



# Scottish Borders Cares LLP and Scottish Borders Supports LLP

Audit highlights memorandum  
For the year ending 31 March 2018  
31 August 2018

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**Important notice - about this report**

We have prepared this report in accordance with our audit engagement letter with Scottish Borders Cares LLP and Scottish Borders Supports LLP (together "SB Cares"), dated 23 March 2016.

**Purpose of this report**

This report is made to the management of SB Cares in order to communicate matters of interest as required by ISAs (UK and Ireland), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this report, or for the opinions we have formed in respect of this report.

**Restrictions on distribution**

This report is subject to disclosure restrictions as set out in our Engagement Letter.

**Limitations on work performed**

This report is separate from our audit report and does not provide an additional opinion on the LLPs' financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors reporting to the LLPs' members in accordance with the Companies Act.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

We have also aimed to use our knowledge of the business gained during our audit work to make useful comments for management to consider. However, our audit work is designed to enable us to form our opinion on the financial statements, viewed as a whole. As a result, the points raised should not be relied upon to disclose all internal control matters that may exist across the LLPs, nor to disclose errors that are not material in relation to the financial statements.

In accordance with ISA (UK and Ireland) 260: *Communication with those charged with governance*, this report summarises our work in relation to the audit of the financial statements of Scottish Borders Cares LLP and Scottish Borders Supports LLP (together “SB Cares”) for the year ended 31 March 2018.

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff during the course of our work.

Area	Summary observations	Analysis
<b>Accounting and audit matters</b>		
<b>Significant risks</b>	<p>We have considered the inherent significant risks that International Standards of Auditing (“ISAs”) require us to raise with you:</p> <ul style="list-style-type: none"> <li>— revenue recognition: and</li> <li>— management override of controls.</li> </ul> <p>Through the course of audit work, we also concluded management judgements made in respect of accounting for pensions to be a significant risk. Our findings in respect of this are presented on page 6.</p>	Page 6
<b>Other focus areas</b>	<p>We reviewed the accounting treatment around capitalisation of tangible fixed assets.</p> <p>For these matters, we are content with management's judgements and the accounting treatment adopted.</p>	Page 7
<b>Accounting policies</b>	<p>There are no accounting policy changes in year.</p> <p>We held discussions with management regarding the impact of future changes associated with the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases. We do not identify any significant impact expected to result from these changes.</p>	-

# Headlines (Continued)

We anticipate issuing unqualified audit opinions on the 2017-18 financial statements of the LLPs following their approval by the Members.

Area	Summary observations	Analysis
<b>Audit conclusions</b>		
<b>Audit report</b>	We anticipate issuing unqualified audit opinions on the 2017-18 financial statements of the LLPs following their approval by the Members.	Page 10
<b>Year-end process</b>	The financial statements and supporting documentation were received by the agreed dates. The documentation provided was of a good quality.	Page 10
<b>Governance and financial control</b>		
<b>Internal control</b>	Our testing of the design and operation of controls over financial processes and procedures confirms that controls relating to those financial systems and procedures that we have sought to rely on are designed appropriately and operating effectively. We have raised a recommendation in one area as detailed in Appendix 2.	Page 12 and Appendix 2
<b>Mandatory communications</b>		
<b>Matters to report</b>	We have no significant matters to report in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content.	Page 14
<b>Independence</b>	We have not identified any independence issues	Appendix 1



# Accounting and Audit Matters

Our perspective on the key accounting judgements made by management

# Accounting policies and significant risks

International Standards on Auditing require us to make a rebuttable presumption that both the fraud risk from revenue recognition and management override of controls are significant risks.

We rebutted the revenue recognition fraud risk as noted in our audit strategy document as there is no management judgement involved in when to recognise income.

We have satisfactorily carried out audit work to address the risk of management override of controls.

### Accounting framework and policies

Financial statements were prepared for Scottish Borders Cares LLP and Scottish Borders Supports LLP in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

We are satisfied that the accounting policies adopted under FRS 101 are appropriate for the business and have been applied consistently.

We held discussions with management regarding the impact of future changes associated with the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases. We do not identify any significant impact expected to result from these changes.

### Significant risks

#### Revenue recognition – fraud risk

As set out in our audit strategy document, we did not consider fraudulent revenue recognition to be a significant risk for SB Cares as there is limited judgement in the assessment as to when to recognise income within the significant income streams.

We performed testing of key controls, vouched the management fee income to confirmations from Scottish Borders Council, performed an analytical review of income and carried out sales cut off testing to verify income has been recognised in the correct period.

We are comfortable that revenue has been recognised correctly.

#### Management override of controls

To address this risk, we performed substantive testing of journal entries during the year and at the year end, undertook a review of unusual transactions in the year, made enquiries with employees outside the finance department, incorporated audit tests of an unpredictable nature, undertook testing of controls, including 'higher level' controls and reviewed management's accounting estimates for bias.

Our work did not identify any matters that required adjustment in the financial statements or which require to be brought to your attention.

# Accounting policies and significant risks (continued)

SB Cares reported a net pension liability.

We consider this a significant audit risk due to the size of the balance and the inherent estimation uncertainty.

We increased this audit issue from an audit focus area to a significant risk. This reflects a reassessment of the risk of misstatement resulting from external factors, including changes to valuations at other local authority pension schemes.

From our audit work performed, we are satisfied with the pension valuation and its presentation within the accounts.

## Significant risks (continued)

### Retirement benefits

SB Cares accounts for its participation in the Scottish Borders Council Pension Fund ("the Pension Fund") in accordance with the provisions of FRS 101 and therefore recognises the actuarial valuation of the pension liabilities in respect of its share of the Pension Fund. The Funds are valued by actuaries, the rates of contributions being determined by the trustees on the advice of the actuaries. The LLP'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.

While SB Cares have an underlying guarantee from Scottish Borders Council for the present and future pension obligations and liabilities incurred from 1 April 2015, the LLPs must report the liabilities in the annual financial statements as required by FRS 101. Due to the materiality of the pension liability and the effect of estimates on the calculation of this balance, we will assure ourselves that the assumptions that underpin the liabilities stated in the annual statements are appropriate. We consider this to be a significant audit risk due to the size of the balances and the inherent estimation uncertainty.

To address this risk, we assessed the appropriateness of the assumptions used in the Actuary valuation, performed substantive procedures over the data inputs of the scheme, made enquiries with the Administering Body of the Scheme, performed a review of the Pension Scheme annual statements against the Triennial valuation as at 31 March 2017 and performed substantive procedures over the inclusion of pension adjustments and disclosures included within the Actuary valuation, to the underlying account records.

We reviewed the guarantee provided by Scottish Borders Council to SB Cares and are satisfied that this mitigates an operational risk to SB Cares in respect of their ability to fund the pension liability in the future.

Our work did not identify any matters that required adjustment in the financial statements or which require to be brought to your attention.

Our actuarial specialists reviewed the actuarial assumptions used by the LLP's actuary in the pension scheme valuation and found them to be in line with our expected ranges. Details of key actuarial assumptions are provided in Appendix 3.

The closing pension liability moved from £3.6 million as at 31 March 2017 to £4.3 million as at 31 March 2018. This was primarily due to changes arising in light of the Triennial valuation of the scheme being completed to 31 March 2017.

No employee benefits liability was transferred to SB Cares on incorporation. It was agreed that because the liability was accrued whilst these employees were employed by Scottish Borders Council, the liability which existed at the date of transfer would stay with the Council. Responsibility for any prospective employee benefits liability was transferred to SB Cares from 1 April 2015.

# Other focus areas

SB Supports LLP has tangible fixed assets of £0.8m at 31 March 2018.

We performed testing over fixed asset movements in the year and are satisfied that these are recorded and disclosed appropriately.

### Fixed assets

SB Supports LLP had £678,000 of tangible fixed assets on its balance sheet as at 31 March 2017. Additions in the year of £270,000 included £222,000 of Rehabilitation equipment. Depreciation of £99,000 was charged in the year, with no disposals. The resulting net book value of assets at 31 March 2018 is £848,000.

We performed testing using sampling techniques in order to provide coverage across the tangible fixed assets additions population in 2017 and 2018. We vouched additions to source documentation and for assets “in the field” we also considered how SB Cares had comfort that the asset had not been impaired.

We reviewed the accounting for and disclosures surrounding tangible fixed assets and confirmed that these are in line with relevant accounting standards.





# Audit Conclusions

Our conclusions following our audit procedures

# Audit conclusions

We anticipate issuing an unqualified audit opinion on the financial statements of the LLPs for the year ended 31 March 2018.

The LLPs have appropriate arrangements in place for the compilation of the financial statements and associated working papers, and to deal with the associated external audit process.

The draft Members' Reports were provided on a timely basis.

### Audit conclusions

Our audit work is substantially complete pending receipt of management's representations, receipt of an external bank confirmation, and update of subsequent events. 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 2018.

There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed a mixture of substantive and controls testing to ensure an efficient approach that covers the identified risks;
- reviewed internal audit reports to ensure all key risk areas which may be viewed to have an impact on the financial statements have been considered;
- reviewed assumptions and judgements made by management and considered these for appropriateness;
- considered if the financial statements may be affected by fraud through discussions with management to gain a better understanding of their work in relation to prevention and detection of fraud with the potential to impact on the financial statements; and
- engaged in ongoing discussions with management during the year, to communicate our audit plan and audit findings to those charged with governance, to update our understanding of the key governance processes and obtain key stakeholder insights.

### Financial statements preparation

- Draft financial statements, along with appropriate supporting documentation, were provided at the start of the audit.
- The standard of documentation in support of the draft financial statements was good and there was evidence of accountability and ownership of working papers. Management responded to audit enquiries and provided supporting documentation as necessary.
- Some additional reclassifications in presentation and text identified by us were made to improve the overall disclosures within the financial statements. These related to wording within the Members' Report and other minor disclosures.
- The financial statements include minor restatements to prior year figures within the notes to the accounts in relation to; Fixed assets of SB Supports LLP and the number of FTE within SB Cares LLP. We have reviewed these disclosures and conclude that these restatements are appropriate.



# Governance and Financial Control

Our overall perspective on your narrative reporting

Update on controls findings from our audit

# Internal control arrangements

Corporate governance arrangements are generally appropriate for organisational decision making, although a number of improvements to be made were identified in the Internal Audit annual report for 2017-18.

<b>Governance arrangements</b>	<p>The LLPs have two designated members, the Council and SBC Nominees Limited. The SB Cares Board oversees the governance of the organisations and the two designated members are represented on the Board. The Board receives regular financial and non-financial performance updates from management to ensure that there is ongoing scrutiny of performance. A Board Code of Conduct is in place, supported by a register of interests.</p> <p>There are appropriate governance arrangements in place, including regular meetings of the Board and of the Council Audit and Risk Committee and Strategic Governance Group.</p>
<b>Internal controls</b>	<p>Our audit approach does not rely on IT controls therefore we do not perform testing over the control environment of IT system applications, which are managed by Scottish Borders Council. We performed testing of payroll authorisation as this is completed manually. We do not raise any control recommendations from our work in this area.</p> <p>From our testing over financial reporting, it was noted that as in prior year there is no formal journal authorisation control. We reiterate our prior year recommendation over this point in Appendix 2. For the purpose of the audit, we perform risk-based substantive testing over journals.</p>
<b>Members' Report</b>	<p>The financial statements form part of the Members' reports for the year ended 31 March 2018. We are required to consider other information, which consists of only the Members' report, published along with the financial statements. We have reviewed the Members' report for each of the LLPs and are satisfied that these are in line with our understanding of the arrangements and practices operated by the organisation.</p>
<b>Going concern</b>	<p>We concur with management's assessment of SB Cares as a going concern. We considered the agreement with Scottish Borders Council which provides for the funding to continue except in the event of liquidation of the LLP. Together with our understanding of the entities' future plans, we are satisfied that the going concern basis of preparation is appropriate.</p>



# Other Matters

# Mandatory Communications

We suggested changes to some wording within the Members' Report. There are no unadjusted audit differences.

Area	Key Content	Reference
Adjusted audit differences – Adjustments made as a result of our audit	Our audit work has not identified any adjusting audit differences.	-
Unadjusted audit differences – Audit differences identified that we do not consider material to our audit opinion	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you.  There are no unadjusted audit differences.	-
Confirmation of Independence Letter issued by KPMG	We have considered and confirmed our independence as auditor and our quality procedures, together with the objectivity of our audit partner and audit staff.	Appendix 1
Draft management representation letter	There are no changes to the standard representations required for our audit.	-



# Appendices

# Auditor Independence

### **Assessment of our objectivity and independence as auditor of SB Cares LLP and SB Supports LLP (“together the LLPs”)**

Professional ethical standards require us to provide to you at the planning stage 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 Audit 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 £22,000 fees charged by us to the LLPs for professional services provided by us during the reporting period.

There are no non audit fees chargeable to the LLPs.

### **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 Board.

### **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 Board and the LLPs 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*



## Appendix two

# Action plan

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

### 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 and risk	Recommendation	Agreed management actions
<b>1 Journals authorisation</b>		<b>Grade three</b>
<p>There is no formal segregation of duties within the journals authorisation process, therefore the same individuals can both post and approve journals on the TechOne general ledger system. There is a risk that individuals may post incorrect or inappropriate journals, with errors not detected on a timely basis.</p> <p>It is noted that there are mitigating controls in place to reduce this risk including the preparation of monthly balance sheet reconciliations and a detailed review of the monthly management accounts which are designed to detect irregularities.</p>	<p>It is recommended that a review control incorporating segregation of duties into the process is implemented.</p>	<p>SB Cares will investigate with Tech One the opportunity to introduce formal segregation of duty between input and release of journals. Should this not be possible within the software alternative procedures will be developed to formalise the checking and signing off of journals.</p> <p><b>Responsible officer:</b> Lynn Mirley, Finance &amp; Information Manager</p> <p><b>Implementation date:</b> 31 January 2019</p>

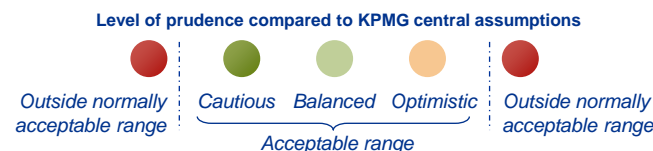
## Appendix three

# Defined benefit pension scheme

In respect of employee benefits, each of the assumptions used to value SB Cares net pension liability are within an acceptable range of KPMG's expectations. We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of FRS 101. We set out below the assumptions in respect of the defined benefit scheme.

<b>Employer: SB Cares</b> <b>Fund: Scottish Borders Council Pension Fund</b> <b>Fund Actuary: Barnett Waddingham</b>	<b>OVERALL ASSESSMENT OF ASSUMPTIONS FOR FRS 101</b>  The overall set of assumptions proposed by the Employer can be considered to be balanced relative to our central rates for a typical UK scheme with a duration of 28 years and within our normally acceptable range.			 <i>balanced</i>
Assumption	SB Cares	KPMG central	Commentary	Assessment vs. KPMG central
Discount rate	2.60%	2.51%	The proposed assumption is considered to be optimistic but within our normally acceptable range.	
Pension Increase Rate	2.30%	2.12%	The proposed assumption is considered to be cautious but within our normally acceptable range.	
Salary increases	CPI plus 1.0%	CPI plus 0% to 2.0%	We would typically expect salary increases to fall in the range of CPI plus 0% to 2%. Salary increase assumptions have been derived consistently with the approach taken at the most recent LGPS valuation. We would consider this approach to be reasonable on the basis of management being satisfied with the appropriateness of the short term salary increase assumption and that the long term assumption used is reflective of management's expectations of future salary growth for the organisation.	
Life expectancy at retirement  Males currently aged 45 / 65  Females currently aged 45 / 65	23.3 / 21.6	23.5 / 22.1	The life expectancies are consistent with those used in the most recent LGPS valuation and are considered acceptable.	
	26.0 / 24.2	25.4 / 23.9		

Due to the degree of estimation included we recognise there is a range of generally acceptable values for each assumption.





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