

# Scottish Borders Council

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Scottish Borders Council and the Controller of Audit  
September 2018

## Who we are

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

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



## About us

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

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

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

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# Key messages

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## 2017/18 annual accounts

- 1 In our opinion, Scottish Borders Council and its group financial statements give a true and fair view and were properly prepared. The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.
- 2 The statement of accounts of the six section 106 charities administered by the Council are free from material misstatement.

## Financial management

- 3 The Council has a good track record of delivering services within its budget.
- 4 Weaknesses in the Council's systems of internal control were identified following the introduction of a new financial system. We adapted our audit approach accordingly. However we did not identify any significant errors arising from these weaknesses.

## Financial sustainability

- 5 The Council has detailed medium term financial plans and has started to produce long term scenario plans in its budgeting process, in line with good practice.
- 6 Medium term financial plans demonstrate sustainability although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at current levels.

## Governance and transparency

- 7 The Council has appropriate governance arrangements in place that support the scrutiny of decisions made by the Council.
- 8 The Council's website allows the public access to a wide range of information including registers of members' interests, consultations and surveys and how to make a complaint.

## Best Value

- 9 Our work on Performance and Outcomes found the Council has developed a Local Outcome Improvement Plan, aiming to improve the area's economy as a priority as well as improving educational attainment and care services. The Council recognises that achieving improvement in these outcomes will take time and require changes in how services are delivered.
- 10 The Council has appropriate arrangements in place for the collection, monitoring and reporting of performance information.

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# Introduction

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1. This report summarises the findings arising from the 2017/18 audit of Scottish Borders Council and its group (“the Council”).

2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2018 meeting of the Audit and Scrutiny Committee. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1

### Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work have been:

- an audit of the Council and its group 2017/18 annual accounts and the statement of accounts of the six section 106 charities administered by the Council, including the issue of independent auditors' reports setting out our opinions
- a review of the Council's key financial systems
- audit work covering the Council's arrangements for securing Best Value relating to performance and outcomes

- consideration of the four audit dimensions.

**4.** The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

**5.** The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

**6.** Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance, and International Standards on Auditing in the UK.

**7.** As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Council's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. We also report on the Council's best value arrangements and in doing this we aim to support improvement and accountability.

**8.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

**9.** This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**10.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

**11.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. The 2017/18 audit fee of £270,230 was set out in our Annual Audit Plan. In addition to the work set out in the Annual Audit Plan, we also undertook work to confirm that adequate financial provision was in place for the Council's landfill site, which is a requirement of the landfill permit issued by SEPA. A separate fee of £3,000 was charged for this work. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

**12.** Our aim is to add value to Scottish Borders Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

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

**14.** We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

# Part 1

## Audit of 2017/18 annual accounts



### Main judgements

**In our opinion, Scottish Borders Council and its group financial statements give a true and fair view and were properly prepared. The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.**

**The statement of accounts of the six section 106 charities administered by the Council are free from material misstatement.**

### Audit opinions on the annual accounts

**15.** The annual accounts for the Council and its group for the year ended 31 March 2018 were approved by the Council on 25 September 2018. We reported, within our independent auditor's report that, in our opinion:

- the Council and its group financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the guidance

**16.** We have nothing to report in respect of misstatements in: information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

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

### Audit opinions on section 106 charities

**17.** Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Scottish Borders Council (SBC) are sole trustees, irrespective of the size of the charity.

**18.** The Council has six section 106 charities which have been separately audited. In 2016/17 there were seven trusts, however the Thomas Howden wildlife trust was amalgamated into the SBC Educational Trust for 2017/18. Further work on reorganising the structure of trusts administered by the Council has been carried out during 2017/18. The SBC Charitable Trusts administers a variety of charitable funds and during the year approval was received from the Office of the Scottish Charity Regulator (OSCR) to transfer a number of these funds to either the SBC Welfare Trust or the SBC Community Enhancement Trust. These funds transferred from 1 April 2018. Work continues in 2018/19 on the remaining funds administered by the Charitable Trusts to amalgamate them into other trusts.

**19.** We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in our independent auditor's reports that, in our opinion:

- the financial statements give a true and fair view of the section 106 charities financial position and are properly prepared in accordance with charities legislation
- the trustees' annual reports are consistent with the financial statements and prepared in accordance with proper accounting practices.

**20.** The Council should continue to review trusts' assets to ensure that they are being accurately reported.

## **Submission of the Council and its group annual accounts for audit**

**21.** We received the unaudited annual accounts on 29 June 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan.

**22.** The working papers provided with the unaudited accounts were of a satisfactory standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

## **Whole of Government Accounts**

**23.** The Council submitted a consolidation pack for the whole of government accounts audit on 16 July 2018 in line with the deadline.

## **Risk of material misstatement**

**24.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team and the wider audit dimension risks identified.

## **Materiality**

**25.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

**26.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and based on the audited 2016/17 accounts. We assess the materiality of uncorrected misstatements, both individually and collectively, in forming our opinions on the financial statements.

**27.** On receipt of the 2017/18 Unaudited Annual Accounts, and following completion of audit testing, we reviewed our original materiality calculations and concluded that the bases remained appropriate. Our final materiality levels are summarised in [Exhibit 2](#).



## Exhibit 2

### Materiality values

Materiality level	Amount
Overall materiality	£3.78 million
Performance materiality	£1.89 million
Reporting threshold	£75,000

Source: Audit Scotland

### How we evaluate misstatements

**28.** There were no material adjustments to the unaudited financial statements arising from our audit. Our work identified three errors which exceeded our reporting threshold, as detailed in [Exhibit 3](#) below, and in [Appendix 3](#).

**29.** It is our responsibility to request that all errors above the reporting threshold are corrected although the final decision on this lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for these items as the amounts are not considered material in the context of the financial statements. We agree that these amounts are not material.

### Significant findings from the audit in accordance with ISA 260




**30.** International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

**31.** The findings include our views about significant qualitative aspects of the Council's accounting practices including:

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>Accounting policies</li> </ul>   | <ul style="list-style-type: none"> <li>Accounting estimates and judgements</li> </ul>   |
| <ul style="list-style-type: none"> <li>Significant financial statements disclosures</li> </ul>                | <ul style="list-style-type: none"> <li>Timing of transactions and the period in which they are recorded</li> </ul>              |
| <ul style="list-style-type: none"> <li>The impact on the financial statements of any uncertainties</li> </ul> | <ul style="list-style-type: none"> <li>The effect of any unusual transactions on the financial statements</li> </ul>            |
| <ul style="list-style-type: none"> <li>Misstatements in the annual accounts</li> </ul>                        | <ul style="list-style-type: none"> <li>Disagreement over any accounting treatment or financial statements disclosure</li> </ul> |

## Exhibit 3

### Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. Non-current assets</b></p> <p>Our work included a review of non-current assets included on the Council's balance sheet for assets that had not been charged depreciation during the year. This work identified that several assets with net book values had not been charged depreciation that should have been, as the assets were included with nil remaining useful lives even though they remain in use. This results in the non-current assets being overstated by £2.13 million.</p>	<p>Management have decided not to adjust for this error in the financial statements. Corrections will be made in 2018/19 for the assets identified, through including the assets within the Council's revaluation programme for the year or impairing the assets as appropriate. We have accepted this treatment as the misstatement is below our overall materiality value of £3.78 million.</p> <p> <a href="#">Recommendation 1 (refer appendix 1, action plan)</a></p>
<p><b>2. Pension Scheme Valuation</b></p> <p>The Council accounts for its share of Scottish Borders Council Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS 19 reports using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were lower than actual returns. This resulted in pension fund assets reported in the Council's balance sheet being understated by approximately £1 million.</p>	<p>The accounts have not been adjusted to reflect the Council's share of the pension fund assets based on the value at 31 March 2018 as management concluded this was not material. We agreed with this assessment.</p> <p>We have not included this as an unadjusted error as it is an area of significant estimation and judgement.</p> <p> <a href="#">Recommendation 2 (refer appendix 1, action plan)</a></p>
<p><b>3. Payroll Creditors</b></p> <p>The total creditors figure within the balance sheet contained several balances relating to payroll. This included large debit balances of £28.4 million and £3.8 million as well as large credit balances of £34.9 million and £2.9 million. It was not clear what these balances related to and what the correct year end creditor balance for the payroll amounts should be.</p>	<p>The balances were caused by the financial coding structure in the new financial system implemented from April 2017. Management carried out additional work and provided further supporting evidence to clarify the correct payroll creditors position at the year end. This identified that creditors were understated by £0.14 million at the year end.</p> <p> <a href="#">Recommendation 3 (refer appendix 1, action plan)</a></p>

## Good practice in financial reporting

**32.** The annual accounts reflect good practice as set out by Audit Scotland in '[Improving the quality of local authority accounts – expenditure and funding analysis](#)'. The expenditure and funding analysis in the Council's accounts was consistent with the key messages from our good practice note.

## Follow up of prior year recommendations

**33.** We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

**34.** In total, four agreed actions were raised in 2016/17. Of these:

- two have been fully implemented
- two have been partly actioned

**35.** Overall the Council has made satisfactory progress in implementing these actions. For those actions partly implemented, revised responses and timescales have been agreed with management as set out in [Appendix 1](#).

## Other findings

**36.** Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

## Objections

**37.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period.

**38.** The Council's advert stated that the accounts would be available for inspection from the Council offices during office hours or on the Council website, 24 hours a day, from 2 July 2018. An objection to the accounts was received stating that the accounts were not available on the Council website on the morning of 2 July. We confirmed with officers that there was a delay in uploading the Council's accounts to the website and they were only available from the afternoon on 2 July. The Council did not fully comply with the Regulations as the accounts were not available for the full duration specified in the advert, although hard copies were available from Council offices.

**39.** The objection received also related to other aspects of the accounts, including the treatment of Public Private Partnership (PPP) assets and the treatment of components in the group accounts. We considered the points raised in the objection as part of our audit work on the financial statements. We accepted elements of these could be considered as potentially valid objections under section 101 of the Local Government (Scotland) Act 1973. We examined these accordingly, and from our work we were satisfied that these did not constitute the basis of a valid objection and did not identify any issues which had an impact on our opinion on the financial statements.

# Part 2

## Financial management



### Main judgements

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

Weaknesses in the Council's systems of internal control were identified following the introduction of a new financial system. We adapted our audit approach accordingly. However we did not identify any significant errors arising from these weaknesses.

### Financial performance in 2017/18

**40.** In February 2017 the Council approved a budget of £264.8 million for 2017/18. The actual outturn for the year was expenditure of £254.2 million, which was an underspend of £1.3 million against the revised budget of £255.5 million for the year. The Council has a good track record in delivering services within budget over the last few years.

**41.** While the Council's spending has remained in line with its overall budget, there were some significant variations in how different services have performed. Examples of larger areas of under and overspends are summarised in [Exhibit 4](#).

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

### Exhibit 4

Examples of under / overspends against budget

Area	(Under)/over spend (£m)	Reason for variance
<b>Underspends</b>		
Children & Young People	£(0.55)	Non filling of vacancies and implementation of corporate freeze on discretionary spend
Finance, IT & Procurement	£(0.78)	Restructuring of the service following the launch of new ERP system and corporate underspends within, IT, Non Domestic Rates rebates and loans charges in line with Council's approved approach to borrowing

Area	(Under)/over spend (£m)	Reason for variance
<b>Overspends</b>		
Asset & Infrastructure	£1.45	Impact of severe winter weather

Source: Scottish Borders Council 2017/18 Revenue Outturn

## Efficiency savings

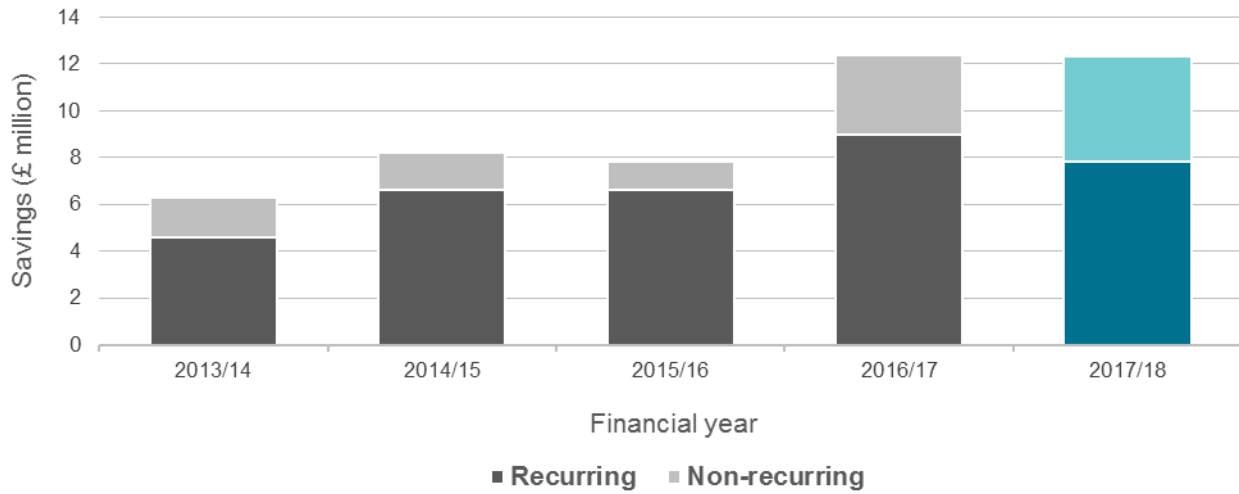
**42.** With reduced funding from government and increased demand for services, efficiency savings are an important means of bridging the gap between funding received and spending commitments. The Executive Committee at the Council receives quarterly updates on savings during the year which provides an effective means of scrutinising the achievement of planned savings.

**43.** The Council has responded well to the challenges it has faced and has a good track record of delivering savings each year. Savings of £12.3 million were reported as delivered during 2017/18. This was a similar level of savings compared to prior year (£12.4 million). However the proportion of savings achieved on a recurring (permanent) basis has continued to decrease compared to previous years, with 63% (£7.8 million) achieved on a permanent basis in 2017/18 compared to 73% (£9.0 million) in 2016/17 and 85% (£6.6 million) in 2015/16. The remaining 37% (£4.5 million) were delivered on a non-recurring (temporary) basis and will need to be addressed in future years.

**44.** As illustrated in [Exhibit 5](#), the Council has been increasingly reliant on non-recurrent savings in recent years. The larger percentage of non-recurring savings in 2017/18 was mainly due to the delays in implementing new IT systems which meant that alternative savings had to be delivered on a temporary basis instead. There is risk that the proportion of savings delivered on a non-recurring basis is not sustainable for the Council in the longer term.

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

### Savings – recurring and non-recurring



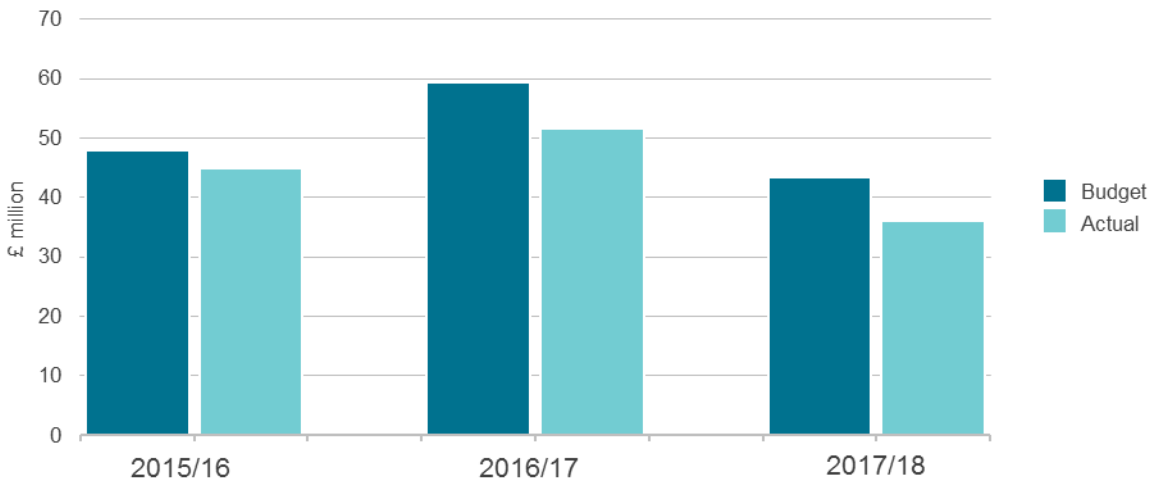
Source: Scottish Borders Council revenue outturn reports

### Capital programme 2017/18

45. The Council agrees a 10 year capital plan each year as part of its budget process. Total capital expenditure in 2017/18 was £36.0 million, with significant expenditure on its school estate, including delivering a new Broomlands Primary School in Kelso, a new Langlee Primary School in Galashiels and the new Kelso High School. Other significant areas of expenditure included the Hawick Flood Protection Scheme, a refurbishment of Lowood Bridge and an initiative in Hawick to address derelict industrial premises with support from the Scottish Government. The total capital spend was £7.4 million below the revised budget for the year. The Council has a history of slippage in its capital programme as outlined in [Exhibit 6](#).

### Exhibit 6

#### Capital slippage compared to budget



Source: Scottish Borders Council Capital Outturn reports

**46.** The main areas of slippage were in ICT Transformation expenditure to reflect timing of work now planned for 2018/19 and in roads and transport infrastructure where work was delayed due to the severe winter weather.

## Budgetary process

**47.** The [\*Local Government in Scotland: Financial overview 2016/17\*](#) (November 2017) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of usable reserves to rely on.

**48.** Within the Council the detailed scrutiny of financial performance is delegated to the Executive Committee which receives quarterly revenue and capital monitoring reports. From our review of these reports and attendance at committee we concluded that they provided a satisfactory overall picture of the budget position at service level. The reports forecast out-turn position for the year and include narrative explanations for significant variances against budget. They allow both members and officers to carry out effective scrutiny of the Council's finances.

## Systems of internal control

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

**50.** The Council implemented a new financial system, Business World, from April 2017. This was a major change at the Council, with Business World replacing existing finance, HR and procurement systems, with the aim of delivering significant savings for the Council. Such a significant change includes inherent risks given the scale and complexity of the change being implemented. The introduction of the new system resulted in several issues with the operation of internal controls, including instances of an audit trail for changes to the system not being maintained and bank reconciliations not being completed on time. Our findings were included in our interim Management Report that was presented to the Audit and Scrutiny Committee on 26 June 2018. We concluded that we could take assurance from some of the controls in operation, however additional testing was carried out on the financial statements to ensure the weaknesses identified did not result in a material misstatement in the financial statements.

**51.** Our year end testing confirmed that many issues reported in the Management Report had started to be addressed, including bank reconciliations being completed by the year end. We will follow up the issues identified in the Management Report as part of our 2018/19 audit work.

[Appendix 1, Action plan point 5](#)

# Part 3

## Financial sustainability



### Main judgements

**The Council has detailed medium term financial plans and has started to produce long term scenario plans in its budgeting process, in line with good practice.**

**Medium term financial plans demonstrate sustainability although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at current levels.**

### Financial planning

**52.** It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. Although councillors only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures. The Council has a financial strategy covering five years, which is in line with good practice, and which is reviewed as part of the annual budget setting process.

**53.** The Accounts Commission recommended that when future Scottish Government funding is not known, councils should plan for a range of scenarios so they are prepared for different levels of funding and income. Following an audit recommendation in 2016/17, the Council's budget proposal for 2018/19 included scenario planning for the 10-year period to 2027/28. The scenarios included a 'favourable' scenario where the gap between expenditure and funding is £32.8 million by 2027/28, and a 'least favourable' scenario where the gap is £79.9 million.

### Funding position

**54.** The Council approved its 2018/19 budget in February 2018. The budget was set at £272.7 million. The Council is facing several challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing cost of services and reductions in local government funding.

**55.** As outlined in paragraph 43, the Council achieved its efficiency savings target in 2017/18. The Council has identified that it needs to make savings of £11.4 million for 2018/19. Looking at the Council's budget information/financial projections for 2019/20 to 2022/23, it is forecasting a funding gap of £21.1 million over the period.

### Ending of public sector pay cap

**56.** The Council's 2018/19 budget contains full provision for pay increases in line with the Scottish Government public sector pay statement. The effect of this is additional costs of £13.2 million over the next 5 years.

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



## Reserves

**57.** One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the Council increased from £25.9 million in 2016/17 to £28.8 million in 2017/18.

**58.** The general fund reserve is the largest reserve. This reserve has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

**59.** The Council reviews the level of its uncommitted reserves when setting the budget each year. The review is based upon an assessment of corporate risks, with each risk being assigned a likely financial amount as well as a likelihood of the risk occurring. As part of the budget setting process for 2018/19 the Corporate Financial Risk Register was considered by the Council in February 2018. At this time the financial risk was assessed as being £11.1 million. The unallocated general fund balance of £6.3 million is sufficient to cover 57% of these risks at that time. This is a slight improvement on the prior year position which covered 52% of the assessed risks at that time.

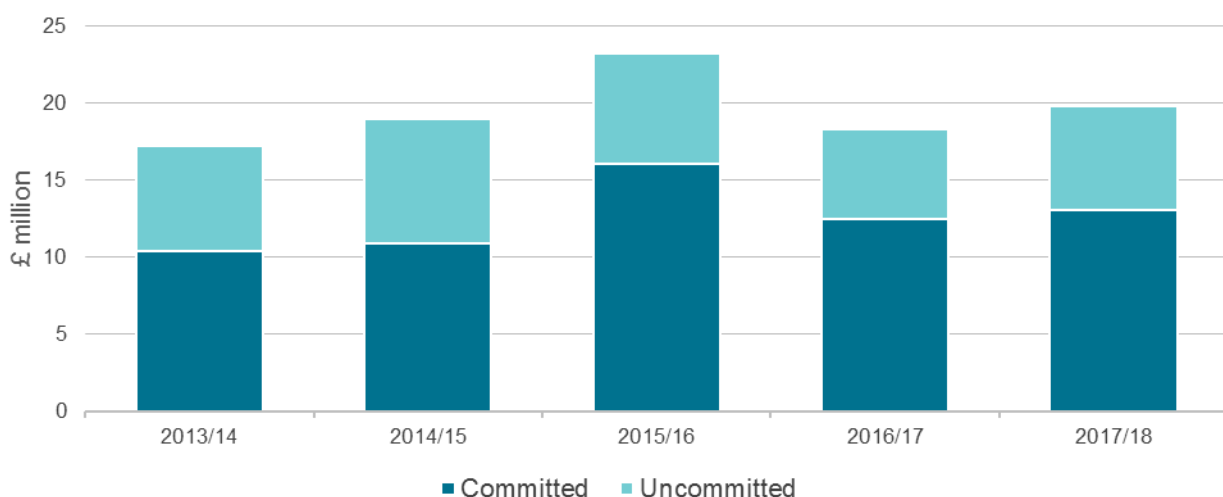
**60.** We consider the Council's approach to reserves to be good practice and are satisfied that reserves are being regularly reviewed to confirm that they remain at an appropriate level.

**61.** [Exhibit 7](#) provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. This shows that the general fund balance has remained relatively stable in recent years, although there was a significant reduction between 2015/16 and 2016/17 as the Council utilised earmarked balances within the reserve.

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### Exhibit 7

#### Analysis of general fund over last five years



Source: Scottish Borders Council Financial Outturn reports

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### City Region Deal and Borderlands Inclusive Growth Deal

**62.** The Council is part of the Edinburgh and South East Scotland City Region Deal. The deal is an agreement between the Scottish Government, the UK Government and local government designed to bring about long-term strategic

approaches to improving regional economies. It involves five other Councils: City of Edinburgh, East Lothian, Fife, Midlothian and West Lothian Councils; as well as the city region's universities and colleges; and the private and third sectors. Overall, £1.3 billion will be invested in the City Deal region over the next 15 years.

**63.** The Heads of Terms for the Deal were agreed in July 2017, with the Deal being formally agreed in August 2018 by the partners.

**64.** As part of the City Deal, the Council has prepared a business case for a Central Borders Innovation Park in Tweedbank. This will be funded by £15 million being provided from the City Region Deal over a 15-year period, along with £14 million provided from other sources.

**65.** The Council is also part of the Borderlands Inclusive Growth Deal, which is a partnership with four other local authorities: Carlisle City Council, Cumbria County Council, Dumfries & Galloway Council and Northumberland County Council. The deal will focus on several key themes. These are Energy; Digital; Transport Connectivity; Rural Productivity; Business; Destination Borderlands; Quality of Place; and Skills.

**66.** A proposition for the deal was submitted to the Scottish and UK governments in October 2017 and the initiative was included in the UK government's budget statement. An overview and strategic outline business case is to be submitted to the UK and Scottish governments by the end of September 2018.

## Business transformation

**67.** Audit Scotland's [\*Local government in Scotland – challenges and performance 2018\*](#) (April 2018) highlighted that councils need to ensure they have effectively planned and invested to deliver their transformational programmes and that staff have the necessary skills. Cohesive and decisive leadership is essential to address the significant challenges councils face.

**68.** The Council has a Corporate Transformation Programme in place which was established in 2015 and revised in February 2018 to better align with the new Corporate Plan and focus on a reduced number of projects. The programme has five workstreams: Digital Transformation, Children & Young People, Health & Social Care, Workforce Transformation and Corporate Landlord.

**69.** Progress with the programme is reported quarterly to the Council's Executive Committee during the year.

**70.** Part of the Digital Transformation workstream included the outsourcing of the Council's ICT services to an external partner, CGI, as part of a 13-year contract. This contract included the introduction of the Council's new integrated finance and HR system, Business World. As noted in paragraph 50, the introduction of this system resulted in weaknesses in the system of internal control which we reported in our interim report in June 2018.

**71.** Another part of the Digital Transformation workstream is the Digital Customer Access Programme which is intended to allow members of the public to access services and information online to increase efficiency and flexibility. This was due to be implemented early in 2018, however the system proposed by the third party specialist hired by CGI was not appropriate and the third party had its contract cancelled during the year at the request of the Council.

**72.** To address the delays and problems from implementing these new systems, a team of consultants have been employed by CGI to work with the Council. This has been done under the ICT contract arrangements with CGI and not at additional expense to the Council.

**73.** The Council has identified a number of lessons learned following the issues experienced with the delivery of the new systems. These include over-reliance on the third party integration specialist, lack of an overall system architect and test systems not being available before the system went live.

[Appendix 1, Action plan point 6](#)

## EU withdrawal

**74.** There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

**75.** In January 2017 the Council's Executive Committee agreed to the formation of a Brexit Response Team to monitor and respond to changes at the Council because of Brexit. This team consists of representatives from various service areas, including Procurement, Legal and Human Resources. Work is still ongoing to identify the potential impact of any changes at the Council. The Council should ensure it closely monitor developments and have plans in place to mitigate any emerging operational risks.

# Part 4

## Governance and transparency



### Main Judgements

**The Council has appropriate governance arrangements in place that support the scrutiny of decisions made by the Council.**

**The Council's website allows the public access to a wide range of information including registers of members' interests, consultations and surveys and how to make a complaint.**

### Governance arrangements

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

- confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective
- assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body
- confirming that there is effective scrutiny and challenge in place over policy decisions, service performance, and programme management
- confirming that decision makers have the information they need to scrutinise, challenge and make transparent decisions
- ensuring that it is clear what decisions have been made, who made them and the rationale supporting those decisions.

**77.** A revised Scheme of Administration was agreed by the Council following the election in May 2017. The functions previously delegated or referred to the Scrutiny Committee by the Council have now been included within the functions of the Audit and Scrutiny Committee which has replaced the previous Audit and Risk Committee.

**78.** The Audit and Scrutiny Committee includes space for up to three external members for considering audit related matters, which was also the case for the previous Audit and Risk Committee. This allows for external expertise to be considered when carrying out the committee's remit of assessing arrangements and monitoring systems of internal control. In recent years the committee has not had the full complement of external members and has only had one external member during 2017/18, although the Council is making efforts to recruit additional external members.

**79.** We concluded that the Council's arrangements are appropriate in that they support good governance and accountability.

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.

## Transparency

**80.** Transparency means that the public have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets. Transparency is a process and good governance leads to an approach designed to increase transparency, [exhibit 8](#).

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### Exhibit 8 Transparency model



Source: Audit Scotland

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**81.** There is evidence from several sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council, executive and other committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website.

**82.** The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. In addition, the website provides details of the citizen's panel and how to join it. The panel provides information and feedback on services as well as information on the needs of local communities.

**83.** Overall, we concluded that the Council conducts its business in an open and transparent manner.

## Internal Audit

**84.** The Council's Internal Audit function is carried out by an in-house team. Each year we consider Internal Audit work to avoid duplication of effort. We carry out an assessment of the Internal Audit function to ensure that it is sufficient in terms of documentations standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS). Our assessment confirmed that the Council's Internal Audit perform in accordance with PSIAS.

**85.** We reviewed the Council's Internal Audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of Internal Audit. In 2017/18 we used Internal Audit's work in the following areas: Business World, Revenues (Council Tax) and Grants incorporating "following the public pound". We also considered Internal Audit report findings as part of our wider dimension work.

## Management commentary, annual governance statement and remuneration report

**86.** The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements.

**87.** Based on our knowledge and work performed, we concluded that the annual governance statement and remuneration report are consistent with the financial statements.

**88.** The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of the body. We concluded that the Council's management commentary was balanced, well presented and understandable, and consistent with the financial statements.

## National Fraud Initiative

**89.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

**90.** NFI activity at the Council, excluding Council tax data matching work, is summarised in [Exhibit 9](#).

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### Exhibit 9

#### NFI activity



1,021

**Matches**



164

**Recommended for  
investigation**



750

**Completed/closed  
investigations**

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

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**91.** In addition to the NFI activity, the Council undertook work during the year on identifying potential frauds in the awarding of council tax single person discounts. This work identified 129 cases for investigation, resulting in the identification of 53 cases where the discount had been claimed fraudulently or in error.

**92.** The outcome of the Council's work on fraud prevention, detection and investigation is reported annually to the Audit & Scrutiny Committee. The Counter Fraud Annual Report detailed that a saving of £37,523 was identified from 2017/18 work.

**93.** Overall, we have concluded that the Council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

### **Standards of conduct for prevention and detection of fraud and error**

**94.** The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, counter fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

**95.** We concluded that the Council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

### **Cyber security**

**96.** The Scottish Government issued a [Public Sector Action Plan on Cyber Resilience](#) in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

**97.** As noted in paragraph 70, the Council has outsourced its ICT arrangements to CGI as part of a 13-year contract. Under this agreement, CGI are responsible for cyber security arrangements and the Council relies on their expertise in addressing cyber security risks.

### **Public Services Network (PSN)**

**98.** Like the Internet, the Public Services Network (PSN) is made up of different networks which are connected together. To provide the performance, resilience, and security required by the public sector, the PSN is unified by an agreed set of standards with which all users, suppliers and customers must comply. These standards, the PSN Codes and Conditions, are administered by the Cabinet Office's Digital Service.

**99.** Each year the Council submits an application for continuing Public Services Network (PSN) accreditation. A successful submission of the Council's PSN Code of Connection Application was made in July 2017 and the Council achieved accreditation of its compliance with the requirements of the PSN with the Certificate issued by the Cabinet Office dated 4 September 2017.

### **General Data Protection Regulation**

**100.** The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out further requirements than the Data Protection Act and has introduced new and significantly changed data protection concepts.

**101.** GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the Council incurring significant fines.

**102.** The Council has made plans for ensuring that it complies with the requirements of the new Regulation, including forming a GDPR Project Board which meets monthly to monitor progress, with oversight by the Information Governance Group. One of the key elements of this project is the completion of Information Asset Registers (IARs) to identify the information that is held by the Council. Monitoring reported to the GDPR Project Board at the start of September



2018 identifies that Information Asset Registers are still incomplete, with 82.5 percent of registers complete. It should be noted that the percentage reporting of the IAR is slightly misleading because an asset could only have one element missing (e.g. retention) yet the entire asset is marked as incomplete.

**103.** The Council has produced mandatory training on the requirements of GDPR which all members of staff at the Council are expected to complete. Completion of this training is also behind schedule, with only 66 percent of staff having completed the training.

[Appendix 1, Action plan point 7](#)

## Correspondence referred to the auditor by Audit Scotland

**104.** We received correspondence covering a variety of issues including procurement and performance. We considered the issues and evidence provided. We are satisfied that this did not identify any issues which had an impact on our opinion on the financial statements.

## Integration of health and social care

**105.** The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

**106.** The Scottish Borders Integration Joint Board (IJB) was formally established in February 2016. The IJB became fully operational on 1 April 2016 when it began its strategic oversight of the delivery health and social care services for the residents of the Scottish Borders.

**107.** We are seeing a number of programmes and initiatives moving towards shifting the balance of care, including the Discharge to Access pilots at Craw Wood and Hospital at Home. Inevitably it will take some years before projects and programmes have become sufficiently established to be able to conclude on the effectiveness of the IJB.

**108.** The IJB allocates the resources it receives from the Council and NHS Borders in line with its Commissioning and Implementation Plan. The IJB reported a breakeven position at 31 March 2018. The Financial Plan for 2018/19 was considered by the Integration Joint Board in April 2018 but has not yet been approved due to the high level of unidentified savings, most of which relate to healthcare services, included in the Plan.

**109.** The IJB is subject to a separate audit (also by Audit Scotland) and an Annual Audit Report has been produced setting out the auditor's conclusions. The financial transactions of the IJB have been consolidated into the Council's group accounts.

## Local scrutiny plan

**110.** The 2018/19 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted on 27 March 2018. It was presented to the Audit and Scrutiny Committee on 14 May 2018. The LAN did not identify any new risks in the year which would require specific scrutiny work during 2018/19. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.



# Part 5

## Best Value



### Main judgements

**Our work on Performance and Outcomes found the Council has developed a Local Outcome Improvement Plan, aiming to improve the area's economy as a priority as well as improving educational attainment and care services. The Council recognises that achieving improvement in these outcomes will take time and require changes in how services are delivered.**

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

### Best value

**111.** Best value is assessed over the five-year audit appointment as part of the annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR report for Scottish Borders Council is planned for 2019.

**112.** The Best Value audit work carried out this year focussed on the Council's arrangements for demonstrating Best Value in performance and outcomes. The findings of this work are reported below. The effectiveness of the Council's best value arrangements in other areas will be assessed and reported throughout our audit appointment.

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

### Community engagement

**113.** Internal Audit found that the Council's Communities and Partnerships Team has taken significant steps to engage with communities, Elected Members, officers and the Community Planning Partnership through awareness sessions. The Team has developed a comprehensive website providing guidance on what Community Empowerment is intended to achieve as well as how to engage with the process. The website itself is carefully written in understandable terms and contains useful links to more detailed guidance issued by the Council, Scottish Government and others as well as an informative Frequently Asked Questions section.

### Following the public pound

**114.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

**115.** During the year, Internal Audit made a recommendation for a re-work of the Council's Following the Public Pound guidance, with supporting guidelines for the different funds distribution channels - Contract Management on one hand and separately Grants and Other Distributions on the other. This work should be

progressed alongside the updating of the Financial Regulations and the work on design, development and delivery of the Contract Management Framework.

#### [Appendix 1, Action plan point 8](#)

### Performance and Outcomes

**116.** During 2017/18 we undertook an assessment of the progress made, and arrangements in place over, Performance and Outcomes at the Council. This included reviewing the Council's own performance reporting, analysing Local Government Benchmark Framework and Community Planning Outcomes Profile information, as well as other stakeholder reporting that covers the Council area.

**117.** The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

**118.** Additionally, the Council's Executive Committee receives quarterly performance reports throughout the year and an annual performance report. These reports monitor progress against the Council's key priorities as set out in its Corporate Plan. The performance reports are also made available to the public through the performance section of the Council's website.

**119.** We concluded that performance across the Council over the last 5-10 years is generally improving. However, there are areas where the Council hasn't made the same progress as the rest of Scotland, including:

- unplanned hospital visits have increased by 44% over the last ten years, whereas the national average has decreased by 8%. Councils with similar demographics have also experienced increases, reflecting the ageing populations in rural areas that require significant unplanned hospital visits.
- whilst child poverty has decreased by 13% over ten years, the improvement is around 11% less than the Scottish average, reflecting the pressures arising from having some of the lowest household incomes in Scotland.
- out of work benefits have also decreased, by 9.6%, but 16% less than the rest of Scotland reflecting the lower than average employment opportunities, evidenced by the higher than average number of self-employed.

**120.** Improving the local economy is a priority for the Council, having identified that the area is not attractive to businesses in setting up operations in the area. The Council and Business Gateway continue to offer grants and advice to businesses starting out to help improve the local economy. Additionally, the recently agreed City Deal is expected to bring investment to the area.

**121.** We found the Council's performance reporting to be of good quality with engaging content through use of infographics and case studies to evidence the achievement of outcomes. Under the recently published Community Plan (Local Outcomes Improvement Plan) a range of performance indicators have been established to allow progress in achieving Outcomes to be monitored. Delivery and performance of the Community Plan will be monitored by the Community Planning Strategic Board. The introduction of area partnerships and a new five-year Corporate Plan makes clear the public have a part to play in ensuring resources are used wisely. It has scope to increase the Council's engagement with citizens to ensure their concerns and suggestions are communicated to the Council so it can improve service provision. The Council sees the provision of services via online portals as a way of improving service delivery, in a way that is convenient to citizens.

**122.** The Council has gone through significant organisational change over the last ten years, most recently this has involved improving their digital infrastructure and online service offerings as part of the overall Corporate Transformation Project. To date this has resulted in a new accounting system, improved Broadband connectivity and online services for some aspects of benefits and council tax. Moving forward, as part of the updated Corporate Plan, the Council intends to provide more services, advice and support to citizens online in order to engage with citizens in the most cost effective and efficient manner. This will be progressed largely through the Council's Digital Customer Access project as part of the Corporate Transformation Programme (see paragraph 68). However there have been significant delays with this project which was initially intended to have been completed during 2017.

**123.** We found that the Council is committed to allocating its resources as efficiently as possible to ensure that services offered improve outcomes for its citizens.

### Statutory Performance Indicators (SPIs)

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

**125.** For 2017/18 two SPIs were prescribed:

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

**126.** We reviewed the work of Internal Audit on performance management and concluded that the Council's arrangements for publication are satisfactory.

### Housing benefits performance work

**127.** We performed a risk assessment of the Council's housing benefits service in August 2017. The risk assessment identified six risk areas. The council prepared an action plan to address the risks identified and this was reported to the Audit and Scrutiny Committee in January 2018.

**128.** We are satisfied that the actions taken by the Council in response to the risk assessment will address the identified risks. Although we will continue to monitor the council's performance as part of our regular review of the DWP's published performance statistics in respect of new claims and change events, we are not planning further scrutiny at this stage. We will carry out a full review of the council's performance during our next round of risk assessments in approximately 18 to 24 months.

### National performance audit reports

**129.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 4](#).

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

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Non-current Assets</b></p> <p>Our work identified several non-current assets with net book values that should have been depreciated. This resulted in non-current assets being overstated by £2.13 million.</p>	<p>The Council should ensure that all assets in use are appropriately included in the correct system for depreciation to be automatically calculated.</p> <p><a href="#">Exhibit 3</a></p>	<p>Agreed</p> <p><b>Responsible officer</b> Chief Financial Officer</p> <p><b>Agreed date</b> 31/3/19</p>
2	<p><b>Pension Scheme valuation</b></p> <p>The Council accounts for its share of Scottish Borders Council Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS 19 reports using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were lower than actual returns.</p> <p>Although the difference in 2017/18 was not material, there is a risk that in future years there is a larger difference between the estimated and actual values.</p>	<p>The Council should ensure that asset values reported are as accurate as possible and that any potential differences due to timing of information are adequately considered.</p> <p><a href="#">Exhibit 3</a></p>	<p>Agreed. The Council will continue to engage actively with its Custodian and its fund managers to ensure asset valuations are as current and accurate as possible</p> <p><b>Responsible officer</b> Chief Financial Officer</p> <p><b>Agreed date</b> 31/3/19</p>
3	<p><b>Payroll Creditors</b></p> <p>The creditors figure in the balance sheet included several large balances relating to payroll amounts. It was not clear from the supporting workings what these figures related to or that they were correctly classified as creditors. Council officers carried out a significant amount of work in order to confirm the correct</p>	<p>The Council should ensure that there is appropriate supporting evidence available to support credit balances included in the balance sheet and carry out timely review of the creditors ledger to identify and correct for unexpected amounts.</p> <p><a href="#">Exhibit 3</a></p>	<p>Agreed this was a temporary problem with coding following the introduction of Business World. Work to reconcile payroll creditors and improve working paper supporting information has now been undertaken.</p> <p>Responsible officer Chief Financial Officer</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	position at the year end.		Agreed date 31/10/18
4	<p><b>Savings</b></p> <p>The Council has a good track record of achieving its savings targets for the year. However a large element of the savings in 2017/18 continued to be achieved on a non-recurring basis.</p> <p>There is a risk that savings targets in future will be even more challenging if savings are only achieved on a one-off basis.</p>	<p>The Council should try to ensure that savings are identified on a recurring basis so that pressures are not carried forward to future years.</p> <p><a href="#">Paragraph 44</a></p>	<p>Narrative on agreed action. Agreed. It is recognised this is a key risk for the council and the delivery of necessary savings on a permanent basis as quickly as possible is a key priority for the Council Management team</p> <p><b>Responsible officer</b> Chief Executive</p> <p><b>Agreed date</b> 31/9/18</p>
5	<p><b>Internal Controls</b></p> <p>The system of internal controls at the Council was affected by the introduction of a new financial system, Business World, from the start of April 2017. Audit work identified several weaknesses resulting from the new system and consultants have been working with the Council to address issues with the system.</p> <p>Although many issues have been resolved during the year, there is a risk that remaining system weaknesses are not addressed which could impact on budgetary control and financial reporting.</p>	<p>The Council should ensure that work to address issues with the financial system is completed as soon as possible.</p> <p><a href="#">Paragraph 51</a></p>	<p>Agreed. This work will now be undertaken following the upgrade of Business World to Milestone 7.2</p> <p><b>Responsible officer</b> Chief Financial Officer</p> <p><b>Agreed date</b> 31/3/19</p>
6	<p><b>Digital Transformation</b></p> <p>The Digital Transformation element of the Council's transformation programme encountered several issues during the year, including problems with the introduction of Business World and the delay in implementing Digital Customer Access.</p> <p>There is a risk that planned efficiencies from improved services are not realised.</p>	<p>The Council should ensure that arrangements are in place to correct issues and deliver the planned changes. It should also make sure that the lessons learned are considered for future projects.</p> <p><a href="#">Paragraph 73</a></p>	<p>A lessons learned workshop has been undertaken with CGI. The main issues have been reported to CMT and the Audit committee</p> <p><b>Responsible officer</b> Chief Executive</p> <p><b>Agreed date</b> 31/9/18</p>
7	<b>GDPR</b>	The Council should ensure that work on complying with	Agreed



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. The regulation contains significantly changed data protection concepts. The Council has taken steps to ensure it complies with the new regulations, however there is still work to be done, including completing information asset registers and mandatory training for staff.</p> <p>There is a risk that the Council does not fully comply with the new requirements and incurs significant fines as a result.</p>	<p>GDPR requirements is completed as soon as possible.</p> <p><a href="#">Paragraph 103</a></p>	<p><b>Responsible officer</b> Service Director Regulatory Services</p> <p><b>Agreed date</b> 31/12/18</p>
8	<p><b>Following the Public Pound</b></p> <p>The Council's Following the Public Pound guidance and Financial Regulations have not been updated to take account of changes in guidance and operating processes at the Council.</p> <p>There is a risk that the existing guidance is no longer relevant and the Council is not ensuring it is delivering value for money.</p>	<p>The Following the Public Pound guidance and Financial Regulations should be updated.</p> <p><a href="#">Paragraph 115</a></p>	<p>Agreed</p> <p><b>Responsible officer</b> Chief Financial Officer</p> <p><b>Agreed date</b> 31/10/18</p>
Follow up of prior year recommendations			
b/f	<p><b>1. Charitable trust assets</b></p> <p>Our audit work on the Council's seven charitable trusts noted issues with the identification and valuation of assets included in their accounts.</p> <p>There is a risk that the values of assets in the trusts' accounts are not accurate.</p>	<p>The Council should carry out a review of trusts assets to ensure that they are being accurately reported.</p>	<p>Assets have continued to be reviewed during the year and additional trust assets identified.</p> <p>See paragraph 20.</p> <p>Partly complete.</p>
b/f	<p><b>2. Group accounts</b></p> <p>The figures in the Council's group accounts are based on the unaudited accounts for the components included in the group.</p> <p>There is a risk that the figures are not accurate and that the audited accounts of the</p>	<p>The Council should request that audited accounts for the group entities are received earlier to allow audited figures be used for consolidation into the group accounts.</p>	<p>Management requested that audited accounts from group components were provided in time for consolidation into the group accounts.</p> <p>The 2017/18 group accounts were based on audited group entities accounts.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>entities could be significantly different from the unaudited figures used.</p>		Action complete.
b/f	<p><b>3. Savings</b></p> <p>The Council has a good track record of achieving its savings targets for the year. However a large element of the savings in 2016/17 was achieved on a non-recurring basis.</p> <p>There is a risk that savings targets in future will be even more challenging if savings are only achieved on a one-off basis.</p>	<p>The Council should try to ensure that savings are identified on a recurring basis so that pressures are not carried forward to future years.</p>	See point 4 above
b/f	<p><b>4. Financial planning</b></p> <p>Although the council has a five year financial strategy, in line with good practice, which is regularly reviewed and considered as part of annual budgeting, the strategy does not include longer term scenario planning in line with best practice.</p>	<p>We would recommend that a degree of longer term scenario planning is included within the budgeting process.</p>	<p>The budget for 2018/19 presented to the Council in February 2018 included scenario planning over a 10 year period.</p> <p>Action complete.</p>



# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>Although we have not identified any specific risks of management override relating to the council, ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>No significant transactions outside the normal course of council business were identified.</p>
<p><b>2 Risk of fraud over income</b></p> <p>Scottish Borders Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>Sample testing of income transactions confirmed that these were in the normal course of business.</p> <p>Our conclusion is that the council has arrangements in place to minimise the risk of fraud over income.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<p>Review of management's progress on analysing National Fraud Initiative matches.</p> <p>Review of internal audit work on systems of internal control.</p> <p>Assessing the overarching controls in grant schemes.</p> <p>Detailed testing of expenditure including housing benefit transactions.</p>	<p>Sample testing of expenditure transactions to confirm that these were in the normal course of business.</p> <p>Our conclusion is that the council has arrangements in place to minimise the risk of fraud over expenditure.</p>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of</p>	<p>Completion of 'review of the work of an expert' for the</p>	<p>Our work on the review of the professional valuer confirmed that</p>



Audit risk	Assurance procedure	Results and conclusions
<p>subjectivity in the measurement and valuation of the material account areas of non-current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>professional valuer. Focused substantive testing of key areas.</p>	<p>we could rely on the asset valuation information being provided. Our conclusion is that the estimates and judgements used are appropriate.</p>
<p><b>5 New financial system</b></p> <p>The council introduced a new financial system, Business World ERP, in April 2017. Some issues have been experienced with the operation of the system since its implementation, including difficulties with the production of financial monitoring information from the system and manual intervention required to process some transactions.</p> <p>There is a risk that financial information may not be robust, which could impinge on members' scrutiny role. There may also be an adverse impact on the council's system of internal controls and the preparation and audit of the financial statements.</p>	<p>Review of internal audit work on the systems of internal control. Testing of the operation and effectiveness of the controls in place over the system.</p>	<p>We tested the controls in place over the new financial system, including using the work of internal audit. Findings of this work were reported to the Audit and Scrutiny Committee in June 2018 in our interim Management Report.</p>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>6 ICT transformation</b></p> <p>The council outsourced its ICT services to an external partner, CGI, from October 2016 as part of a 13 year contract. As part of this arrangement CGI had appointed another supplier, Agilisys, to implement parts of its digital transformation programme including the Digital Customer Access Project. However Agilisys' proposed solution for the project did not meet the council's requirements and during 2017 the council requested that CGI terminate the contract with Agilisys.</p> <p>There is a risk that the digital transformation programme is not delivered effectively and that planned efficiencies from improved services are not realised.</p>	<p>Review the effectiveness of governance and risk management arrangements relating to the ICT contract. Comment in Annual Audit Report.</p>	<p>See comments in paragraphs 70 to 73.</p>
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Audit risk	Assurance procedure	Results and conclusions
<p><b>7 Risk registers</b></p> <p>The council maintains a corporate risk register, and members of the audit &amp; scrutiny committee receive regular presentations regarding risk management arrangements within services. However members do not receive regular updates on the risks that are included on the corporate risk register during the year.</p> <p>There is a risk that members are not aware of the significant risks identified at the council, or the actions being taken to mitigate these risks.</p>	<p>Monitor risk reporting to committee during the year.</p> <p>Comment in Annual Audit Report.</p>	<p>Reporting of risk arrangements to the audit &amp; scrutiny committee has started to include details of the key risks included in the risk registers at recent meetings.</p> <p>We will continue to monitor reporting during 2018/19.</p>
<p><b>8 Financial sustainability</b></p> <p>The council has a financial strategy covering the 5 year period 2018/19 – 2022/23. This strategy includes the requirement to identify £32m of savings over the period of the plan.</p> <p>There is a risk that the council will be unable to manage its budget pressures within available resources, leading to a reduction in the provision of services.</p>	<p>Review budget setting process and monitor updates provided to members.</p> <p>Comment in Annual Audit Report.</p>	<p>See point 4 above</p>

# Appendix 3

## Summary of uncorrected misstatements

**We report all uncorrected misstatements that are individually greater than our reporting threshold of £75,000.**

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 3](#). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet		Movement in Reserves Statement
		Dr £000	Cr £000	Dr £000	Cr £000	
1	Non current assets				(2,130)	
	Service expenditure	2,130				
2	Creditors				(136)	
	Expenditure	136				
<b>Net impact</b>		<b>2,266</b>			<b>(2,266)</b>	

Notes:











Entry 1 relates to non current assets in the balance sheet which have net book values by no remaining useful lives.

Entry 2 relates to payroll creditor balances which were not accurately identified in the ledger

# Appendix 4

## Summary of national performance reports 2017/18



		Apr		
		May		
Common Agricultural Policy Futures programme: further update		<b>Jun</b>		Scotland's colleges 2017
		Jul		NHS workforce planning
Self-directed support: 2017 progress report		<b>Aug</b>		
Equal pay in Scottish councils		<b>Sept</b>		
Transport Scotland's ferry services		<b>Oct</b>		NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		<b>Nov</b>		
		Dec		
		Jan		
Early learning and childcare		<b>Feb</b>		
Managing the implementation of the Scotland Acts		<b>Mar</b>		

### Local government relevant reports

[Principles for a digital future](#) – May 2017

[Self-directed support: 2017 progress report](#) – August 2017

[Equal pay in Scottish councils](#) – September 2017

[Local government in Scotland: Financial overview 2016/17](#) – November 2017

# Scottish Borders Council

## 2017/18 Annual Audit Report

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