



cutting through complexity

Scottish Borders Council

Annual audit report to the Members of Scottish Borders Council
and the Controller of Audit for the year ended 31 March 2016

16 September 2016

Contents



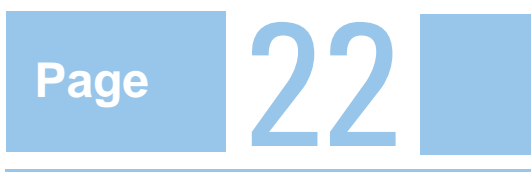
1. EXECUTIVE SUMMARY



2. FINANCIAL POSITION



3. FINANCIAL STATEMENTS AND ACCOUNTING



4. WIDER SCOPE



5. APPENDICES

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code of Audit Practice").

This report is for the benefit of Scottish Borders Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Hugh Harvie, who is the engagement leader for our services to Scottish Borders Council, telephone 0131 527 6682 email: hugh.harvie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Audit conclusions

- We expect to issue an unqualified audit opinion on the financial statements of Scottish Borders Council (“the Council”) and of its subsidiaries, following receipt of the management representation letters. Page 12

Financial position

- The Council again demonstrated progress against the five year plan first agreed in 2013-14. The budget underspent by £1.3 million and a surplus was generated on the overall provision of services of £48.5 million in 2015-16 (2014-15: £44.9 million surplus), primarily as a result of the actuarial gain on pension assets/liabilities. Page 6 - 10
- The 2015-16 capital program reported an underspend of £3.0 million compared to the approved capital budget. This primarily reflects slippage; and this spend is carried forward to the 2016-17 plan (2014-15: £3.4 million carried forward into 2015-16).
- The five year financial strategy and budget for 2016-17 was approved by Council in February 2016. The five year revenue plan assumes the drawdown of £1.0 million in 2016-17 from reserves. A further draw down is planned in 2017-18, to be repaid in the following two financial years.
- Efficiency savings of £7.8 million were delivered during 2015-16, of which 85% are permanent, recurring savings.

Financial statements and related reports

- Draft financial statements were received by the start of audit fieldwork and were supported by high quality working papers. This included the management commentary. Page 12 - 21
- We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in our audit strategy and plan document. We concur with management’s accounting treatment and judgments.
- Two unadjusted audit differences were raised in respect of fixed assets with a net effect of £1.2 million on the financial statements. We have no matters to highlight in respect of: adjusted audit differences, independence and changes to management representations.

Wider scope

- We considered the wider scope audit dimensions and concluded positively in respect of financial sustainability, financial management, governance and transparency and value for money. Page 22 - 31

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Scottish Borders Council under part VII of the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive.

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the Audit and Risk Committee at the outset of our audit.

Audit Scotland's Code of Audit Practice sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial management and sustainability, governance and transparency and value for money.

Accountable officer responsibilities

The Code of Audit Practice sets out the Council's responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- financial position; and
- best value.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code of Audit Practice. Appendix seven sets out how we have met each of the responsibilities set out in the Code of Audit Practice.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code Audit of Practice, 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 control.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This annual audit report to members and our presentation to the Audit and Risk Committee, together with previous reports to the Audit and Risk Committee throughout the year, discharges the requirements of ISA 260.

Financial position

Sector overview

In common with other local authorities, the Council has faced challenges over the past few years, reflecting public sector reform and continued financial pressures. Councils have faced real term funding decreases and increasing demand for services. As highlighted in Audit Scotland's report *An Overview of Local Government in Scotland*, for 2016-17 Councils' revenue funding from Scottish Government will reduce by 5% in cash terms. This takes the real term reduction in funding since 2010-11 to 11%. Funding for 2017-18 onwards has not yet been confirmed, creating challenges for long term financial planning. Councils are faced with further financial pressures with increasing pension costs, living wage and equal pay pressures. In addition, service demand is growing due to demographic changes and transformation in respect of health and social care provision.

In response the Council has developed a five year plan and an ambitious transformation programme has been agreed with the aim of delivering long-term financial benefits, modernising the Council and ensuring financial sustainability. Along with a number of other councils, plans are in place to develop a more effective approach to workforce planning that maintains the knowledge and skills needed to effectively manage the local authority while reducing the overall size of the workforce. We comment on the Council's approach to workforce planning on page 31.

2015-16 saw a change in the process of shared risk assessments ("SRA") and how the local area networks ("LANs") work with Local Authorities. The 2016-17 local scrutiny plan highlights the Council's progress in improving financial sustainability. The plan outlines the scrutiny activity planned for 2016-17, including the implementation of the revised Best Value approach from October 2016.

Financial position

Overall in respect of financial result for the year, revenue expenditure was £1.3 million under the revised budget and the Council achieved a surplus on the provision of services of £4.8 million. Savings of £7.8 million were delivered during 2015-16, of which 85% are permanent, recurring savings. This is an improvement on the prior year when 80% of efficiency savings were achieved permanently.

A contribution to usable reserves of £2.1 million was made in the year and, following the actuarial gains on the pension net assets/liabilities, the overall net comprehensive income surplus is £48.5 million. An extract of the comprehensive income and expenditure statement is shown below. In addition, we set out on the following pages the financial position in terms of the balance sheet, reserves and future plans.

Comprehensive income and expenditure statement

	2015-16 £000	2014-15 £000	Variance £000
Total income	357,955	342,850	15,105
Total expenditure	(353,169)	(342,671)	(10,498)
Surplus on the provision of services	4,786	179	4,607
Other comprehensive income and expenditure	43,758	44,745	(987)
Total comprehensive income and expenditure	48,544	44,924	3,620

Source: KPMG analysis of the Council's annual accounts 2015-16.

Financial position: balance sheet

Balance sheet			
	2015-16 £000	2014-15 £000	Variance £000
Long term assets	451,775	429,786	21,989
Current assets	56,574	45,396	11,178
Current liabilities	(56,116)	(53,568)	(2,548)
Net current assets / (liabilities)	458	(8,172)	8,630
Long term liabilities	(243,780)	(237,225)	(6,555)
Net assets excluding pension liability	208,453	184,389	24,064
Pension liability	(141,592)	(166,072)	24,480
Net assets including pension liability	66,861	18,317	48,544

Source: KPMG analysis of the Council's annual accounts 2015-16.

The Council's balance sheet was strengthened by £48.5 million in year. This was primarily due to the revaluation of technical and surplus properties as at 1 April 2015 and a decrease in the pension liability. The pension liability movement is outlined further at appendix four.

Borrowing

The Council's capital expenditure is largely funded through borrowing. In Audit Scotland's 2015-16 benchmarking of all local authorities in Scotland, the Council continues to be in the lowest third of local authorities in terms of level of net external debt when taken as a proportion of revenue expenditure (63%). The Council has the tenth lowest net external debt per head of population at £1,882 per head (£1,906 per head). We recognise that the benchmarking does not differentiate between demographic differences or the split between general services and housing related borrowing if relevant.

Capital program

Total capital expenditure in 2015-16 was £45.0 million, an underspend of £3.0 million against the revised budget (2014-15: £3.4 million underspend). The underspend is made up of a £2.2 million timing movement into future years and an underspend of £0.8 million due to phasing over a number of projects. Capital spend is broken down by £4.2 million on Chief Executive, £7.1 million on People and £33.7 million on Place. Capital spend has increased by 43%, up from £31.4 million in 2014-15, therefore the level of slippage in the context of the increased level of investment has decreased from the prior year. However, capital budgets should continue to be scrutinised and closely monitored as a result of the history of underspends in recent years.

The most significant area of spend in 2015-16 was on Flood protection schemes; £17.9 million. Other areas of significant expenditure in the year are; £5.1 million on road and bridge maintenance, £1.9 million on Duns Primary School and £1.6 million on the Galashiels transport interchange.

In addition to capital expenditure of £45.0 million on fixed and intangible assets, the Council utilised the Scottish Government's Consent to Borrow provision to provide the funding for capital expenditure on new affordable housing through the Council National Housing Trust Initiative via Bridge Homes LLP, with £1 million borrowed in year.

Of the £45.0 million capital spend, 25% of this was provided by the Council's capital prudential borrowing, 62% was provided through Scottish Government grants with the remainder funded by reserves, external grants and capital receipts.

The table below summarises the Council's reserves and significant movements in year.

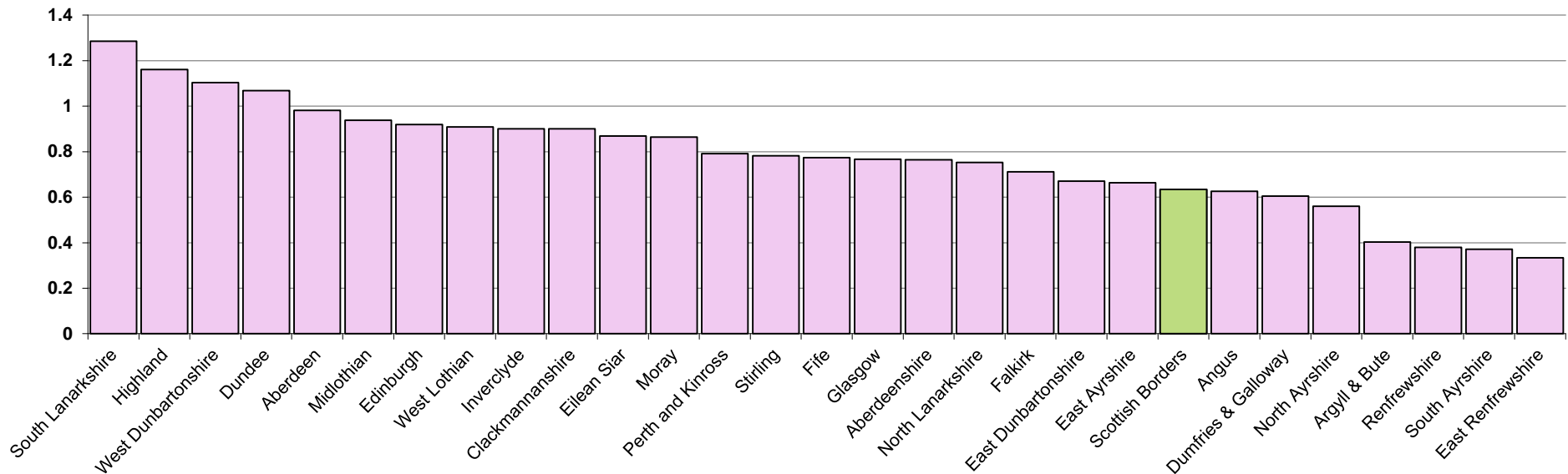
Account	Purpose	Balance	Movement in Year
General Fund	Principal useable reserve of the Council that covers most areas of activity.	£23.2 million	£6 million transferred to fund in 2015-16 offset by transfer of £1.8 million to other reserves in year, which gives a net increase of £4.2 million in fund in year.
Capital Fund	This fund is credited with the receipt of property sales and developer contributions; funds can be used for capital expenditure or to make payments of loan principal.	£6.6 million	Net decrease of £1.0 million made up of sale proceeds and transfer from departments into the Plant & Vehicle Fund (£3.0 million), offset by the purchase of plant and vehicles and use of capital receipts applied during the year of £4.0 million.
Insurance Fund	A fund to meet the cost of premiums for a range of external insurance cover and the costs of claims not covered by external insurance; receives contributions from Council Services.	£1.3 million	Only movement in year is transfer in of £0.007 million from the general fund.
Capital Adjustment Account	Absorbs the timing differences arising from arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets.	£118.5 million	Net movement of £15.1 million in year.
Financial Instrument Account	Absorbs the timing differences arising from arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting gains per statutory provision.	£5.2 million	£0.2 million movement in year due to adjustments between accounting basis and funding basis under regulation.
Revaluation Reserve	Contains the gains made by the Council on increases in fixed asset value; only contains gains since 1 April 2007 (when the fund was established).	£70.2 million	Increase of £4.5 million in year, mainly due to revaluation gains offset by depreciation adjustments.
STACA Statutory Mitigation Act	Absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not take in the year i.e. annual leave carried forward.	£6.2 million	£1 million increase due to adjustments between accounting basis and funding basis under regulation (specifically the employee statutory adjustment).
	Total	£231.2 million	

In benchmarking undertaken by Audit Scotland from analysis of the 2015-16 unaudited financial statements of Scotland's 32 local authorities, the Council had the eighth lowest carried forward usable revenue reserves as a proportion of net revenue and has the thirteenth lowest general fund balance carried forward. We noted however that the Council keeps the level of reserves under regular review. The review is based upon an assessment of the corporate risk register, the application of financial amounts to each risk, overlaid by the likelihood of the risk occurring.

The Corporate Financial Risk Register was considered by the Council in February 2016 and at this date the accumulated financial risk in the Risk Register was assessed to be £11.5 million. The General Fund useable reserve (non-earmarked) balance at 31 March 2016, at £5.6 million, is sufficient to cover 48.9% of risks identified at that time.

This has reduced from 69.5% in the prior year, however management consider this level of cover appropriate because the risk of all risks crystallising at the same point of time is sufficiently remote. The recommended balance to be maintained on the general fund reserve will continue to be monitored through the Corporate Financial Risk Register on an annual basis. We discuss financial sustainability further on page 27.

2015-16 carried forward useable revenue reserves as a proportion of net revenue



Source: Audit Scotland analysis of local authority 2015-16 financial statements

Please note that it was necessary to omit Orkney and Shetland as their levels of reserves are much higher than other councils and it would distort the scale used.

Financial plans 2016-17 and beyond

The budget for 2016-17 was approved by the Council in February 2016 and this included the five year Financial Strategy. This has been set on the assumption that council tax will remain frozen in each year of the budget, pending a longer term national review of local government funding.

The Council will continue to invest in infrastructure through a sustainable capital programme financed by £20.5 million loan charges per annum.

The Council will focus on preventative revenue and capital spend, and maintain unallocated reserves of £5.6 million for 2016-17 in line with the assessed risk register.

The finance strategy recognises that the Council's budget is targeted so that it provides the most effective possible stimulus to the wider economy, protects the Scottish Borders environment and those most vulnerable in society and maximises the contribution for local collaboration arrangements including the establishment of the new Health and Social Care Integration Joint Board.

Going concern

Due to the level of unallocated general fund reserves, the budgeted use of reserves going forward and the reduction in government funding, we considered the long term financial sustainability of the Council.

The Council has demonstrated sound progress against its annual financial plan over the period of our audit appointment and appears to have appropriate plans in place to respond to future financial challenges. A key to ensuring financial stability is the corporate transformation programme, which is essential to the continued delivery of a balanced financial plan.

The Council had net assets including pension liability of £66.9 million (2014-15: £18.3 million) as at the balance sheet date. Net assets increased on 2014-15 by £48.6 million, with the majority of the movement relating to a decrease in the pension liability (£24.5 million).

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. We agree with this assessment as the Scottish Government has released its finance circular for the 2016-17 financial year, which shows that the Council will receive £213.0 million. The Council will also continue to raise revenue from Council tax, other grants and through charging for some of its services.

Recently, the Council has underspent against its budget, which it revises throughout the year to reflect and address emerging issues. The delivery of efficiency savings on a permanent basis has also improved over recent years to 85% (2014-15: 80%), with the remaining 15% achieved by alternative measures.

This provides comfort over the Council's ability to raise enough revenue to cover the cost of providing services over the period of assessment to a year from the date of signing the financial statements. Furthermore, the Council holds useable reserves of £31.2 million as at 31 March 2016, which provides an element of comfort if there are unforeseen circumstances.

Conclusion

The Council reported a surplus on the provision of services, financial performance was ahead of budget in 2015-16 and there was a contribution to reserves. The Council maintained a net assets position and has available borrowing facilities.

We are content that the going concern assumption is appropriate in light of the matters set out above.

A blue trapezoidal graphic on the left side of the slide, containing the title text.

Financial statements and accounting

Audit opinion

Our audit work is complete subject to receipt of the management representation letter and update of subsequent events. Following approval of the annual accounts by the Audit and Risk Committee we intend to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2016, and of the surplus for the year then ended. There are no matters identified on which we are required to report by exception.

Financial reporting framework, legislation and other reporting requirements

The Council is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the Code and relevant legislation.

Statutory reports

We have not identified any circumstances to notify the Controller of Audit of that indicate a statutory report may be required.

Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.

Audit misstatements

Two unadjusted audit differences have been raised in respect of fixed assets. No adjusted audit differences were identified. These adjustments are outlined further at appendix one.

Written representations

There are no changes to the standard representations required for our audit from last year.

Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that planning materiality for 2015-16 of £6.4 million (2% of expenditure) remained appropriate. We report all misstatements greater than £250,000.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the Chief Officer for Audit and Risk and reviewed internal audit reports as issued to the Audit and Risk Committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts have been considered;
- reviewed estimates and accounting judgments made by management and considered them for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended Audit and Risk Committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

Management engaged with us in advance of preparing the financial statements to discuss areas of judgment upfront. Draft financial statements were provided at the start of the audit fieldwork on 4 July 2016. In line with statutory guidance, the draft financial statements were presented to the Audit and Risk Committee in June 2016.

Under the Local Authority Accounts (Scotland) Regulations 2014 a committee whose remit includes audit or governance functions must meet to consider the unaudited Annual Accounts as submitted to the auditor by 31 August 2016.

Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the Audit and Risk Committee may better understand the process by which we arrived at our audit opinion.

Significant risks:

- fraud risk from income recognition;
- management override of controls fraud risk; and
- financial position.

Other focus areas:

- transport infrastructure assets;
- provisions; and
- retirement benefits.

We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls and we do not have findings to bring to your attention in relation to these matters. No control overrides were identified.

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Fraud risk from income recognition</p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk.</p> <p>Part of the Council's income is received from non ring-fenced government grants. As government grants are agreed in advance of the year, with adjustments requiring Government approval, we do not regard the risk of fraud from this revenue recognition as significant.</p> <p>The other major sources of income are from annual local taxes and rental income (council tax and non-domestic rates). These revenues are prescribed by law and other specific regulations, which prescribe the period in which annual local taxes and rental income is recognised as revenue. This minimises the level of judgment required in revenue recognition by management and we do not regard the risk of fraud from revenue recognition as significant.</p> <p>We consider the fraud risk from recognition of other income to be significant. Other income relates primarily to sales or service income; we consider there to be judgment involved in recognising this income.</p>	<p>Our testing over the recognition of other income comprised:</p> <ul style="list-style-type: none"> ■ performing controls testing over budget monitoring and bank reconciliations. We found these controls to be operating effectively; ■ comparing income against budget and prior year, and seeking explanations and supporting documentation for unexpected movements; ■ using computer assisted auditing techniques to select a sample of other income streams to agree to supporting documentation; ■ performing cut-off testing to verify that income and associated debtors are recorded in the correct accounting period; and ■ reviewing pre and post year end bank statements to ensure material items of income are recorded in the correct period. 	<p>We found that controls around income are operating effectively and no exceptions were noted in our testing. We are satisfied that income is recognised appropriately, in the correct financial year and in line with the Code.</p>

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Financial position</p> <p>Delivering services in the environment of continued financial pressures and funding uncertainty remains a challenge for the sector.</p> <p>Recently the Council has underspent against budget in total. In 2015-16 the Council recorded an underspend of £1.3 million against the final, revised budget (2014-15: £0.4 million).</p> <p>In the aftermath of a number of storms in December 2015 and January 2016 Scottish Borders Council has notified the Scottish Government of their intention to make a claim for Bellwin funding to support recovery efforts.</p> <p>Whilst the Council undertakes robust financial planning, financial sustainability is a key risk due to the inherent risk in the sector environment.</p>	<p>We updated our understanding of the Council's financial position and year end outturn position through review of quarterly reports and other management information. We commented on this on pages 6 to 10.</p> <p>We performed controls testing over the budgeting process including the monitoring of budgets throughout the year.</p> <p>We performed substantive procedures, including substantive analytical procedures, over income and expenditure comparing the final position to budget and investigating significant variances.</p>	<p>We found that management is adequately monitoring the financial position through regular internal reporting. This is communicated to members on a regular basis. We have commented on financial reporting as part of our consideration of governance and transparency on page 29.</p> <p>An initial claim totalling £3.9 million will be made for Bellwin funding in September 2016, with a subsequent claim for the remaining costs made at a later date. We note the Council's required contribution towards these recovery costs is less than £1 million. Our work on grant claims is summarised at appendix three.</p> <p>Management applied the going concern assumption in preparing the annual accounts. We considered this assumption on page 10 and concluded it is appropriate.</p>

FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p>Provisions</p> <p>Management has considered the future capital costs and revenues associated with the decommissioning of open cells at its Easter Langlee landfill site, and a provision was recognised on the balance sheet at 31 March 2015 of £4.0 million.</p> <p>The Council received appropriate advice from internal and external specialists and we will continue to monitor the appropriateness of this provision.</p> <p>The Council has considered whether a provision should be made related to contributions related to the Borders Railway now that it is obliged to begin making payments to the Scottish Ministers. We concur with the view that no provision is required and we will continue to monitor the appropriateness of this conclusion as contributions are collected.</p> <p>Following a European Court of Justice ruling in May 2014, employers are required to pay holiday pay to staff at a rate commensurate with any commission or over time that they regularly earn, instead of at their basic pay level.</p>	<p>Under IAS 37 a provision should be recognised when:</p> <ul style="list-style-type: none"> ■ an entity has a present obligation as a result of a past event; ■ it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and ■ a reliable estimate can be made of the amount of the obligation. <p>Our year end audit procedures included reviewing the Council's models for calculating potential liabilities for both landfill remediation and the Borders Railway and considering if these remain appropriate or if any updates were required.</p> <p>We have reviewed and challenged the underlying assumptions, in particular:</p> <ul style="list-style-type: none"> ■ for landfill remediation forecast costs, and the discount rate utilised; and ■ For the Borders Railway, the developer contributions received and forecast to be received and the discount rate utilised. <p>We monitored legislative changes on holiday pay and considered the Council's position. Management does not consider that the Council has a present obligation in respect of holiday pay and that the financial implications for the Council are unclear. therefore no provision is required.</p> <p>In all cases, we met with Council employees outside of the finance function to corroborate management's assertions. We also discussed other risk areas in respect of provisions, such as equal pay, to verify no further provisions are required.</p>	<p>We found that:</p> <ul style="list-style-type: none"> ■ we concur with management's view that the provision for landfill remediation at 31 March 2016 remains appropriate. As in the prior year, we noted that certain of the assumptions used in the calculation of the provision, principally those relating to anticipated income during the period of monitoring and aftercare and the discount rate used, to be out of line with our expectations. These differences offset however and overall we consider the level of provision held to be appropriate. Management will continue to monitor this; ■ the Borders Railway model and underlying assumptions continue to be appropriate. We concur with the view that no provision is required as at 31 March 2016; and ■ management has implemented actions to mitigate the impact of the legislation in relation to holiday pay and consider it to be unlikely that there will be a material settlement. We concur with management's assessment that no provision is required as at 31 March 2016 and that as the financial implications are sufficiently unclear, a contingent liability is the most appropriate treatment.

FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p>Transport infrastructure assets</p> <p>The 2016-17 Code will adopt requirements of the Code on transport infrastructure assets (“the transport code”), which requires measurement of these assets on a depreciated replacement cost basis.</p> <p>This will represent a change in accounting policy from 1 April 2016. Local authorities are advised to have implemented a robust project plan through 2015-16 to ensure preparedness for the requirements of the 2016-17 Code. However there is no requirement to report on transport infrastructure assets in the 2015-16 financial statements.</p>	<p>We considered the Council's plan for the requirements of the transport code, including meeting with Council staff from the asset and regulatory team and reviewing the whole of government accounts (“WGA”) submission. We evaluated the extent to which the Council is prepared for the change in accounting policy.</p>	<p>In respect of readiness for the 2016-17 Code, we consider the Council is in line with other local authorities in having completed the transport infrastructure asset valuations for WGA.</p> <p>The Society of Chief Officers for Transportation in Scotland (SCOTS) is providing information to assist in the process. An ‘asset valuation template’ which all local authorities are using to ensure consistency has been provided.</p>
<p>Retirement benefits</p> <p>The Council accounts for its participation in the Scottish Borders Pension Fund in accordance with IAS 19 <i>Retirement Benefits</i>, using a valuation report prepared by actuarial consultants.</p> <p>The Council’s actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases.</p> <p>IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental.</p>	<p>Our work consisted of:</p> <ul style="list-style-type: none"> ■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks, the results of which are outlined on page 38; ■ testing of scheme assets and rolled-forward liabilities; ■ testing of the level of contributions used by the actuary to those actually paid during the year; ■ testing of membership data used by the actuary to data from the Council; and ■ agreeing actuarial reports to financial statement disclosures. 	<p>We are satisfied that the retirement benefit obligation:</p> <ul style="list-style-type: none"> ■ is correctly stated in the balance sheet as at 31 March 2016; ■ has been accounted for and disclosed correctly in line with IAS19 <i>Retirement benefits</i>; and ■ the assumptions used in calculating this estimate and management’s judgements are appropriate and within what we consider to be an acceptable range. <p>The closing liability decreased by £24.5 million compared to 2014-15, primarily from an increase in the discount rate and reduced rates of increase in pensions and salaries. We set out further information in respect of the defined benefit obligation in appendix four.</p>

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<p>Management commentary</p>	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.</p> <p>A draft management commentary was included within the unaudited financial statements. This outlines the performance overview and the future plans and developments in line with the Council Plan.</p>	<p>We are satisfied that the information contained within the management commentary is consistent with the financial statements and provides financial as well as other performance information regarding the operation of the Council, its wider achievements and areas for development.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report. As in the prior year, we note that the management commentary was of a high quality.</p>
<p>Remuneration report</p>	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared. We make one recommendation in respect of the retention of documentation relating to individual exit packages.</p>
<p>Annual governance statement</p>	<p>The statement for 2015-16 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, internal controls, the work of internal audit and risk management arrangements. It analyses the efficiency and effectiveness of these elements of the framework.</p>	<p>We consider the governance framework and annual governance statement to be appropriate for the Council and that it is in accordance with guidance and reflects our understanding of the Council.</p>

Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the Code. The Code adopted IFRS 13 *Fair Value Measurement* for the first time in 2015-16. This requires surplus assets to be measured at fair value. Management perform an exercise annually to identify and value surplus assets. This resulted in a decrease in the value of surplus assets of £0.3 million.

Significant accounting estimates relate to the present value of defined benefit obligations and impairment of non current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Barnett Waddingham) using agreed financial assumptions. We found the assumptions and accounting for pensions to be appropriate, as discussed on page 38.

Non current asset impairment is calculated using the valuation reports produced by the Council's internal expert. We used our internal valuation specialists to assess the assumptions used in these reports. We did not identify indications of management bias. We make one recommendation in relation to fixed assets as set out in appendix five.

Recommendation one

Financial statement disclosures were considered against requirements of the Code, relevant legislation and IFRS. No departures from these requirements were identified.

Future accounting and audit developments

From 2016-17 the Code will adopt requirements of the Code on transport infrastructure assets ("the transport code"), which requires measurement of these assets on a depreciated replacement cost basis. This is included as an audit focus area and is discussed in more detail on page 17.

The 2016-17 Code also includes a new requirement for an expenditure and funding analysis, as well as revised formats for the comprehensive income and expenditure statement and movement in reserves statement. The expenditure and funding analysis provides a reconciliation of the statutory adjustments between the financial position on a funding basis and the surplus or deficit on the provision of services. The management commentary should refer to the outturn provided in the expenditure and funding analysis. The comprehensive income and expenditure statement line items have been amended to require authorities to present the service analysis on the basis of the organisational structure under which they operate. Bodies are therefore not required to follow the service expenditure analysis in the *Service expenditure reporting code of practice (SeRCOP)*.

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

Group accounts

Our audit appointment of the Council extends to the audit of the Scottish Borders Integration Joint Board, the Common Good Funds and the charitable trusts, as set out in section 106 of the Code of Audit Practice. Other group entities include:

Subsidiaries	Associates
SB Cares LLP	Borders Sport and Leisure Trust (BSLT)
SB Supports LLP	Jedburgh Leisure Facilities Trust (JLFT)
Bridge Homes LLP	

Full audit procedures have been carried out over the Council's subsidiaries. All of the entities above were considered as part of our audit of the Group Accounts. The audits for BSLT and JLFT were carried out separately by another firm; these entities have been considered as part of our consolidation work.

Charitable Trusts and Common Good Funds

As the Charitable Trusts and Common Good Funds have trustees who are members of the Council and they registered with the Office of the Scottish Charity Regulator, an audit is required in line with the Local Government (Scotland) Act 1973 (section 106 charities). The Charities SORP for the Financial Reporting Standard for Smaller Entities ('FRSSE') was effective from 1 January 2015. The charities have transitioned to this SORP for the preparation of the 2015-16 financial statements.

Conclusion: Some presentational adjustments were required to align the disclosures in the accounts to the new FRSSE based SORP. No adjusted or unadjusted audit differences were raised. We anticipate issuing an unqualified audit opinion in respect of the Charitable Trusts and Common Good Funds.

Bridge Homes LLP

The Council, in partnership with Scottish Futures Trust Investments Ltd ("SFT"), has established a Council Led House Building Programme (National Housing Trust ("NHT") Local Authority ("LA") Variant in order to deliver more affordable housing in the Scottish Borders in line with the Local Housing Strategy. This NHT LA Variant, Bridge Homes LLP aims to deliver up to 200 homes for mid-market rent. Bridge Homes is 99.999% owned by the Council and is financed under a Facility Agreement with the Council to borrow up to £18.8 million along with a £3.3 million contribution from the Councils' Affordable Housing Investment Budget.

Accounts are prepared using the Financial Reporting Standard for Smaller Entities (FRSSE). The FRSSE has been withdrawn from 1 January 2016 and replaced by either FRS 105 (The Financial Reporting Standard for the Micro-entities Regime) or Section 1A of FRS 102.

Conclusion: The audit concluded the accounts were presented in line with the required legislation alongside appropriate disclosures with only some presentational adjustments required. We anticipate issuing an unqualified audit opinion in respect of Bridge Homes LLP.

SB Cares

SB Cares is registered as a Limited Liability Partnership wholly owned by Scottish Borders Council. SB Cares works in partnership with the Council to provide adult social care services on their behalf. The Council decide where to reinvest any profits made by SB Cares as the only shareholder. Performance is monitored by a sub-committee of Scottish Borders Council.

FRS 101 has been followed in preparing the SB Cares LLP financial statements.

Conclusion: We are satisfied that the accounting policies adopted under FRS 101 are appropriate for the business. Following approval of the financial statements by the Members we anticipate issuing an unqualified opinion on the financial statements of each LLP as at 31 March 2016. There are no matters identified on which we are required to report by exception.

Scottish Borders Integration Joint Board

In March 2014 the Public Bodies (Joint Working) (Scotland) Act was passed by the Scottish Government. This required all Councils and NHS Boards to formally and legally establish integration of health and social care by April 2016. The Scottish Borders integration joint board ('IJB') was established in April 2015 and the IJB became operational on 6 February 2016.

Whilst there was no transfer of functions until 1 April 2016, the IJB was required to prepare financial statements for 2015-16. Guidance was issued by The Local Authority (Scotland) Accounts Advisory Committee ("LASAAC") in September 2015 on the expected content of the IJB accounts. The 2015-16 audit was carried out by KPMG and a separate annual audit report has been produced.

Conclusion: The audit concluded the accounts were presented in line with the required legislation as noted above alongside appropriate disclosures. We anticipate issuing an unqualified audit opinion in respect of the IJB.

Wider scope

Introduction

The Code of Audit Practice frames the wider scope of our audit in terms of four audit dimensions; financial management, financial sustainability, governance and transparency and value for money. At the centre of these dimensions is Best Value.

It remains the responsibility of the audited body to ensure that they have proper arrangements in place across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these arrangements.

During our work on the audit dimensions we considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code of Audit Practice.

Audit work and conclusions

We summarise over the next few pages the work we have undertaken in the year to obtain assurances over the arrangements in place for each audit dimension and our conclusions on the effectiveness and appropriateness of these arrangements.

The following pages set out those risks we identified during our audit planning stage, any emerging risks during the course of audit work and our overall conclusion on each audit dimension.

Where we have found arrangements to not be effective or to be absent we have provided further narrative on the following pages and recommendations for improvement. Where we have found the arrangements to be generally effective and operating as expected we have identified this in the conclusions we have formed.



Financial sustainability (Page 27)

The revenue and capital budgets for 2016-17 were approved in February 2016.

The Council works with a five year revenue plan which is rolled forward each year, when updates are made to take into account information from the Scottish Government.

Uncertainty over future funding

Scottish Borders Council

Financial management (Page 25)

The Council's finance department has appropriate financial capacity for current operations. Budgetary processes are supported by an internal control environment which our testing found to be operating effectively, albeit with some minor control deficiencies identified. We have provided a yearend update on these at appendix six. Good progress has been made in the implementation of previous recommendations.

Revenue spending was inline with budget, with minor underspend of £1.3 million. The Council underspent against the capital budget in 2015-16 by £3 million.

Governance and transparency (Page 29)

The Council has sound and well-established governance arrangements that ensure effective scrutiny and challenge. Papers and agendas are available online through the Council website for transparency.

Risk registers are regularly updated and scrutinised by management and the Audit and Risk Committee.

There are appropriate arrangements for collecting, recording and publishing performance information.


Value for money (Page 28)

The Council achieved 85% of its planned efficiency savings for 2015-16 on a permanent basis, with the remaining 15% delivered by alternative measures.

The Council is also planning a number of longer term efficiency savings options through its corporate transformation programme.

Value for money is considered in workforce planning, and all staff changes are required to be assessed for savings.

We consider that the Council has sufficient procedures for ensuring Best Value.

 Risks identified during our audit planning procedures

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

Our conclusion on page 24 is derived from the following audit tests, carried out to determine the effectiveness of the financial management arrangements. This included:

- *Assessing the budget setting and monitoring processes within the Council.* We found these to be robust, with regular accurate reporting and scrutiny by senior management and the Executive Committee. Detailed discussion occurs at monthly Corporate Management Team meetings, with quarterly presentation to the Executive Committee. Budgets are revised as required to incorporate emerging issues. We consider that financial reporting is performed in a timely manner, however there is scope to improve the accuracy of forecasted timelines for capital projects.
- The Council takes a strategic view on budget setting, for example incorporating expected funding reductions (based on averages across recent years) into the expectations for future funding from Scottish Government and setting a number of budgets based on different scenarios.
- *Consideration of the finance function and financial capacity within the Council.* We noted that the financial processes are efficient and effective, and there is adequate support from senior management. Finance team members have appropriate skills, capacity and capability to support the Council and effectively manage the organisation. We noted that financial responsibility is concentrated and it is likely that with the establishment of the health and social care integration joint board, responsibilities for the finance team will increase and capacity may be further stretched.
- We are also required to provide specific conclusions on the areas opposite, which relate to financial management and support our overall conclusion on this wider scope area.

Internal controls

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Details of controls tested were reported to those charged with governance in our interim audit report. We identified control deficiencies around journals authorisation, general IT controls and bank reconciliations. These are discussed further in appendix 6, however we note that significant improvements were made regarding the bank reconciliations control which is now operating effectively.

A summary of the completion of prior year and interim audit recommendations is provided at appendix six. Nine 'grade three' (minor) recommendations were raised in 2014-15 and during our 2015-16 interim audit; all of which are completed or ongoing.

Conclusion: No significant issues have been noted with only minor control deficiencies identified as outlined in appendix six.

National Fraud Initiative

The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches.

We submitted a return to Audit Scotland summarising our conclusions on the Council's participation in NFI. The questionnaire covered reporting of NFI progress and outcomes, recording of results of investigations in the NFI system, action taken for alleged fraud cases and the overall engagement of the Council with NFI.

Conclusion: The return concluded that the Council is engaged in the NFI process and is utilising resources appropriately to respond to the outcomes, we have seen an improvement to 2014-15. No alleged or actual fraud was identified through NFI.

Arrangements for the prevention and detection of fraud and error

Testing over the processes to prevent and detect fraud and error included:

- *Review of policies against best practice guidance and examples.* We reviewed a number of internal policies and the Council's policies were found to be in line with relevant guidance.
- *Consideration of the accessibility of policies to staff and members and if the policies had been implemented effectively.* The policies and processes outlined above are readily available to staff and had been implemented effectively.
- *Consideration of the work of internal audit in the prevention and detection of fraud.* Internal audit is responsible for the NFI exercise within the Council. We have considered NFI arrangements on page 25.
- Internal audit have also established a Corporate Fraud Working Group which meets quarterly. The Corporate Counter Fraud Strategy and the revised Corporate Counter Fraud Policy Statement were approved by the Council in August 2015.

Conclusion: The Council has appropriate arrangements to prevent and detect fraud. Internal audit takes an active role in fraud prevention and detection.

Standards of conduct and the prevention and detection of corruption

Testing over the processes to prevent and detect corruption included:

- *Review of policies (codes of conduct for staff and Councillors, the whistleblowing policy and registers of interests) against best practice guidance and examples.* The Council's policies were found to be in line with relevant guidance.
- *Consideration of the accessibility of policies to staff and members and if the policies had been implemented effectively.* The policies and processes tested are readily available to staff and had been implemented effectively.

- *Testing of completeness of registers of interests of senior staff and members.* Registers of interests for senior management and members were complete and up to date. There were no instances of related party transactions outside the normal course of business identified.

Conclusion: The Council has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

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.

In considering financial sustainability of the Council we performed the following work:

- *Reviewing the financial position of the Council as at 31 March 2016 and future budgets and forecasts.* The Council underspent against budget in 2015-16 and there are sufficient reserves to support future operations. Savings are identified on an ongoing basis.
- *Reviewing financial forecasting, financial strategies and key risks over financial sustainability.* The Council has a five year financial plan which is updated each year to reflect changes in the local government finance settlement, cost pressures and revised income assumptions. A corporate approach is taken to the identification of revenue savings and spending priorities. Significant time is taken to prioritise areas of spending reduction which are robustly tracked through the financial monitoring process and reported to Elected Members on a quarterly basis. The Council sets its budget having consulted on its spending priorities and has demonstrated progress with regard to delivering budget savings in-year, while showing improved and sustained performance in a number of areas of operational performance including, for example, educational achievement.
- *Review of transformation planning.* There is a Corporate Transformation programme in place that was reviewed by internal audit during the year. It was found that a thorough, consistent and transparent approach to the review and scrutiny of the Corporate Transformation Programme by senior managers and elected members was in place. Appropriate and continuous reporting helped facilitate this.
- The Council signed a major 13 year contract to transform its IT services, with new IT partner CGI. The new Enterprise Resource Planning (ERP) system has a planned implementation date of 1 April 2017 and the Council has seconded a senior member of staff on a full time basis to ensure delivery. The CGI agreement was procured under a framework negotiated by the City of Edinburgh Council saving Scottish Borders Council significant time and cost.
- The Council is also considering people planning, business restructuring and energy efficiency as possible areas for savings in future years.
- Budgets include efficiency savings across services. They are monitored on quarterly basis and progress is reported to members through the Executive Committee.
- The Council has in place a robust approach to treasury management and uses its treasury strategy to ensure appropriate management of the Council's cash flow and that the necessary finance is in place to fund the capital programme. In 2015-16 the Council took the tactical decision to utilise available cash in order to defer borrowing.

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

Bodies are responsible for making arrangements to secure Best Value through the continuous improvement in the performance of their functions. In securing Best Value, Local Authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development.

We consider value for money and Best Value throughout our testing. Some of the areas where we had a specific focus on value for money and Best Value are:

- *Reviewing how the Council has streamlined its services.* Workforce planning was considered as part of the returns made to Audit Scotland. This is outlined further on page 31.
- The Council has restructured some functions into subsidiary LLPs and charitable companies for financial efficiency. SB Cares became operational during 2015-16 and a new integrated culture and sports trust, Live Borders, has been set up to replace BSLT going forward.
- *Considering the Council's process for continuous improvement.* The Council has implemented The Street Light Energy Efficiency Programme (SLEEP) which aims to convert 13,000 street lights or 64% Street Lighting luminaires to energy efficient LED technology continues to make good progress. The original five year programme has been accelerated and will be completed a year ahead of schedule by the end of 2018-19.

- *Considering the Council's processes for ensuring Best Value.* Internal audit considers best value as part of the audit planning process to ensure that this is considered during all internal audit reviews.

Conclusion: We consider that the Council has appropriate arrangements in place for securing Best Value.

Following the Public Pound

Auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound ("the FtPP Code").

We considered management's processes to comply with the FtPP Code. Internal audit considers funding provided to external organisations on an annual basis. In 2015-16, internal audit completed a review of grants and following the public pound and considered that the level of assurance they were able to give in respect of the internal control and governance in this area was substantial. Largely satisfactory risk, control, and governance systems were found to be in place.

Management have confirmed that the Audit Scotland report *Arms Length External Organisations: Are you getting it right?* report was considered as part of the work on the establishment of new ALEOs. An internal audit review in 2014-15 gave a substantial level of assurance over contract monitoring arrangements with the sports trusts that were classified as ALEOs in 2014-15 and 2015-16. In addition, the Limited Liability Partnership Strategic Governance Group (LLPSGG) has been established and its remit includes scrutiny of SB Cares, the Council's recently established ALEO.

Conclusion: We consider that the Council has appropriate arrangements for monitoring of ALEOs and following the public pound.

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.

In considering governance and transparency we performed the following work:

- *Reviewing the organisational structure, reporting lines and level of scrutiny within the Council.* The Council demonstrates effective scrutiny, challenge and transparency on decision making through various levels of committee reporting reviewed. Decisions are transparent as actions are documented within Council and committee minutes. There is a high level of transparency through the Council's website, which includes minutes and papers for all committee meetings. Committees are balanced between administration and opposition members to ensure adequate expertise, independence and challenge.
- *Reviewing financial and performance reporting within the organisational structure.* Reporting is of high quality, accurate and transparent. Financial reporting is presented to the Executive Committee on a quarterly basis, including analysis of both revenue and capital. Reports are sufficiently detailed, giving narrative explanations to key movements from budget. Details of any changes to capital programmes is also given to allow these to be approved. Reports are available to the public online.
- *Reading the annual governance statement;* as discussed on page 18.
- *Consideration of scrutiny over key risks.* The Council's approach to managing risk has been refined in 2015. The revised Corporate Risk Management Policy Statement and Strategy were approved by the Council in February 2015 and February 2016 respectively, adding value by aligning risk management to the business planning and performance management processes.
- Risk registers are developed at corporate, strategic and operational levels, and programme and project levels, to record risks with specific actions to be taken by the

risk owners to mitigate risks. The Audit and Risk Committee oversee the adequacy and effectiveness of the Council's risk management arrangements.

We are required to provide specific conclusions on the following areas which relate to governance and transparency and support our overall conclusion on this audit dimension.

Corporate governance

We updated our understanding of the governance framework and documented this through our overall assessment of the Council's risk and control environment. This included testing entity wide controls, including risk management, operational and compliance controls, as reported in the interim management report.

Conclusion: Governance controls were found to be operating effectively and we consider the governance framework to be appropriate for the Council.

Internal audit

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. We updated the review we undertook in 2014-15, which included a review of the internal audit charter, reporting lines, independence, objectivity and proficiency and the range of work carried out by internal audit. We also considered the requirements of International Standard on Auditing 610 (*Considering the Work of Internal Audit*).

We reviewed internal audit reports and conclusions, and through discussion obtained the views of internal audit of risks of fraud within the Council.

Conclusion: We apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there was no impact on our planned substantive testing.

Performance information

Authorities must prepare and publish performance information in accordance with Accounts Commission directions.

In June 2015 Audit Scotland presented a report to the Accounts Commission summarising a review of all Scottish councils' response to the Commission's Statutory Performance Information Direction (2012). The Council scored favourably on the report, with full compliance in 12 of 18 themes. Areas for improvement were identified as assets and employees, as the range of indicators in these areas could be expanded.

The Scottish Borders Council Public Performance reports are published on the Council website on a quarterly basis. Management monitors information against a range of indicators on a monthly and quarterly basis as appropriate. In 2013, the Council published its Corporate Plan, with eight priorities to work towards over a five year period. Performance indicators are aligned against each of the eight corporate objectives and developed using quarterly public performance reports, Single Outcome Agreement outcomes and SPI categories. Each objective, outcome and category is linked to at least one indicator. This feeds into the quarterly performance reporting of key priorities and ensures each SPI is linked to an overarching aim. There is appropriate alignment of performance measures to key priorities and outcomes.

Included within the internal audit plan each year is a review of the systems for preparation and reporting of performance indicators, including the verification of the SPI return. Internal audit considers best value as part of the audit planning process to ensure that this is considered during all internal audit reviews. Our consideration of the work of internal audit, as part of our extended control work, did not indicate high risk findings within these areas.

Conclusion: We consider that the Council has appropriate arrangements for collecting, recording, and publishing performance information in accordance with Accounts Commission directions.

Exit packages

On reviewing exit packages as part of our work on the remuneration report we found that the value of packages had been recorded correctly within the financial statements and all packages had been approved appropriately in line with the Council's scheme of delegation.

We noted one exit package, which was a compromise agreement reached with a former employee, where there were limited records to support the value of the agreed and approved package. Compromise agreements are a specific type of exit package, the use of which are commonplace in the UK, which have a particular legal form requiring a high degree of confidentiality. The existing policies and procedures of the council do not currently provide guidance around the steps to be followed or data to be retained when it is considered that a compromise agreement is required in order to achieve an optimum outcome for all involved.

While we found the specific payment in question was approved in line with delegated authority within the Council there was no central file of data collected to support the package nor the rationale for the payment. In such circumstances it is difficult to assess the extent to which the Council has achieved value for money in the payment of the exit package.

Conclusion: There is a need to establish a process which will meet the requirements of ensuring value for money and transparency, while complying with the legal requirements surrounding compromise agreements. Guidance covering how this could be achieved across the public sector in Scotland would assist the Council in enhancing existing policies and procedures.

Recommendation two

In November 2013 the Accounts Commission and Auditor General for Scotland published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.

We performed follow up work on the report, and submitted a return to Audit Scotland summarising our findings and conclusions. This work covered the following key issues:

- **Planning:** Workforce planning guidance has been produced to ensure that the Council takes a consistent approach to how it staffs its services. There is no organisation wide workforce plan yet in place, however, the Council has agreed a corporate approach to people planning and a number of detailed departmental people plans have already been produced. The workforce planning programme will be fully embedded as part of the corporate transformation programme by 2017. The programme is split into a detailed operational focus for the first three years with savings clearly identified, then an indicative strategic plan for years four and five which we consider to be good practice.
- **Service delivery:** The workforce planning guidance details short, medium and long term scenario planning and this is reflected in the department people plans. A early retirement voluntary severance ("ERVS") scheme has been running for a number of years. This was regulated by the Council's ERVS policy and other key documents.
- **Partnership working:** The Council established SB Cares, which went live on 1 April 2015 when all adult care services and around 800 staff transferred to the arms-length organisation. There is also shared working with NHS Borders as a result of the integration of health and social care.

- **Challenge and scrutiny:** The Workforce Transformation Programme (in place from 2017) was detailed in a corporate transformation report which went to Council on 12 February 2015, and therefore there was the opportunity for members to scrutinise the future plans in relation to workforce transformation, albeit before implementation of the organisational workforce plan. All ERVS supported packages must be scrutinised and approved by the Council.
- **Reporting:** Costs and net savings from workforce programmes are reported as part of the approved five year Financial Strategy. Costs and savings from ERVS are calculated as and when necessary and reported to the Council, who must approve any supported packages. The Council reports on staff wellbeing indicators on a quarterly basis, including sickness days and training opportunities offered.

Conclusion: The Council has considered workforce planning and invests time into the departmental workforce planning process. Detailed workforce planning guidance for departments has been developed. The organisation-wide Workforce Transformation Programme is not yet in place. Staff numbers and skills needs forecasting could be strengthened, however reporting arrangements on costs and savings are robust.

Appendices

Adjusted and unadjusted audit differences

We are required by ISA (UK and Ireland) 260 to communicate all corrected and uncorrected misstatements, other than those which are trivial, to you. There were two unadjusted audit differences and no adjusted audit differences in relation to fixed assets revaluations.

A small number of minor numerical and presentational adjustments were required to some of the financial statement notes.

NATURE OF ADJUSTMENT	BALANCE SHEET		INCOME AND EXPENDITURE	
	£M DR	£M CR	£M DR	£M CR
Audit difference 1: Adjustment to reflect correct impairment of the Galashiels Transport Interchange.		0.7	0.7	
Audit difference 2: Adjustment to reflect agreed valuation of Eyemouth Golf Course.		0.5	0.5	
The effect of these audit differences on the financial statements is shown to the right. The net effect is on the CIES is £1.2 million.		1.2	1.2	

To Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of Scottish Borders Council (“the Council”)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Council for professional services provided by us during the reporting period.

We have detailed the fees charged by us to the Council for significant professional services provided by us during the reporting period in the attached appendix, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2016 are:

	Current Year	Prior Year
	£000	£000
Audit of Scottish Borders Council	264	274
Audit of Pension Fund	23	23
Audit of subsidiaries	29	9
<i>Total audit</i>	316	306
<i>Total non-audit services</i>	-	-
Total Fees	316	306

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Risk Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee of the Council and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Return	Description	Conclusion
Whole of Government Accounts	<p>Whole of government accounts (WGA) is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.</p>	<p>The deadline for submission of the WGA pack to auditors was 26 August 2016. This was received in line with this deadline and it was confirmed that the Council are below the prescribed threshold for full verification. The auditors assurance statement will be submitted before 30 September 2016.</p>
Housing Benefit	<p>The HB subsidy scheme is the means by which local authorities claim subsidy from the DWP towards the cost of paying HB in their local areas. Claimants benefit either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority.</p> <p>Monthly instalments of subsidy are made by the DWP on the basis of authorities' estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor.</p>	<p>We have carried out appropriate sample testing, the results of which are currently under review by the audit team. We will report on our findings ahead of the 30 November 2016 submission deadline.</p>
Education Maintenance Allowance return	<p>Education maintenance allowance ("EMA") is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision.</p> <p>EMA payments comprise a weekly allowance of £30 and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government.</p>	<p>We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return.</p> <p>Audit Scotland highlighted a potential issue regarding back payments processed in the education management information system used by the Council (SEEMiS), which could have resulted in some students being underpaid by up to one week. Council officers do not consider this affected any applications in 2015-16. From our walkthrough of the Council's EMA processes, we did not identify any instances of under or overpayment. In accordance with instructions from Audit Scotland, no further audit work has been performed.</p>

Return	Description	Conclusion
Bus Service Operators Grant	<p>BSOG is provided and paid directly to bus operators from Transport Scotland. Its aim is principally to benefit passengers, by helping operators to keep their fares down and enabling them to run services that might not otherwise be commercially viable, thus contributing to the maintenance of the overall bus network.</p> <p>Each financial year Scottish Borders Council submits a grant claim to Transport Scotland detailing the number of journeys operating in the year and the miles travelled on these journeys.</p>	<ul style="list-style-type: none"> No issues noted. We intend to submit the audited return by 30 September 2016
Criminal Justice Authority return	<p>The delivery of social work services in the criminal justice system is the responsibility of the eight community justice authorities (CJAs) established under the Management of Offenders etc (Scotland) Act 2005.</p> <p>Funding is provided by Scottish Ministers and allocated to constituent authorities by CJAs. Constituent authorities are required to submit a financial return to their CJA detailing eligible expenditure incurred in the financial year to enable the CJA to produce a composite return to the Scottish Government.</p>	<ul style="list-style-type: none"> No issues noted. We intend to submit the audited return by 30 September 2016.
Non Domestic Rates return	<p>NDRI in Scotland is collected by local authorities on an agency basis and notionally placed in a national 'pool', which is then redistributed among authorities based on each authority's estimated collection levels.</p> <p>In April each year, authorities submit an estimate of their expected NDRI. Following the year end, authorities are required to submit their actual NDRI yield, known as 'the notified amount' in a final return to the Scottish Government.</p>	<ul style="list-style-type: none"> No issues noted. We intend to submit the audited return by 30 September 2016.
Bellwin scheme of emergency financial assistance	<p>The Bellwin scheme provides special financial assistance to authorities who would otherwise incur an undue financial burden as a result of providing relief and carrying out immediate work resulting from large-scale emergencies.</p> <p>In the aftermath of Storm Desmond, Scottish Borders Council notified the Scottish Government of their intention to make a claim for Bellwin funding to support recovery efforts.</p>	<ul style="list-style-type: none"> No issues noted. We intend to submit the audited return by 30 September 2016.

In respect of employee benefits, each of the assumptions used to value the Council's net pension deficit are within a range which we consider to be acceptable.

We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19.

We set out below the assumptions in respect of defined benefit obligations.

Defined benefit pension liability																							
2016 £000	2015 £000	KPMG comment																					
(141,592)	(166,072)	<p>In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Scottish Borders Council</th> <th>KPMG central</th> <th>Comment</th> </tr> </thead> <tbody> <tr> <td>Discount rate (duration dependent)</td> <td>3.7%</td> <td>3.48%</td> <td>The proposed discount rate is higher than our central rates as at 31 March 2016, and lies at the upper end of the range we would normally consider to be acceptable for IAS19. It is derived using methodology consistent with that used last year and is considered acceptable for the purposes of IAS19.</td> </tr> <tr> <td>CPI inflation</td> <td>RPI less 0.9% (2.4%)</td> <td>RPI less 1.0%</td> <td>Acceptable. Our view is that the differential between RPI and CPI should be higher and closer to 1% and expect an assumption of around 1% for this differential. The proposed assumption could therefore be considered overly prudent.</td> </tr> <tr> <td>Net discount rate (discount rate – CPI)</td> <td>1.3%</td> <td>1.25%</td> <td>The proposed assumption is less prudent than our central rate. However, the proposed assumption is within an acceptable range of our central rate and therefore acceptable for IAS19 purposes.</td> </tr> <tr> <td>Salary growth</td> <td>CPI + 1.80% (4.2%)</td> <td>Typically 0% - 1.5% above RPI</td> <td>Salary growth is now set with reference to CPI compared to RPI last year. The proposed assumption is acceptable under IAS19 provided it is in line with the best estimate view on future remuneration.</td> </tr> </tbody> </table> <p>The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of around 19 years. The closing deficit decreased by £24.48 million compared to 2014-15, primarily due to an increase in the discount rate of 0.4%.</p>		Assumption	Scottish Borders Council	KPMG central	Comment	Discount rate (duration dependent)	3.7%	3.48%	The proposed discount rate is higher than our central rates as at 31 March 2016, and lies at the upper end of the range we would normally consider to be acceptable for IAS19. It is derived using methodology consistent with that used last year and is considered acceptable for the purposes of IAS19.	CPI inflation	RPI less 0.9% (2.4%)	RPI less 1.0%	Acceptable. Our view is that the differential between RPI and CPI should be higher and closer to 1% and expect an assumption of around 1% for this differential. The proposed assumption could therefore be considered overly prudent.	Net discount rate (discount rate – CPI)	1.3%	1.25%	The proposed assumption is less prudent than our central rate. However, the proposed assumption is within an acceptable range of our central rate and therefore acceptable for IAS19 purposes.	Salary growth	CPI + 1.80% (4.2%)	Typically 0% - 1.5% above RPI	Salary growth is now set with reference to CPI compared to RPI last year. The proposed assumption is acceptable under IAS19 provided it is in line with the best estimate view on future remuneration.
Assumption	Scottish Borders Council	KPMG central	Comment																				
Discount rate (duration dependent)	3.7%	3.48%	The proposed discount rate is higher than our central rates as at 31 March 2016, and lies at the upper end of the range we would normally consider to be acceptable for IAS19. It is derived using methodology consistent with that used last year and is considered acceptable for the purposes of IAS19.																				
CPI inflation	RPI less 0.9% (2.4%)	RPI less 1.0%	Acceptable. Our view is that the differential between RPI and CPI should be higher and closer to 1% and expect an assumption of around 1% for this differential. The proposed assumption could therefore be considered overly prudent.																				
Net discount rate (discount rate – CPI)	1.3%	1.25%	The proposed assumption is less prudent than our central rate. However, the proposed assumption is within an acceptable range of our central rate and therefore acceptable for IAS19 purposes.																				
Salary growth	CPI + 1.80% (4.2%)	Typically 0% - 1.5% above RPI	Salary growth is now set with reference to CPI compared to RPI last year. The proposed assumption is acceptable under IAS19 provided it is in line with the best estimate view on future remuneration.																				

The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

We present the identified findings across four audit dimensions – financial sustainability, financial management, governance and transparency and value for money.

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>1. Fixed assets <i>Audit dimension: financial management</i></p> <p>Two unadjusted audit differences were identified during our testing on fixed asset revaluations, with a net effect of £1.2 million on the financial statements. One of these related to a manual error when transposing figures and one related to an arithmetical error. There is a risk that errors are not picked up and rectified.</p>	<p>It is recommended that a more detailed review is carried out on information received from the Council's internal valuer, and that a process is implemented to allow for increased communication between the valuer and the corporate finance team.</p>	<p style="text-align: center;">Grade three</p> <p>Agreed.</p> <p>Responsible officer: Treasury and Capital Manager</p> <p>Implementation date: 31 March 2017</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>2. Exit packages <i>Audit dimension: governance and transparency</i></p> <p>On reviewing exit packages as part of our work on the remuneration report we found that the value of packages had been recorded correctly within the financial statements and all packages had been approved appropriately in line with the Council's scheme of delegation.</p> <p>We noted one exit package, which was a compromise agreement reached with a former employee, where there were limited records to support the value of the agreed and approved package. Compromise agreements are a specific type of exit package, the use of which are commonplace in the UK, which have a particular legal form requiring a high degree of confidentiality. The existing policies and procedures of the council do not currently provide guidance around the steps to be followed or data to be retained when it is considered that a compromise agreement is required in order to achieve an optimum outcome for all involved.</p> <p>While we found the specific payment in question was approved in line with delegated authority within the Council there was no central file of data collected to support the package nor the rationale for the payment. In such circumstances it is difficult to assess the extent to which the Council has achieved value for money in the payment of the exit package.</p>	<p>There is a need to establish a process which will meet the requirements of ensuring value for money and transparency, while complying with the legal requirements surrounding compromise agreements. Guidance covering how this could be achieved across the public sector in Scotland would assist the Council in enhancing existing policies and procedures.</p>	<p style="text-align: center;">Grade three</p> <p>Agreed.</p> <p>Responsible officer: Chief Officer Human Resources</p> <p>Implementation date: 31 March 2017</p>

We follow up prior audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2014-15 audit and 2015-16 interim audit and their current status.

Grade	Number of recommendations raised	Implemented	In progress
One	-	-	-
Two	-	-	-
Three	9	5	4

We have provided a summary of progress against overdue actions below, and their current progress.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
1. Organisational policies			Grade three
The Financial Regulations state that they should be reviewed annually, however they have not been updated since 2012. Items such as payment authorisation thresholds, budgetary controls and delegated authorities should be reviewed periodically to ensure that the Financial Regulations are applicable and fit for purpose.	Management should review and update the Financial Regulations in line with the timeframe established.	Agreed. Responsible officer: Chief Financial Officer Implementation date: 30 June 2016	Complete.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
2. Bank reconciliations			Grade three
<p>Bank reconciliations have been prepared for each month and are signed as prepared and reviewed. However, bank balances are not fully reconciled to the ledger each month and there are balancing figures which could not be explained at the time of our interim audit. Staff are aware of the problem and lengthy attempts have been made to resolve the issue, resulting in a reduction but not removal of the amount. These balances will be reconciled or written off at year end (31 March 2016).</p> <p>In addition, the authorisation of bank reconciliations has not been signed and dated in a timely manner. Differences become harder to reconcile as more time passes, and fraud becomes harder to identify, therefore there is a risk that there will be differences which cannot be reconciled.</p>	<p>It is a key anti-fraud control for bank balances to be fully reconciled on a regular basis. Therefore management should ensure that all bank reconciliations are prepared and reviewed in a timely manner.</p>	<p>Agreed.</p> <p>Responsible officer: Accounting Manager</p> <p>Implementation date: 30 April 2016</p>	Complete.
3. Journal authorisation			Grade three
<p>We found that 4 journals from our sample of 25 did not have documentation to support the performance of the authorisation control.</p> <p>Confirmation of authorisation of these journals had not been retained as required and therefore we could not confirm that this had been received before the journal was released. However, as a mitigating measure we were able to verbally confirm this, as well as reviewing supporting documentation to confirm that the journal was not posted in error.</p>	<p>All staff should follow the authorisation control as designed.</p> <p>Management could consider communicating with staff and circulating a reminder of the process.</p>	<p>Agreed.</p> <p>Responsible officer: Corporate Finance Officer</p> <p>Implementation date: 30 September 2016</p>	Ongoing.

Appendix six

Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
4. FIS new user form			Grade three
<p>New users that require access to FIS should have an account requested for them via a new user form, which must be signed off as authorised by a member of SBC staff who appears on the Authorised Signatory List.</p> <p>In one instance of our testing, a new user form had been authorised by a member of staff who did not appear on the IT approved signatories list for user requests. After enquiry, it was determined that an original incident report was logged by an authorised signatory and from this a new user form was filled out and signed off by an unauthorised signatory.</p> <p>There is a risk that members of staff are able to obtain unnecessary or inappropriate access.</p>	<p>Management should ensure that no user is added to the system prior to receiving an authorised signature on the new user form.</p>	<p>Agreed.</p> <p>Responsible officer: Acting Chief Officer - IT</p> <p>Implementation date: 31 March 2016</p>	<p>Top up testing was performed at yearend. No change user form was available however evidence was available of an authorised person requesting the user access by email. We therefore consider this recommendation to be in progress.</p>
5. Password policy			Grade three
<p>The password policy states that all organisational passwords should be a minimum of nine characters, however this is not followed by the FIS system.</p> <p>In addition, we made a similar recommendation in the prior year that the policy should be updated to state the systems that this does not apply to. It was confirmed by review of the intranet that this policy has not been updated.</p>	<p>The password policy should be updated to explicitly state that these minimum password requirements do not apply to the systems that cannot support the required level of complexity.</p>	<p>Agreed.</p> <p>Responsible officer: Acting Chief Officer IT</p> <p>Implementation date: 30 September 2016</p>	<p>Complete.</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
6. Transport infrastructure assets			Grade three
<p>It is expected that the 2016-17 Code will adopt requirements of the Code of practice on transport infrastructure assets ("the transport code"), which requires measurement of these assets on a depreciated replacement cost basis.</p> <p>Local authorities are advised to develop a project plan to during 2014-15 to help achieve successful implementation.</p> <p>This information is already captured in the whole of government accounts ("WGA") submission. However this was not prepared in time for the initial submission.</p> <p>There is a risk that management will not have the depreciated replacement cost figures for transport infrastructure assets as at 1 April 2015 to allow for a restatement of the 2015-16 balance sheet in line with the requirements of the Code</p>	<p>In respect of readiness for the 2016-17 code, whilst the Council is in line with other local authorities in its preparedness, a formal project plan has not been formed and the WGA submission for 2014-15 is yet to be provided.</p> <p>The transport infrastructure asset valuation has been completed for WGA, however staff acknowledge this does not yet represent a complete listing.</p> <p>Management should continue to work on completing the transport infrastructure assets tab of the WGA prior to final submission. Going forward, this should be included in the first submission.</p>	<p>Agreed.</p> <p>Responsible officer: Corporate Finance Manager</p> <p>Implementation date: 31 December 2015</p>	<p>In respect of readiness for the 2016-17 Code, we consider the Council to be in line with other local authorities in having completed the transport infrastructure asset valuations for WGA submission. This is considered ongoing, as the 2016-17 code has not yet been implemented.</p>
7. Fixed asset reconciliation			Grade three
<p>The client has not prepared a reconciliation between the fixed asset register and general ledger at year end.</p> <p>There is a risk that these do not agree and then differences are presented on the balance sheet. Our testing did not identify any differences, however in future, if there were differences there is a risk that they would not be addressed in a timely manner.</p> <p>It is noted however that the Council implemented a new fixed asset register during the year and that a reconciliation to the general ledger was carried out before and after data migration which was reviewed.</p>	<p>Management should ensure a reconciliation is prepared in advance of the year end audit to confirm that the financial ledger has captured fixed assets correctly.</p>	<p>Agreed.</p> <p>Responsible officer: Accounting Manager</p> <p>Implementation date: 30 June 2016</p>	<p>The 2015-16 yearend fixed asset reconciliation was not prepared until August 2016, there is room for improving the timeliness of this control.</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
8. National fraud initiative <i>Risk dimension: Business</i>			Grade three
<p>We completed a return to Audit Scotland in June 2015 to review the Council's participation in NFI. This resulted in a red grading, defined by Audit Scotland as "unsatisfactory where improvement is required as a priority".</p> <p>The Council has only commenced in August 2015 the follow up on matches identified, however a draft plan is being developed and implemented in phases to complete this work. The timeline shows that management anticipate sample checking matches, reviewing and updating the system to meet the timetable set out in NFI guidance for 2014-15</p>	<p>The Council should follow up on matches identified in a timely manner. In respect of the most recent exercise, it is recommended that the Council ensures the plan for completion is followed. It should be noted that not all matches require to be followed up, however the Council should be focusing on high quality matches.</p>	<p>Agreed.</p> <p>Responsible officer: Corporate Fraud and Compliance Officer</p> <p>Implementation date: In progress, though to be completed by 31 March 2016</p>	Complete.
9. Financial capacity in public bodies <i>Risk dimension: Business</i>			Grade three
<p>We completed a return to Audit Scotland in respect of our findings on financial capacity within the Council. Our review in response to the request for data collection identified that there is appropriate financial capacity within the organisation to ensure effective management.</p> <p>However, financial responsibility is concentrated and it is likely that with the establishment of the integration health and social care joint board, responsibilities for the finance team will increase and capacity may be further stretched.</p>	<p>It is recommended that management consider its responsibilities in terms of the integration joint board and ensure these are allocated to appropriate individuals. Preparation of the annual accounts of the integration joint board should be included within the year end timetable for 2015-16 onwards.</p> <p>Annual accounts will be required for the period from the date of establishment of the Integration Joint Board, on the basis that there will be relevant transactions, such as Integration Joint Board operating costs.</p>	<p>Agreed.</p> <p>Responsible officer: Chief Finance Officer</p> <p>Implementation date: 31 December 2015</p>	Complete, see discussion of financial management at page 25.

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	<p>Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions,</p> <p>Conclude on whether the monitoring arrangements are operate and operating in line with recommended best practice.</p>	Page 29 sets out our conclusion on these arrangements.
Financial statements and related reports	<p>Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income</p> <p>Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements</p>	Page 13 summarises the opinions we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports.	Page 19 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Controller of Audit when circumstances indicate that a statutory report may be required.	Page 13 sets out any notifications we have made to the Controller of Audit.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Pages 23 to 31 set out our conclusion on these arrangements.
WGA returns and grant claims	<p>Examine and report on WGA returns</p> <p>Examine and report on approved grant claims and other returns submitted by local authorities.</p>	Pages 36 and 37 set out our conclusion on these arrangements

Appendix seven

Appointed auditor's responsibilities (continued)

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	<p>Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct.</p> <p>Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.</p>	<p>Page 25 and 26 sets out our conclusion on these arrangements.</p> <p>Page 26 concludes on the Council's participation in the National Fraud Initiative.</p>
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the Council's financial position is soundly based.	Pages 25 - 27 set out our conclusion on these arrangements.
Financial position	Review performance against targets	Pages 6 to 11 summarise our review of how the body has performed against its financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	<p>Pages 6 to 11 sets out our conclusion on the Council's financial position including reserves balances.</p> <p>Page 27 sets out our conclusion on financial sustainability.</p>
Best Value	Be satisfied that proper arrangements have been made for securing Best Value.	Page 28 sets out our conclusion on these arrangements.
Performance information	Review and conclude on the effectiveness and appropriateness of arrangements to prepare and publish performance information in accordance with Accounts Commission directions.	Page 30 sets out our conclusion of the Council's arrangements for performance information.



cutting through complexity

The contacts at KPMG in connection with this report are:

Hugh Harvie

Partner

Tel: 0131 527 6682

hugh.harvie@kpmg.co.uk

Matt Swann

Senior Manager

Tel: 0131 527 6662

matthew.swann@kpmg.co.uk

Rhona Mitchell

Assistant Manager

Tel: 0141 228 4295

rhona.mitchell@kpmg.co.uk

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.