

Scottish Borders Council

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Scottish Borders Council and the Controller of Audit
September 2019

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

2018/19 annual accounts

- 1 Scottish Borders Council and its group financial statements give a true and fair view and were properly prepared.
- 2 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 relevant regulations and guidance.
- 3 The statement of accounts of the six section 106 charities administered by the council are free from material misstatement.

Financial management

- 4 The Council has a good track record of delivering services within its budget. Financial management is appropriate and effective with a budget process focussed on the council's priorities.
- 5 We concluded that adequate internal controls were in place for the key financial systems we reviewed.

Financial sustainability

- 6 The council and its group financial position is sustainable in the foreseeable future 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.
- 7 The council has a good track record of delivering savings in recent years. The size of the future funding gap and a reliance on non-recurring savings means it may struggle to make the required savings in future years.

Governance and transparency

- 8 There are appropriate governance arrangements in place that support the scrutiny of decisions made by the council.
- 9 The council demonstrates a commitment to transparency in the way it conducts its business, although it considers business in private where there is a need to consider commercially sensitive information.

Value for money

- 10 A best value audit was carried out during the year and will be formally reported to the Accounts Commission in October 2019 and published by the end of October 2019.

Introduction

1. This report summarises the findings arising from the 2018/19 audit of Scottish Borders Council and its group (the council).
2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 11 March 2019 meeting of the Audit and Scrutiny Committee. This report comprises the findings from our:
 - audit of the annual report and 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](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2018/19 have been our:
 - audit of the council and its group 2018/19 annual report and 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
 - review of the council's key financial systems
 - audit work covering the council's arrangements for securing Best Value to be reported to the Accounts Commission in October 2019 and published by the end of October 2019
 - consideration of the four audit dimensions.

Added value through the audit

4. We add value to the council through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
 - reporting our findings and conclusions in public
 - sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
5. In so doing, we aim to help Scottish Borders Council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. 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.
7. 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.
8. 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.
9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:
 - the effectiveness of the council's performance management arrangements,
 - the suitability and effectiveness of corporate governance arrangements, and financial position
 - the arrangements for securing financial sustainability and,
 - best value arrangements.
10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
11. 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 our 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.
12. 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 the steps being taken to implement them.

- 13.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £275,170 (including £6,000 for the audit of charities) as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 14.** 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 in due course.
- 15.** We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

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 relevant regulations and guidance.

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

- 16.** The annual accounts for the council and its group for the year ended 31 March 2019 were approved by the Council on 26 September 2019. We reported within the independent auditor's report that the:
- 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 relevant regulations and guidance.
- 17.** 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

- 18.** 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 are sole trustees, irrespective of the size of the charity.
- 19.** The council has six section 106 charities which have been separately audited. The council has continued to work on reorganising the trusts administered by the council, with a number of restricted funds transferring to the Scottish Borders Council Welfare Trust and Scottish Borders Council Community Enhancement Trust from the Scottish Borders Council Charitable Trusts at the start of the year. An update report on progress with the reorganisation is expected to be taken to the council in 2019/20.
- 20.** We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in the independent auditor's reports that:

- the financial statements give true and fair views the section 106 charities' financial positions 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.

Submission of the council and its group annual accounts for audit

- 21.** We received the unaudited annual accounts on 28 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan.
- 22.** The working papers provided with the unaudited accounts were of a good standard and finance staff provided 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.** In accordance with the WGA guidance, the council submitted a consolidation pack for the whole of government accounts audit on 18 July 2019 in line with the deadline. We completed the required assurance statement and submitted to the National Audit Office (NAO) by the 28 September 2019 deadline.

Risk of material misstatement

- 24.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.
- 25.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

- 26.** 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.
- 27.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and was based on the 2018/19 budget. Specifically, regarding the annual accounts we assess the materiality of uncorrected misstatements, both individually and collectively.
- 28.** On receipt of the 2018/19 unaudited annual accounts we reviewed our materiality bases and concluded that they remained appropriate ([Exhibit 2](#)).

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019.	£3.64 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our	£1.82 million

Materiality level	Amount
professional judgement, we have calculated performance materiality at 50% of planning materiality.	
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£75,000

Source: Audit Scotland's Annual Audit Plan 2018/19

Significant findings from the audit in accordance with ISA 260

- 29.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.
- 30.** The significant findings 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.

Qualitative aspects of the audit

- 31.** We have no significant findings to report around the qualitative aspects of the 2018/19 accounting practices.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. IAS 19 actuarial valuation</p> <p>The actuarial valuation of the IAS 19 pension liability in the unaudited accounts was revised to take account of the McCloud Supreme Court ruling.</p>	<p>The council obtained a revised actuarial valuation which took into account the Supreme Court's ruling and adjusted the financial statements to reflect the revised pension liability. The impact of the adjustment was to increase the employer's liability by £5.9 million. This has no impact on the general fund.</p>
<p>2. Guaranteed minimum pension</p> <p>Contracting out of the state earnings related pension scheme (SERPS) became possible in April 1978. This provided for reduced employer and employee National Insurance contributions in return for members receiving a guaranteed minimum pension (GMP) from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they built up at different rates, reflecting the earlier payment age for women.</p> <p>In October 2018 the High Court (England) ruled that pension schemes must eliminate the discriminatory effects of GMPs.</p> <p>No reference to this had been made in the unaudited accounts.</p>	<p>Due to ongoing legal appeals and clarification of what has to be included it is not possible to quantify the impact this will have on Scottish Borders Council at this time. Management included this as a contingent liability for the audited accounts.</p>

Issue	Resolution
<p>3. Payroll creditors</p> <p>The total creditors figure within the balance sheet contained several debit balances relating to payroll. These included balances of £4.8 million in a control account and a £3.8 million in another control account. These balances had not been reconciled to payroll details and it was therefore not clear what these balances related to and what the correct year end creditor balance for the payroll amounts should be. We raised a similar issue in the prior year annual audit report.</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 reconcile the balances at the year end. This has no impact on the general fund.</p> <p>Appendix 1, Action plan point 1</p>
<p>4. Lowood estate purchase</p> <p>During the year the council purchased Lowood estate for £10.2 million as part of its Tweedbank masterplan. This was not referred to in the unaudited accounts. The management commentary in the accounts is intended to provide information on the council's business during the year, including information about amounts in the financial statements, and should have included reference to the purchase.</p>	<p>Management agreed to include comments regarding the purchase of the estate within the management commentary in the audited accounts.</p>

Source: Audit Scotland

How we evaluate misstatements

32. There were no material adjustments to the unaudited financial statements arising from our audit. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.
33. It is our responsibility to request that all misstatements above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.
34. There was one unadjusted misstatement in the financial statements. Interest payable on external debt of £9.7 million and interest receivable on external debt of £0.3 million have been netted off and included in the Comprehensive Income and Expenditure Statement as £9.4 million within interest payable. These amounts should be split out and the interest payable and interest receivable lines are therefore understated by £0.3 million. Management have agreed to amend this treatment in future years.

Follow up of prior year recommendations

35. The council has made good progress in implementing our prior year audit recommendations, including strengthening the control environment. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Integration Joint Board

36. For the third year the council included its share of the financial transactions of Scottish Borders Integration Joint Board (the IJB) within its group financial statements. We have completed the audit of the IJB and reported our findings separately to the Scottish Borders IJB Audit Committee on 12 August 2019. Assurances were obtained from the auditors of NHS Borders and Scottish Borders council to check the accuracy and completeness of IJB figures

included in the IJB accounts. Further commentary on the IJB is provided in [Part 4](#) of this report.

Other findings

37. Our audit identified several presentational and disclosure issues, including finance lease values, contingent rent values and capital commitments, along with other minor issues. These were all discussed with management and adjusted and reflected in the audited annual accounts.

Objections

38. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations.
39. There were four objections to the accounts. These related to the council's purchase of Lowood estate during the year and its measurement and disclosure in the accounts. As part of our audit work we confirmed that the estate had been correctly accounted for as an addition in the year and concluded that the accounts were not materially misstated. At the year end the asset is valued in accordance with the accounting policies of the council, which is in compliance with the Code of Practice on Local Authority Accounting in the UK 2018/19. As no further contractual commitments have been taken out in connection with the development of this site, there is no requirement for Note 12 to disclose future capital plans in connection with this site. Issues with disclosure of the purchase were corrected for the audited accounts, as described at [Exhibit 3](#) above.

Part 2

Financial management



Main judgements

The Council has a good track record of delivering services within its budget. Financial management is appropriate and effective with a budget process focussed on the council's priorities.

On the basis of audit work undertaken, we concluded that adequate internal controls were in place for the key financial systems we reviewed.

Financial performance in 2018/19

40. The council approved its 2018/19 budget in February 2018. The budget was set at £272.7 million with required savings of £11.4 million. When developing the budget, the council used a corporate budget pack that aligned financial, business and people planning with the delivery of Corporate priorities.
41. The council has a good track record in delivering services within budget over the last few years. The actual outturn for the year was expenditure of £257.5 million, which was an underspend of £1.6 million against the revised budget of £259.0 million for the year.
42. While the council's spending has remained in line with its overall budget, there are significant variations in how different services have performed. The more significant 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

Summary of significant under / overspends against budget

Area	Under/over spend (£m)	Reason for variance
Underspends		
Asset and infrastructure	£0.3	Reduction in spend due to milder winter
Customer and communities	£0.2	Increased fee income
Overspends		
Loans charges	£0.2	Higher than anticipated borrowing costs in Loans Charges

Reserves

43. 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 slightly decreased from £28.8 million in 2017/18 to £28.0 million in 2018/19 as illustrated in [Exhibit 5](#).
44. The general fund is the largest reserve and is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.
45. 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 2019/20 the Corporate Financial Risk Register was considered by the council in February 2019. At this time the financial risk was assessed as being £11.6 million. The unallocated general fund balance of £6.3 million is sufficient to cover 54% of these risks at that time. This is a slight deterioration on the prior year position which covered 57% of the assessed risks at that time.
46. 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.
47. [Exhibit 5](#) provides an analysis of the general fund over the last five years split between committed and uncommitted reserves. This shows that the council has been able to maintain its general fund at a relatively stable level over the period which suggests that budget processes are effective.

Exhibit 5 Analysis of general fund over last five years



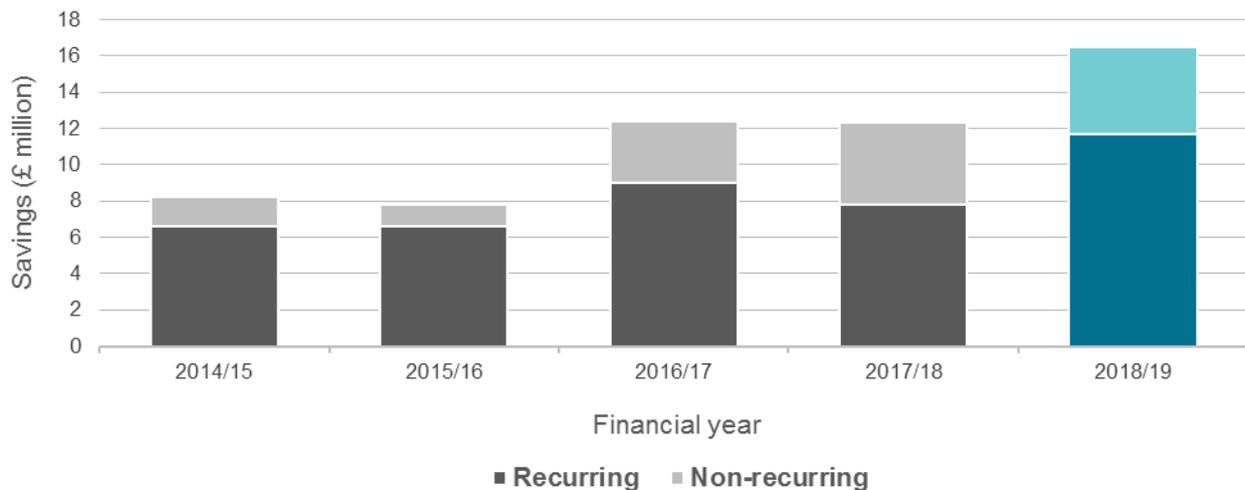
Source: Scottish Borders Council annual accounts

Savings

48. 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.

49. The council has responded well to the challenges it has faced and has a good track record of delivering savings each year. Savings of £16.4 million were reported as delivered during 2018/19. This was the highest level of savings that the council has achieved in a year and is significantly higher than the level achieved in the prior year (£12.3 million). As illustrated in [Exhibit 6](#), the council has continued to achieve a proportion of in-year savings on a non-recurring (temporary) basis, with £4.8 million (29%) achieved on a non-recurring basis in 2018/19, which is a decrease in percentage terms compared to the prior year.

Exhibit 6 Savings – recurring and non-recurring



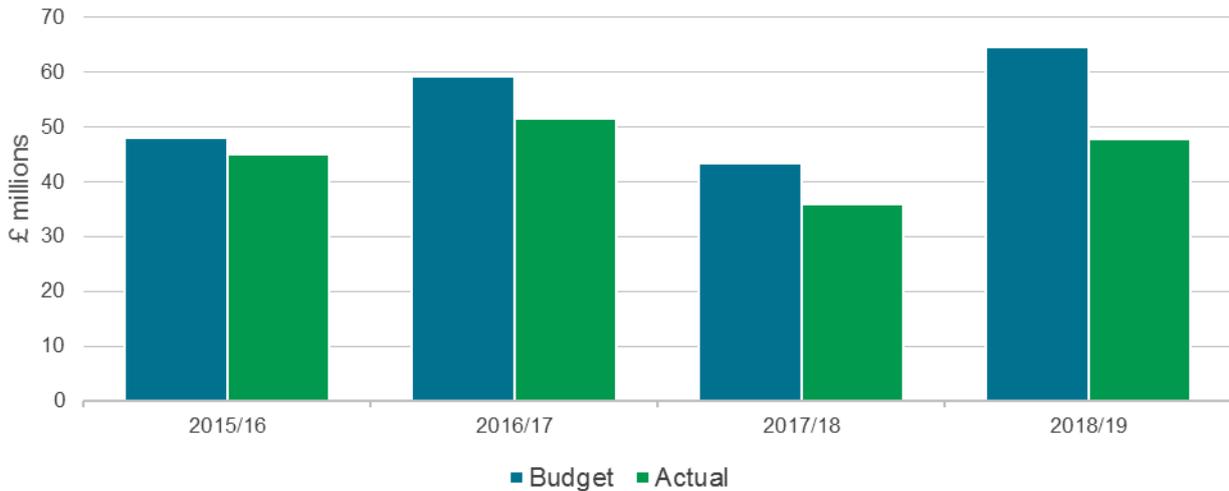
Source: Scottish Borders Council annual accounts

Capital programme 2018/19

50. The Council agrees a 10 year capital plan each year as part of its budget process. Total capital expenditure in 2018/19 was £47.8 million, with the main areas of expenditure being: the purchase of Lowood Estate as part of the council's Tweedbank masterplan; Hawick Flood Protection Scheme; Jedburgh Learning Campus; and expenditure on roads and bridges. The total capital spend was £16.7 million below the revised budget for the year of £64.5 million, mostly due to movements between years as a result of timing. The council has a history of slippage in its capital programme as outlined in [Exhibit 7](#).

Exhibit 7

Capital slippage compared to budget



Source: Scottish Borders Council capital outturn reports

51. The most significant areas of slippage related to: Early Learning & Childcare (£3.5 million moved to 2019/20 to reflect revised programme of work); School estate block (£3.0 million moved to 2019/20 due to timing of work); and ICT transformation (£1.3 million moved to 2019/20 to reflect revised financial model).
52. The council has prepared a Capital Investment Strategy for 2019/20 which highlights its capital investment priorities and explains how these priorities will assist with the delivery of the council's Corporate Plan 2018 -2023. The strategy is structured to reflect the themes of the Corporate Plan.

Borrowing in 2018/19

53. The council's outstanding loans at 31st March 2019 were £199.1 million, a decrease of £3.6 million on the previous year. £13.0 million of loan repayments were made and there were £10.0 million of new loans taken out during the year.
54. Total external debt, which includes the council's long-term liabilities, was within the authorised limit and operational boundary set by the treasury management strategy. The current borrowing position complies with the Prudential Code, and the council will continue to consider the affordability of future borrowing.

Budgetary process

55. The [Local Government in Scotland: Financial overview 2017/18](#) (November 2018) 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.
56. We noted that the council, when developing its annual budget, uses a corporate budget pack that aligns financial, business and people planning with the delivery of Corporate priorities. The budget also includes high level scenario plans which set out favourable and least favourable scenarios.
57. 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 an overall picture of the budget

position at service level. The report's forecast out-turn position for the year and include good narrative explanations for significant variances against budget. They allow both members and officers to carry out effective scrutiny of the council's finances.

Systems of internal control

- 58.** 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.
- 59.** Our findings were included in our management report that was presented to the Audit and Scrutiny Committee on 25 June 2019. This report set out that some control weaknesses had been identified. We did note that many issues reported last year with the new financial system, Business World, had been addressed and that controls had improved from the previous year. Overall we concluded that the council had adequate systems in place and 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.

Internal audit

- 60.** 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. Our assessment confirmed that the Council's Internal Audit perform in accordance with Public Sector Internal Audit Standards (PSIAS). We have used the work of internal audit in the following areas for our 2018/19 financial statements audit: Business World, Revenues (Council Tax and Non Domestic Rates). We also considered Internal Audit's work as part of our wider dimensions audit responsibilities.

Standards of conduct for prevention and detection of fraud and error

- 61.** The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-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.
- 62.** 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.

National Fraud Initiative

- 63.** 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.
- 64.** NFI activity at the council is summarised in [Exhibit 8](#). We undertook a review of the council's NFI arrangements in April 2019 and concluded that overall they were satisfactory, although we did note that work on investigating NFI matches is not carried out promptly once they are available.

Exhibit 8 NFI activity



1,448

Matches

247

High risk matches

306

**Completed/closed
investigations**

Source: NFI secure website: www.nfi.gov.uk at 2 September 2019

65. The outcome of the Council's work on fraud prevention, detection and investigation is reported annually to the Audit & Scrutiny Committee, including updates on NFI work. The Counter Fraud Annual Report from May 2019 noted that 15 fraud investigations had been carried out during the year, none of which identified any serious fraud or resulted in a prosecution.

Key suppliers

- 66.** The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.
- 67.** The council has adequate arrangements in place to monitor services being provided by key suppliers. A Major Contracts Governance Group (MCGG) is in place which meets six times a year. This group's responsibilities include monitoring the activities and performance of SB Cares (arm's length external organisation (ALEO) providing adult social care, see paragraph 114) and SB Contracts (the council's trading organisation), as well as overseeing significant contracts at the council, such as the contract with CGI for ICT. The MCGG receives updates on performance and projects being carried out at the bodies being monitored which allows members to scrutinise activities being carried out on behalf of the council.

Part 3

Financial sustainability



Main judgements

The council and its group financial position is sustainable in the foreseeable future 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 the current levels.

The Council has a good track record of delivering savings in recent years. The size of the future funding gap and a reliance on non-recurring savings means it may struggle to make the required savings in future years.

Financial planning

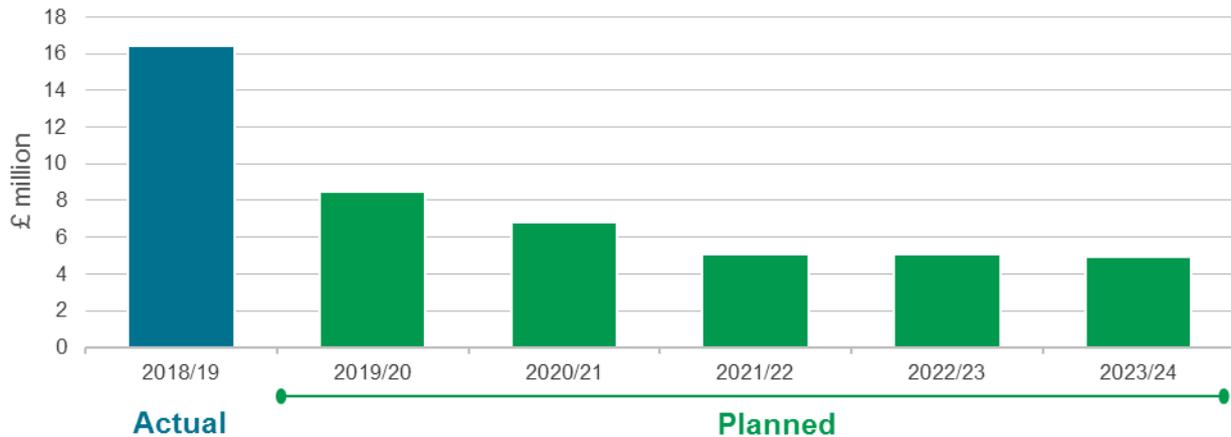
68. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the council's strategies and which reflect the impact of future pressures on the council. The council has a financial strategy covering five years, which is in line with good practice, and which is reviewed as part of the annual budget setting process.
69. 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. Since 2018/19 the council's budget proposals have included high-level scenario planning for a 10-year period. The 2019/20 budget scenarios included a 'favourable' scenario where the gap between expenditure and funding is £41.8 million by 2028/29, and a 'least favourable' scenario where the gap is £76.2 million.

Funding position and savings plans

70. The council approved its 2019/20 budget in February 2019. The budget was set at £283.8 million. The council is facing several challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in local government funding.
71. As outlined in paragraph 49, the council achieved its efficiency savings target in 2018/19. The council has identified that it needs to make savings of £8.5 million in 2019/20. Looking at the council's budget information for 2020/21 to 2023/24, it is forecasting a funding gap of £21.9 million over the period.

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

Exhibit 9 Savings 2018/19 – 2023/24



Source: Scottish Borders Council Financial Plan 2019/20 to 2023/24

Changing landscape for public financial management and medium to long term financial planning

- 72.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.
- 73.** A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning. As mentioned above, the council has a five-year financial strategy linked to its capital plans and is addressing the challenges.

EU Withdrawal

- 74.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal (i.e. Brexit) will inevitably have implications for devolved government in Scotland and for audited bodies. 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 potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
 - Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
 - Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.
- 75.** In January 2017 the Council's Executive Committee agreed to the formation of a Brexit Response Team (BRT) to monitor and respond to changes at the Council because of Brexit. The BRT consists of representatives from various service areas, including Procurement, Legal and Human Resources. An update

on the work of the BRT was presented to the Executive Committee in January 2019 and to the Council in March 2019.

- 76.** The BRT has continued to meet regularly during the year to discuss the council's preparations for Brexit. Sub-groups of officers have considered the issues in more detail and workshops have been held to discuss the issues with council officers as well as representatives from other organisations. Updates on the work being done by the council have been provided to staff through the council's newsletter. A risk register for monitoring risks relating to Brexit has also been maintained by the BRT.
- 77.** In our view, the council has taken reasonable action to prepare for the impact of the UK's withdrawal from the EU. As part of our 2019/20 audit, we will continue to monitor the council's preparations for, and response to, EU withdrawal.

City Region Deal

- 78.** The council is part of the Edinburgh and South East Scotland City Region Deal. This is a partnership between six councils (Scottish Borders plus the City of Edinburgh, East Lothian, Fife, Midlothian and West Lothian) together with universities and colleges, the Scottish and UK Governments and the third and private sectors. The UK and Scottish governments will jointly invest £600 million over the next 15 years, with regional partners committed to contributing over £70 million. An outline agreement between the partners was agreed in July 2017 and the deal was formally agreed by partners in August 2018.
- 79.** A joint committee, which includes leaders from all the councils, oversees the implementation and monitoring of the deal, supported by a programme management office and several advisory boards. The joint committee meets quarterly and reports to the Scottish and UK governments via a joint delivery board. Deal partners plan to review governance arrangements every six months.
- 80.** As part of the deal, the council approved a business case for the Central Borders Innovation Park in Tweedbank, in January 2019. This evolved from the council's masterplan for Tweedbank, to maximise the economic impact of the Borders Railway. It will be funded by £15.0 million from the deal over a 15-year period and £14.1 million from other sources including £5.0 million from the council.

The Borderlands Inclusive Growth Deal

- 81.** In September 2018, a bid was submitted to the UK and Scottish Governments by five councils that straddle the border between Scotland and England: Scottish Borders, Dumfries and Galloway, Carlisle City, Cumbria County and Northumberland County. The Scottish Government announced, in March 2019, a commitment of £85 million towards the deal over a decade. The UK government then unveiled a £260 million contribution the same month. The deal partners, including the councils and the UK and Scottish governments, anticipate their overall investment of £395 million could generate 5,500 new jobs.
- 82.** Funding has been confirmed for some projects, subject to full business cases, including up to £19 million from the UK government for a mountain biking innovation centre in the Scottish Borders. In addition, up to £5 million will be made available by each government to progress the evidence base, the options appraisal and the feasibility work for extending the Borders Railway from Tweedbank to Carlisle. The outline agreement was published in June 2019.

The South of Scotland Enterprise Agency

83. As part of its Enterprise and Skills Review, the Scottish Government committed to create the South of Scotland Enterprise Agency covering the Scottish Borders plus Dumfries and Galloway. In 2017 the Scottish Government set up the South of Scotland Economic Partnership (SoSEP) as an interim solution to ensure that the south of Scotland benefits from economic development as soon as possible. The SoSEP involves representatives from business, the third sector, further and higher education, and key public sector partners. One of the council's Executive Directors has been seconded to the Scottish Government since 2017 for 60 per cent of his time in order to assist with the setting up of SoSEP. The Scottish Government agreed the creation of the Agency in June 2019 and the aim is for the agency to be operational by April 2020.

Business transformation

- 84.** Audit Scotland's [*Local government in Scotland – challenges and performance 2019*](#) (April 2019) highlighted that local authorities have not made enough progress in developing alternative forms of service delivery to meet the challenges of tightened budgets and to transform public services in Scotland.
- 85.** The Council had a Corporate Transformation Programme in place during the year 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 had five workstreams: Digital Transformation, Children & Young People, Health & Social Care, Workforce Transformation and Corporate Landlord.
- 86.** Recognising a need to increase its pace of change and be more innovative, the council replaced the Corporate Transformation Programme in February 2019 with its challenging 'Fit for 2024' transformation programme. This is intended to be a five-year rolling programme that will improve how the council is managed and save £30 million.
- 87.** Fit for 2024 emphasises the importance of a cross-cutting approach and of the programme being driven corporately. Its seven main aspects are:
- a whole-council service review and redesign programme
 - enhancing community engagement, participation and empowerment
 - making best use of physical assets, assisted by a corporate landlord model
 - investing in well-planned and designed digital solutions
 - developing the workforce's skills, flexibility and working patterns
 - optimising partnership resources
 - making process and productivity improvements.
- 88.** Progress with the transformation programme is reported quarterly to the council's Executive Committee during the year which allows members to scrutinise progress with transformation programmes.

Part 4

Governance and transparency



Main Judgements

There are appropriate governance arrangements in place that support the scrutiny of decisions made by the council.

The council demonstrates a commitment to transparency in the way it conducts its business, although it considers business in private where there is a need to consider commercially sensitive information.

Governance arrangements

89. 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.

90. A revised Scheme of Administration was agreed by the council following the local government election in May 2017. This maintained the executive structure in place at the council since 2015. The functions previously delegated or referred to the Scrutiny Committee by the council were included within the functions of the Audit and Scrutiny Committee which replaced the previous Audit and Risk Committee.

91. The Audit and Scrutiny Committee includes space for up to three external members for considering audit related matters. 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 had only one external member during 2017/18, however an additional external member was appointed at the end of 2018.

92. 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.

Openness and transparency

93. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.
94. A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.
95. 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. The council and committees do meet and consider business in private where there is a need to consider commercially sensitive information. The need to consider business in private should be subject to regular review.
96. 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.
97. Overall, we concluded that the council conducts its business in an open and transparent manner.

Transparent reporting of financial performance

98. The management commentary that accompanies the financial statements should explain in simple terms and, provide clarity to readers in order to help them understand clearly how the council has performed against its budget and how this is reconciled to the financial statements.
99. The management commentary describes the council's highlights of 2018/19 as well as setting out political structure, the council's financial strategy followed by a summary of outturn against budget (for both revenue and capital). The management commentary also includes a brief summary of the group component's financial performance.
100. Overall we concluded that the council's management commentary was balanced, well presented and understandable, and consistent with the financial statements. However we did note that the management commentary in the unaudited accounts should have included reference to the council's purchase of Lowood estate during the year, as detailed in [Exhibit 3](#).

Integration of health and social care

101. 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.
102. The Scottish Borders Integration Joint Board (IJB) is provided in partnership with NHS Borders and became fully operational on 1 April 2016 when it began its strategic oversight of the delivery of health and social care services for the residents of the Scottish Borders.
103. The IJB has brought in new ways of working and providing services, for example the development of the 'step-down' facility at Craw Wood (now Gardenview) and a hospital-to-home service. During 2018/19 the IJB published

its refreshed Strategic Plan for 2018-21 which identifies three strategic priorities for the IJB that are underpinned by seven partnership principles which inform local objectives. These local objectives are linked to the Scottish Government's nine health and wellbeing outcomes.

- 104.** During 2018/19, the council made additional in-year budget allocations of £3.2 million for delegated IJB services to support delayed discharge and alleviate service pressures of £1.8 million. In year £1.4 million of savings which were anticipated by the Financial Plan were not delivered and this required additional financial resources from the council to ensure that the health and social care service did not overspend its allocated budget.
- 105.** 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.

Correspondence referred to the auditor

- 106.** We received correspondence from six correspondents, including the four objections referred to in paragraph 39, covering issues related to the council's purchase of Lowood estate. The issues relate to value for money, governance and the longer term commercial viability of the land. We considered the issues and evidence provided. Papers submitted to the full council document the reasons for taking the decisions in private, provide the context of the Local Development Plan and supplementary guidance, and the decision to purchase the estate was based on a majority vote by members. We are satisfied that this work did not identify any issues which had an impact on our opinion on the financial statements or our wider dimensions considerations in 2018/19. We will continue to monitor the situation during our audit appointment.

Good practice points

- 107.** The council's Audit and Scrutiny Committee has two external non-voting members for when the committee is considering audit matters. This allows for external expertise to be considered when carrying out the committee's remit of assessing arrangements and monitoring systems of internal control.

Part 5

Value for money



Main judgements

A best value audit was carried out during the year and will be formally reported to the Accounts Commission in October 2019 and published by the end of October 2019.

Best value

108. 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 draft BVAR report for the council will be discussed by the Accounts Commission on 10 October 2019. The findings in the report and the council's response will be followed up and reported on as part of the 2019/20 audit.

109. The scope of the BVAR included:

- the council's vision and strategic direction, including how well its leadership works together to deliver priorities set out in its Corporate Plan 2018-2023, 'Our Plan and Your Part in it'
- how well the council delivers services through partnership and collaborative working, including: the Integration Joint Board, arm's-length external organisations, the City Deal and community empowerment
- progress of the council's ongoing transformation programme, including how effectively the council uses workforce planning to support the delivery of its priorities
- assessment of how the council monitors trends in outcomes/performance and the reporting of these, including the council's public performance reporting
- the link between the council's self-evaluation, improvement actions and changes in outcomes for local people; and
- the effectiveness of procurement arrangements.

110. We have therefore not included detailed assessments of the areas covered by the BVAR within this report.

Following the public pound

111. 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.

112. The council's Financial Regulations were revised during the year to reflect changes to management responsibilities and processes in recent years, as

Best Value is about using resources effectively and continuous improvement in the delivery of services to citizens.

well as ensuring that that they reflected the new Business World ERP system. These were approved by the council in November 2018.

- 113.** The Financial Regulations contain a specific reference that funding to external bodies must be in line with the council's Code of Practice on 'Following the Public Pound' which is available through the council intranet. We reported last year that Internal Audit had recommended that this guidance should be refreshed along with the Financial Regulations. This has not yet been completed and the guidance has not been updated since 2006.

[Appendix 1, Action plan point 2](#)

SB Cares

- 114.** SB Cares is a limited liability partnership between the council and SBC Nominees and provides adult social care services in the council region. It was created in 2015 following the council's decision to transfer around 800 staff to the ALEO. The council provides most of their funding and SB Cares is included in the council's group accounts as a subsidiary. The council is reviewing the provision of adult care services and it is currently uncertain whether this arrangement will continue after the current Service Provision Arrangement ends in March 2020.

Statutory performance indicators (SPIs)

- 115.** 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.
- 116.** For 2018/19 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](#).
- 117.** We have reviewed a number of areas as part of our BVAR during 2018/19 in relation to SPI 1.
- 118.** For SPI 2, we used the work of Internal Audit. The council's Internal Auditors carried out validation work on the Local Government Benchmarking Framework (LGBF) indicators for 2018/19. They identified some anomalies in data which were corrected prior to submission of the indicators to the Improvement Service. Overall internal audit provided substantial assurance regarding the process, with some scope for improvement to arrangements.

National performance audit reports

- 119.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports were issued which are of direct interest to the council. These are outlined in [Appendix 3](#).
- 120.** 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 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Payroll Creditors</p> <p>The creditors figure in the balance sheet included several large debit balances relating to payroll amounts. These account balances had not been reconciled during the year and 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 position at the year end.</p> <p>We reported a similar issue in the 2017/18 annual audit report and were told that it was a temporary issue which would be corrected.</p>	<p>The council should carry out timely review of the creditors ledger and reconcile payroll amounts during the year.</p> <p>Exhibit 3</p>	<p>Agreed</p> <p>Responsible officer HRSS Manager</p> <p>Agreed date 31 October 2019</p>
2	<p>Following the Public Pound</p> <p>The Council's Following the Public Pound guidance has not been refreshed since 2006.</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 council should review the guidance to ensure that it is still appropriate and available to relevant staff.</p> <p>Paragraph 113</p>	<p>Agreed</p> <p>Responsible officer Chief Financial Officer</p> <p>Agreed date 31 March 2020</p>
Follow up of prior year recommendations			
3	<p>Non-current Assets</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>The council reviewed non-current assets during the year and ensured that assets were being correctly accounted for.</p> <p>Action complete.</p>
4	<p>Pension Scheme valuation</p> <p>The council accounts for its share of Scottish Borders Council Pension Fund in</p>	<p>The council should ensure that asset values reported are as accurate as possible and that any potential differences due</p>	<p>Pension valuations required to be updated due to Supreme Court ruling on McCloud case in 2018/19.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>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>	to timing of information are adequately considered.	See Exhibit 3
5	<p>Payroll Creditors</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 position at the year end.</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.	See action plan point 1 above
6	<p>Savings</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>	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>The council achieved a high level of savings in 2018/19, which included an element of non-recurring savings. The percentage of savings achieved on a non-recurring basis was lower than previous years.</p> <p>See paragraph 49</p>
7	<p>Internal Controls</p> <p>The system of internal controls at the Council was affected by the introduction of a new financial system, Business</p>	The Council should ensure that work to address issues with the financial system is completed as soon as possible.	Many issues identified in the previous year have been addressed and we reported our findings in our



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>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>Management Report during the year.</p> <p>See paragraph 59</p>
8	<p>Digital Transformation</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>The council has continued to use consultants to address issues with the Business World system. A supplier for the Digital Customer Access programme was identified and the programme is progressing.</p> <p>See paragraph 59</p>
9	<p>GDPR</p> <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>The council should ensure that work on complying with GDPR requirements is completed as soon as possible.</p>	<p>We confirmed that the council has completed the outstanding work on implementing GDPR requirements.</p> <p>Action complete.</p>
10	<p>Following the Public Pound</p> <p>The Council's Following the Public Pound guidance and Financial Regulations have not been updated to take</p>	<p>The Following the Public Pound guidance and Financial Regulations should be updated.</p>	<p>The council approved revised Financial Regulations in November 2018.</p> <p>Following the Public Pound guidance has not yet been</p>



No. Issue/risk

Recommendation

Agreed management action/timing

account of changes in guidance and operating processes at the Council.

There is a risk that the existing guidance is no longer relevant and the Council is not ensuring it is delivering value for money.

revised. See action plan point 2 above.

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
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</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>2 Risk of fraud over income</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>3 Risk of fraud over expenditure</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>

Audit risk	Assurance procedure	Results and conclusions
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of key areas.</p>	<p>Our work on the review of the professional valuer confirmed that we could rely on the asset valuation information being provided.</p> <p>Our conclusion is that the estimates and judgements used are appropriate.</p>
<p>5 Pension Scheme Valuation</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 can be significantly higher or lower than actual returns.</p> <p>Additionally, a new actuary, Hymans Robertson, has been appointed during 2018/19.</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>Review of actuarial report which supports pension assets and liabilities, as accounted for at year end in the balance sheet and the movements in the comprehensive income and expenditure statement, and all associated disclosures.</p>	<p>A revised actuarial valuation was required by the council following the Supreme Court ruling on the McCloud case. The financial statements were updated for this.</p> <p>See Exhibit 3</p>
<p>6 Financial systems</p> <p>The council implemented a new financial system, Business World, from April 2017. Although mostly delivered as planned, there were issues with the implementation of the system, as reported by Internal Audit and in our 2017/18 Management Report and 2017/18 Annual Audit Report. An update to the system has taken place during 2018/19.</p> <p>There is a risk that issues reported in 2017/18 have not been addressed and impact on the controls in place over preparation of the 2018/19 annual accounts.</p>	<p>Review of internal audit work on the systems of internal control.</p> <p>Testing of the operation and effectiveness of the controls in place over the system.</p>	<p>We tested the controls in place over the financial system, including using the work of internal audit. Findings of this work were reported to the Audit and Scrutiny Committee in June 2019 in our Management Report.</p> <p>See paragraph 59</p>

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>7 Financial sustainability</p> <p>The council has a financial strategy covering the 5 year period 2019/20 – 2023/24. This strategy includes the requirement to identify £30.4m 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 comments in part 3 of this report.</p>
<p>8 Financial management</p> <p>The latest financial report for quarter 3 of 2018/19, reported in February 2019, indicated that there could be an adverse variance at the year end of £1 million, mostly due to pressures in Health & Social Care and Assets & Infrastructure budgets. The report also noted that £16.4 million of savings have been delivered for 2018/19, with £4.7 million of these delivered on a temporary basis.</p> <p>There is a risk that the council will not achieve a balanced year end position and also of future budget overspends if a sustainable budget is not developed timeously.</p>	<p>Review of financial monitoring reports and the council's financial position.</p> <p>Comment in Annual Audit Report.</p>	<p>See comments in part 2 of this report.</p>

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

Scottish Borders Council

2018/19 Annual Audit Report

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