pay claims.

**98.** Almost 27,000 equal pay claims across Scotland remain live and Scottish Borders Council still has 46 live claims. Employees could potentially still make new claims against councils. This means that councils need to be confident that they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty.

# Part 5

## Value for money



### Main judgements

**Our Best Value work during the year concluded that the Council has effective arrangements in place regarding financial management, financial sustainability and the use of resources, with good progress made since the last Best Value report.**

**The Council has appropriate arrangements in place for the collection, monitoring and reporting of performance information.**

### Best Value

- 99.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Scottish Borders Council is planned for later in the five year programme.
- 100.** The Best Value audit work carried out this year focussed on the Council's arrangements for securing Best Value relating to financial management, financial sustainability and the use of resources. We concluded that the Council has effective arrangements in place regarding these areas, with good progress made since the last Best Value report. The effectiveness of the Council's Best Value arrangements in other areas will be assessed and reported throughout our audit appointment.

Value for money is concerned with using resources effectively and continually improving services.

### Following the public pound

- 101.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.
- 102.** The Council's financial regulations contain reference to following the public pound and refer to the Council's Code of Practice on following the public pound, available to staff through the Council intranet. These emphasise that services must adhere to the Council's guidance for allocating funds to external organisations. However we identified that the Code of Practice has not been updated recently and is not available via the intranet. The financial regulations at the council are required to be updated to reflect the new financial procedures due to the new financial systems in place (see paragraphs 63 and 64), and the introduction of the Scottish Borders Integration Joint Board. We will review these in 2017/18 to confirm that following the public pound requirements are reflected in the regulations.

- 103.** The Council's Limited Liability Partnership Strategic Governance Group (LLPSGG) was established in 2015/16 and its remit includes scrutiny of SB Cares, the Council's arm's-length external organisation (ALEO). The LLPSGG meets bimonthly during the year and receives regular updates on the performance of the ALEO.
- 104.** The Council set up a new integrated culture and sports trust, Live Borders, which replaced the previous Borders Sport and Leisure Trust (BSLT) from April 2016. This trust provides arts, libraries, museums and galleries services previously provided by the Council, as well as the sport and leisure facilities previously provided by BSLT. As part of the process for forming the new trust a performance management framework was agreed and approved by the Council's Executive Committee. This set out the monitoring arrangements to be put in place, including quarterly reporting to a joint group of council and trust officers, as well as twice yearly reporting to the Executive Committee.
- 105.** We concluded that the Council has adequate arrangements for ensuring compliance with the Code of Guidance on funding external bodies and following the public pound. However improvements are required to ensure that guidance is up to date and readily available to staff.

## Performance management

- 106.** The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.
- 107.** Additionally, the Council's Executive Committee receives quarterly performance reports throughout the year and an annual performance report. These reports monitor progress against the Council's key priorities as set out in its Corporate Plan which was updated in October 2015. The performance reports are also made available to the public through the performance section of the Council's website. Based on the annual report submitted to the Executive Committee in June 2017 a number of positives were highlighted including:
- With 91.3% of its 16 to 19 years old in education, training or employment, Scottish Borders exceeded the national rate of 90.4%, and initial positive destinations (after school) remain higher than the national rate, at 94.2% (down only slightly from 95.2% last year);
  - An improvement in the process for social work assessments resulted in 100% of new service users receiving a service within 6 weeks of an assessment for Q4 of 2016/17;
  - During 2016/17, 84.3% of complaints received by the Council were closed within 5 working days (Stage 1), down only slightly from last year (85.2%). However, the Council's performance at Stage 2 improved significantly, from 77.5% of complaints closed within 20 working days in 2015/16 to 84% in 2016/17.
- 108.** At the same time the Council recognises that it has to improve service delivery in a number of key areas such as time taken to respond to complaints, proportion of Looked After Children (aged 12+) in a family-based placement and improving road safety.

## Statutory performance indicators (SPIs)

**109.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

**110.** For 2016/17 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

**111.** We placed reliance on the work of Internal Audit and concluded that the Council's arrangements for publication are satisfactory.

## Local performance audit work – housing benefit service

**112.** A risk assessment of the Council's housing benefit service was carried out in August 2017. The last risk assessment was carried out in March 2014.

**113.** We recently issued a report to management identifying six risk areas. We have asked officers to provide an action plan to address these risks. We expect the report will come to the Audit and Scrutiny Committee when concluded.

## National performance audit reports

**114.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 3 \(page 31\)](#).

**115.** The Council has good arrangements in place for considering national reports issued during the year, with the reports being considered by the Audit and Scrutiny Committee.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
8	<p><b>1. Charitable trust assets</b></p> <p>Our audit work on the Council's seven charitable trusts noted issues with the identification and valuation of assets included in their accounts.</p> <p>There is a risk that the values of assets in the trusts' accounts are not accurate.</p>	<p>The Council should carry out a review of trusts assets to ensure that they are being accurately reported.</p>	<p>Agreed – This will be reviewed during 2017/18.</p> <p><b>Responsible officer</b> Chief Financial Officer</p> <p><b>Agreed date</b> 31 March 2018</p>
10	<p><b>2. Group accounts</b></p> <p>The figures in the Council's group accounts are based on the unaudited accounts for the components included in the group.</p> <p>There is a risk that the figures are not accurate and that the audited accounts of the entities could be significantly different from the unaudited figures used.</p>	<p>The Council should request that audited accounts for the group entities are received earlier to allow audited figures be used for consolidation into the group accounts.</p>	<p>Agreed – The Council will write to partners and their auditors to ensure audited figures are available as part of the 2017/18 audit process.</p> <p><b>Responsible officer</b> Chief Financial Officer</p> <p><b>Agreed date</b> 31 March 2018</p>
12	<p><b>3. Savings</b></p> <p>The Council has a good track record of achieving its savings targets for the year. However a large element of the savings in 2016/17 was achieved on a non-recurring basis.</p> <p>There is a risk that savings targets in future will be even more challenging if savings are only achieved on a one-off basis.</p>	<p>The Council should try to ensure that savings are identified on a recurring basis so that pressures are not carried forward to future years.</p>	<p>Agreed – Savings not delivered in year are already carried forward as part of the budget process to be amended. The focus of the management team will be on maximisation of recurrent savings as part of the 2018/19 and future budget process.</p> <p><b>Responsible officer</b> Chief Executive</p> <p><b>Agreed date</b> 8 February 2018</p>



**Page  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

**15**

**4. Financial planning**

Although the council has a five year financial strategy, in line with good practice, which is regularly reviewed and considered as part of annual budgeting, the strategy does not include longer term scenario planning in line with best practice.

We would recommend that a degree of longer term scenario planning is included within the budgeting process.

Agreed – Longer term scenario planning and beyond 5 years will be incorporated into the budget process for 2018/19.

**Responsible officer**

Chief Financial Officer

**Agreed date**

8 February 2018

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not show any instance of bias.</p> <p>Focussed testing of regularity and cut-off assertions did not reveal any lapses in controls.</p> <p>No significant transactions outside the normal course of Council business were identified</p>
<p><b>2 Risk of fraud over income</b></p> <p>Scottish Borders Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>Sample testing of income transactions confirmed that these were in the normal course of business.</p> <p>We obtained satisfactory explanations for any significant increases or decreases in income.</p> <p>Our conclusion is that the Council has arrangements in place to minimise the risk of fraud over income.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. Scottish Borders Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<p>Audit work on the National Fraud Initiative matches.</p> <p>Assessing the overarching controls in grant schemes.</p> <p>Detailed testing of expenditure and housing benefit transactions.</p>	<p>Sample testing of expenditure transactions to confirm that these were in the normal course of business.</p> <p>We obtained satisfactory explanations for any significant increases or decreases in expenditure.</p> <p>Our conclusion is that the Council has arrangements in place to minimise the risk of fraud over expenditure.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of key areas.</p>	<p>Our work on the review of the professional valuer confirmed that we could rely on the asset valuation information being provided.</p> <p>Testing of the key areas did not identify issues with the estimates or judgements being used.</p> <p>Our conclusion is that the estimates and judgements used are appropriate.</p>
<p><b>5 Integration Joint Board (IJB) / Group accounts</b></p> <p>The Scottish Borders IJB was established on 6 February 2016 and assumed responsibility for delegated services from 1 April 2016. The IJB will need to be accounted for in the Council's group financial statements for the first time in 2016/17.</p> <p>There is a risk that the IJB is not correctly accounted for in the group financial statements.</p>	<p>Review treatment as part of financial statements audit.</p>	<p>We reviewed the inclusion of the IJB accounts in the group financial statements as part of our year end audit work.</p> <p>We confirmed that the IJB had been correctly accounted for in the group accounts.</p>
<p><b>6 Change in financial systems</b></p> <p>The Council is replacing its general ledger and other financial systems with Business World Enterprise Resource Solution (ERP) from April 2017. As part of this replacement the existing general ledger close down will take place around three weeks earlier than normal. There is a risk that there will be a substantial amount of manual accruals and adjustments required as part of this process. The audit timetable may also be affected by absences of key staff at key periods, which will require careful planning.</p>	<p>On-going discussions with finance officers on progress with the preparation of the financial statements and discussions on the accounts/audit timetable.</p> <p>Increased testing of transactions and balances around the year end.</p>	<p>We met with officers during the year and confirmed an appropriate timetable was in place for the preparation of the accounts.</p> <p>We tested manual accruals and adjustments at the year end. No issues were identified from this testing.</p>
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		
<p><b>7 Financial sustainability</b></p> <p>The 2017/18 Scottish Budget outlined significant reductions for councils' revenue grants. The financial settlement for Scottish Borders Council was a reduction of 4.1 per cent, significantly greater than the assumed 2.0 per cent reduction</p>	<p>Review budget setting process and monitor updates provided to members.</p> <p>Comment in Annual Audit Report.</p>	<p>The budget setting process was reviewed along with the financial monitoring reports provided to members of the Council's Executive Committee during the year.</p> <p>We found that the Council has an effective budget setting process in</p>

Audit risk	Assurance procedure	Results and conclusions
<p>outlined in the medium term financial plan agreed in February 2016. Following an announcement of additional funding of £2.9 million in February 2017, the funding gap for 2017/18 is now £6.6 million.</p> <p>There is a risk that the Council will be unable to manage its budget pressures within available resources, leading to a reduction in the provision of services.</p>		<p>place.</p> <p>Comments on financial sustainability have been made in Part 3 of this report.</p>
<p><b>8 Local government elections</b></p> <p>The 2017 local government elections will result in changes in the elected members. There is a risk that there is a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required. The <a href="#">Audit Scotland How Councils Work publication on the role of councillors</a> provides guidance in this area.</p>	<p>Review of the Council's induction and training arrangements for councillors following the elections.</p> <p>Assess the effectiveness of decision making and scrutiny arrangements as part of on-going audit work.</p>	<p>We met with officers to discuss the training arrangements in place for councillors and assessed the content of the planned induction programme.</p> <p>We concluded that effective arrangements in place to provide councillors with the required training for their role.</p>
<p><b>9 Transition to new ICT provider</b></p> <p>During 2016 the Council contracted CGI to provide ICT services for a period of at least 13 years, as part of the Council's Transformation Programme. This included the majority of the Council's existing ICT staff transferring to CGI in October 2016 as part of the contract.</p> <p>There are risks that the new ICT arrangements do not deliver the anticipated efficiencies or services may not be delivered to the standards prescribed in the contract.</p>	<p>Monitor the effectiveness of governance and risk management arrangements relating to the ICT contract.</p>	<p>We reviewed the governance arrangements and board papers relating to the monitoring of the contract. We also placed reliance on internal audit work regarding the arrangements in place.</p> <p>We concluded that appropriate arrangements were in place to monitor and manage the ICT contract.</p>

# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

### Local government relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[Social work in Scotland](#) – September 2016

[How councils work – Roles and working relationships in councils](#) – November 2016

[Local government in Scotland: Financial overview 2015/16](#) – November 2016

[Local government in Scotland: Performance and challenges 2017](#) – March 2017

# Scottish Borders Council

## 2016/17 Annual Audit Report

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