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Scottish Borders Council

Annual audit report to the Members of
Scottish Borders Council and the Controller of Audit
Audit: Year ended 31 March 2015
30 September 2015

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About this report

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

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

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

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out within our audit strategy.

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

Headlines

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This annual audit report summarises our findings in relation to the audit of Scottish Borders Council for the year ended 31 March 2015. Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code").

This report also sets out those matters specified by ISA (UK and Ireland) 260: *Communication with those charged with governance* in relation to the financial statements for the year ended 31 March 2015.

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

Area	Summary observations	Analysis
Strategic overview and use of resources		
Key issues	Management undertake regular analysis of the key areas of public reform, which should support achievement of strategic priorities in a changing environment; in common with all local authorities there are a number of service challenges emerging, with demand and resource pressures continuing against a backdrop of reform in public services. The Council's response to these challenges is reflected in its five year financial strategy.	Page 6
Financial position	The Council's revenue expenditure was £257.7 million, as shown in the table on page 11. This represents a £0.4 million (0.15%) under spend against the revised budget (2013-14: under spend of £0.5 million against revised budget). The outturn for 2014-15 is in accordance with the Council's financial strategy. This included delivery of efficiency savings of £8.1 million, with 80% of planned efficiency savings delivered on a permanent basis. The Council has reviewed the level of general reserves to ensure that the reserves held are proportionate to the risks that the Council faces.	Page 8
Financial statements and accounting		
Audit conclusions	Our approach reflected our assessment of financial statement level risks and consideration of audit focus areas. These have been concluded on satisfactorily. We have issued an unqualified audit opinion on the 2014-15 financial statements. The draft financial statements, management commentary, annual governance statement and remuneration report were received by the statutory date and were supported by high quality working papers.	Page 15
Significant risks and audit focus areas	The areas highlighted below are the specific audit focus areas identified within our audit strategy document: ■ fraud risk from management override of controls; ■ the Council's financial position; ■ accounting for provisions, specifically in relation to landfill; ■ the valuation of property plant and equipment (PPE); and ■ participation in the Scottish Borders Council Pension Fund. Audit work was completed to satisfy the requirements of ISA 330 *The auditor's responses to assessed risks*, including tests of key financial controls. In respect of each matter, we are content with management's judgements and accounting treatment.	Page 17

Headlines (continued)

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Financial statements and accounting		
Accounting policies	There have been no changes to accounting policies applied by the Council in 2014-15. No newly effective accounting standards are expected to have a material impact on the 2015-16 financial statements. The requirements of the *Code of practice on transport infrastructure assets* ("the transport code"), will apply from 2016-17.	Page 22
Subsidiaries and associates	The implementation of the audit and reporting requirements of the Office of the Scottish Charity regulator (OSCR) has required that full audited financial statements for the Council's charitable trusts and common good funds are prepared for the second year. A National Housing Trust (NHT) local authority variant model was set up to deliver the Council's affordable housing programme. Bridge Homes LLP, the Council's vehicle for delivering the affordable housing investment programme, was audited for the first time, having been incorporated in February 2014. We have issued unqualified audit opinions on all of these entities.	Page 25
Corporate governance		
Governance arrangements	Over-arching and supporting corporate governance arrangements provide a sound framework for organisational decision-making. A new committee structure came into effect on 1 January 2015 aimed at improving accountability and clarifying reporting lines.	Page 30
Systems of internal control	Our testing (combined with that of internal audit) of the design and operation of financial controls over significant risk points confirms that generally, controls relating to financial systems and procedures are designed appropriately and operating effectively. In our interim management report we noted opportunities for management to further strengthen the control environment in relation to the review of organisational policies, journals and bank reconciliations. These findings have been represented at appendix five. Management has made progress against these control weaknesses in the period since our interim management report was issued.	Page 31
Performance management arrangements		
Performance management	The Council has developed Best Value and performance management arrangements further during the year and demonstrates commitment to continuous improvement. Financial information is considered alongside performance data. The Council monitors statutory performance indicators throughout the year and completes the Local Government Benchmarking Framework exercise on an on-going basis.	Page 37

Scope and responsibilities

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Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit of the Council for 2014-15. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the audit and risk committee at the outset of our audit.

The context of our audit is one of an overall reduced level of risk, based on the shared risk assessment of the Council's arrangements.

Purpose of this report

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

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the audit and risk committee at the outset of our audit.

The Code sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

Chief finance officer responsibilities

Audit Scotland's *Code of Audit Practice* ("the Code") sets out Scottish Borders Council's responsibilities in respect of:

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

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the audit and risk committee, together with previous reports to the audit and risk committee throughout the year, discharges the requirements of ISA 260.

Strategic overview

Our perspective on key business issues and financial position

Key business issues

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Public sector reform and financial pressures have caused challenges for local authorities in delivering services with reduced resources. 2015-16 is the third year of the Council's five year plan and has provided a proportionate response to these challenges. Balanced budgets have been achieved in each of the last two years.

Sector overview

Local authorities continue to face challenges as a result of public sector reform and the UK's continued financial pressures. Councils are faced with real term funding decreases, combined with increasing demand for services.

In common with other local authorities in Scotland, the Council froze council tax for 2015-16, although revenue is expected to increase as a result of an increasing number of homes. The Scottish Government's council tax reduction scheme came into force from 1 April 2013. Funding for the scheme remains static from 2014-15 onwards, however there is greater financial risk due to an increase in the number of properties in the Council boundaries as the funding is a fixed sum instead of being demand led.

The integration of health and social care presents additional challenges. Councils are aware of the need to deliver services efficiently and effectively, with fewer resources. These challenges are highlighted in Audit Scotland's report "*An overview of local government in Scotland 2015*".

We set out our views on the Council's progress in setting a financial strategy and with key public sector reforms over the following pages and provide commentary on its financial position from page 8.

Local area network / shared risk assessment

Local area networks ("LAN"), comprising representatives from scrutiny bodies perform an annual shared risk assessment and identify scrutiny activity. The 2014-17 assurance and improvement plan (AIP), noted continued development and areas of strong performance. The plan included 17 areas as 'no scrutiny required' and one area assessed as 'scrutiny required'. This was in relation to governance and accountability and was carried out as part of the final audit. Findings are detailed in the governance section on page 30.

2014-15 saw a change in the process of shared risk assessments ("SRA") and how the LANs work with local authorities. The SRA process is intended to support local authorities in performance improvement, and the 2015-16 SRA identified areas of scrutiny as:

- follow up of progress made by the Community Planning Partnership (CPP) (see page 39);
- targeted Best Value audit work to assess the impact of the council's restructuring and progress in delivering continuous improvement;
- progress with health and social care integration; and
- follow-up scrutiny of the council's homelessness service in relation to the discharge of its homelessness duty.

Council financial strategy and plan

As noted above, the Council is operating in a challenging economic environment, with funding reductions and increasing expenditure pressures. In response, the Council set a five year financial strategy from 2013-14. This strategy was developed so that the Council could assess the level of resources available ensuring that financial plans remain prudent and sustainable in the context of the external environment.

The Council corporate plan 2013-18 incorporates the priorities for the Council over the next five years. It recognises the inherent challenges arising from population growth, an ageing demographic, reductions in funding, upward pressure on staff costs and new legislative requirements.

Members receive quarterly key performance indicator updates and financial monitoring updates, showing underspends or overspends to budget, progress with efficiency savings and how the Council is progressing against achievement of the outcomes outlined within its single outcome agreement (SOA). These are presented clearly, utilising graphs and tables as appropriate, supporting high quality monitoring. This regular analysis undertaken by management should support achievement of strategic priorities in a changing environment.

Key business issues (continued)

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Changing delivery models

To ensure the Council is well placed to manage the changing service requirements and reducing funding, a number of change projects have been implemented and alternative methods of service delivery are being utilised.

The council has recently established a new ALEO, SBCares, to manage the majority of the Council's adult social care provision including care at home, residential care homes, day services and joint equipment store.

The company is a fully owned council company and the business case clearly sets out the rationale for the establishment of the company which is based on efficiencies in and security of service delivery, more efficient and flexible use of staffing as well as generating additional income.

Approximately 800 staff transferred to the ALEO on 1 April 2015 and a new management team is in place to deliver the business plan. Early indications are that SB Cares is on track to deliver the £0.5 million savings required by the business plan in year one.

Growing population and affordable housing

A changing population puts additional demand on infrastructure within the Council's boundaries. The need for affordable housing was increasing with new supply projected to decline. In response, the Council developed a three year affordable housing programme (extended from 2016 to 2019) which has the potential to deliver up to 200 new homes for mid-market rent in the Borders. A National Housing Trust (NHT) local authority variant model was used to deliver this and as at 31 March 2015, Bridge Homes LLP had purchased ten new mid-market homes and had tenants in place.

Welfare changes

As a result of the Welfare Reform Act 2012, a number of significant changes were implemented as at 1 April 2013, changing how councils deliver benefit services. Further reform will see the introduction of 'Universal Credits' and the integrated working age benefit which will replace existing arrangements. Universal Credits will be administered by the Department of Work and Pensions ('DWP').

The position at the Council is one of positive engagement. The Council has integrated its welfare reform project into the local community planning process.

The Council has no housing stock, but is proactively collaborating with local registered social landlords, Citizen's Advice Bureau and the Department of Work and Pensions to help mitigate the adverse impacts of the welfare reform agenda.

Financial position

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The financial statements reflect a surplus on the provision of services of £0.2 million compared to a deficit of £6.4 million in 2013-14.

At 31 March 2015 the Council has net assets of £18.3 million, compared to net liabilities of £26.6 million at 31 March 2014.

Comprehensive income and expenditure statement ("CIES")

In 2014-15 the Council reported a surplus on the provision of services of £0.2 million (2013-14: deficit of £6.4 million). This audited outturn position was an underspend of £0.4 million against the final revised departmental expenditure budget, which is updated throughout the year as part of the financial monitoring process.

The following table is a summarised version of the CIES.

Comprehensive income and expenditure statement	2014-15 £'000	2013-14 £'000	Variance £'000
Gross income from services	(69,370)	(68,730)	(640)
Taxation and non specific grant income	(273,555)	(264,930)	(8,625)
(Gains)/loss on disposal of non current assets	288	(785)	1,073
Roads Trading operation surplus	(165)	(290)	125
Interest receivable	(48)	(159)	111
Total income	(342,850)	(334,894)	(7,956)
Cost of services	321,892	321,033	859
Interest payable	11,806	11,908	(102)
Interest expense on pension defined benefit obligations	8,973	8,389	584
Total expenditure	342,671	341,330	1,341
(Surplus) / deficit on the provision of services	**(179)**	**6,436**	**(6,615)**
(Surplus) / deficit on revaluation of non current assets	96	(5,357)	5,453
Actuarial gains on pension assets and liabilities	(44,848)	(5,335)	(39,513)
Any other (gains) or losses	7	(2)	9
Total comprehensive income and expenditure	**(44,924)**	**(4,258)**	**(40,666)**

Source: KPMG analysis of Scottish Borders Council's annual accounts 2014-15.

Balance sheet

As at 31 March 2015, the Council was in a net assets position of £18.3 million (2014: net liabilities of £26.6 million). The majority of the £44.9 million movement is due to:

- A significant reduction of £32.3 million in the defined benefit pension obligation, driven by growth in the value of the Fund's investment assets relative to the present value of the future pension obligations. The defined benefit pension obligations now amount to £166.1 million (2014: £198.4 million);
- £9.6 million increase in long term assets due to additions (£28.8 million) and revaluations (£10.8 million), offset by impairments (£8.6 million) and depreciation (£19.9 million); and
- £7.2 million increase in current assets of which £6.1 million relates to debtors and £1.3 million relates to cash and cash equivalents, offset by other small movements.

These movements are offset by:

- £4.1 million increase in long term liabilities, comprising a provision for closure and long term monitoring and aftercare of a landfill site (£3.8 million) and an increase in capital receipts in advance (£1.8 million), offset by a £1.5 million decrease in deferred liabilities.

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The Council had useable reserves of £27.9 million as at 31 March 2015, of which £19 million relates to general fund reserves.

Use of reserves

Based on the Audit Scotland survey of 32 local authorities' draft financial statements for 2014-15, the Council is placed in the lower quartile in terms of total useable reserves carried forward as a proportion of net revenue spend. We noted however that the Council keeps the level of reserves under regular review. The review is based upon an assessment of the corporate risk register, the application of financial amounts to each risk, overlaid by the likelihood of the risk occurring.

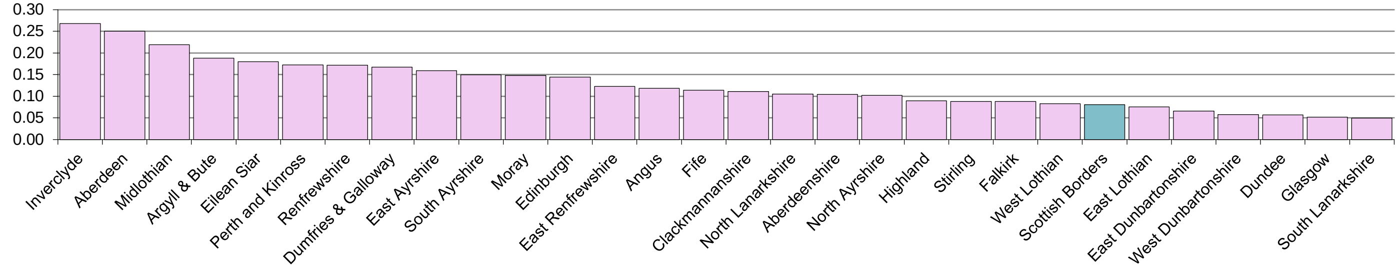
As at 31 March 2015, the Council had usable reserves of £27.9 million. These consisted of the general fund (£19 million), the capital fund (£7.6 million) and the insurance fund (£1.3 million).

The Corporate Financial Risk Register was considered by the Council in February 2015 and at this date the accumulated financial risk in the Risk Register was assessed to be £10.3 million. The General Fund useable reserve (non-earmarked) balance at 31 March 2015, at £7.2 million, is sufficient to cover 69.5% of risks identified at that time.

Management consider this level of cover appropriate because the risk of all risks crystallising at the same point of time is sufficiently remote. The recommended balance to be maintained on the general fund reserve will continue to be monitored through the Corporate Financial Risk Register on an annual basis.

We consider that while this methodology requires the application of professional judgement it does provide a clear link between the risks of the organisation and the financial position.

2014-15 carried forward usable revenue reserves as a proportion of revenue – 32 Scottish local authorities



Source: Audit Scotland analysis

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

Financial position (continued)

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At £31.4 million, capital expenditure in the year was £3.4 million below budget and reflects £2.3 million of project re-profiling.

Major capital projects in 2014-15 included £8.9 million on flood protection schemes and £3.8 million on Galashiels Transport Interchange, in preparation for the Borders Railway.

Borrowing

The Council's capital expenditure is largely funded through borrowing. The capital expenditure programme gives rise to greater borrowings and management incorporates the debt service costs into budgets. In Audit Scotland's 2014-15 benchmarking, the Council is in the lowest third of local authorities in terms of level of net external debt when taken as a proportion of revenue expenditure. We recognise that this benchmarking does not differentiate for demographic differences or distinguish between councils which have externalised their housing and those that have not.

The Council's only additional long term external borrowing during the year was an interest free loan of £0.2 million linked to the energy efficient lighting programme. The Council's outstanding external debt as at 31 March 2015 was £172.1 million, with the average rate of interest paid being 6.5%.

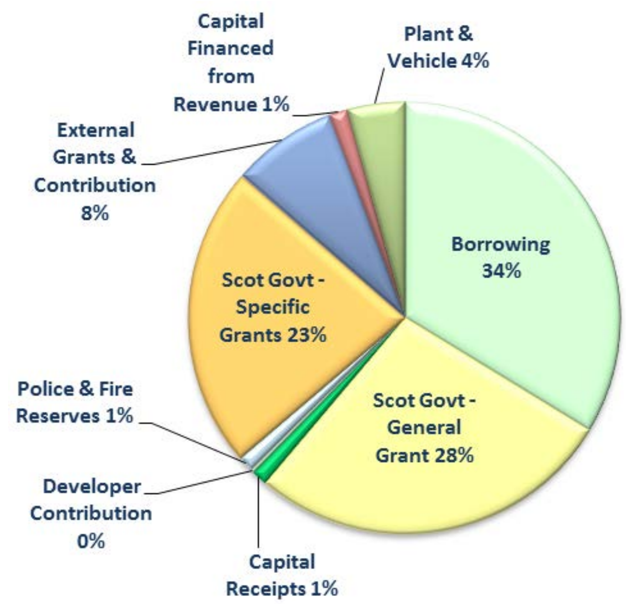
Capital programme

Total capital expenditure in 2014-15 was £31.4 million, compared to a budget of £34.8 million and expenditure of £27.6 million in 2013-14. The cumulative level of projects re-profiled into future years in 2014-15 was £1.1 million higher in comparison to the previous year.

A £3.4 million under spend against budget can be further broken down into (i) project re-profiling of £2.3 million and (ii) project under spend of £1.1 million. The re-profiling and under spends related to a number of capital projects, with the largest being Galashiels flood prevention. Management should continue to explore reasons for re-profiling in capital projects and any implications for capital budgeting to continue to reduce the amount of re-profiling.

In order to finance the recognition of the landfill liabilities the capital financing borrowing need increased by £2.9 million, in addition to £1.2 million in 2013-14 (total provision £4.0 million). In addition to the capital expenditure on the Council's assets, £1.0 million of funding was provided by way of loans to Bridge Homes LLP for new affordable housing through the National Housing Trust initiative.

The capital programme was funded mainly from a mixture of capital grants, borrowing and contributions from earmarked reserves as shown in the table below.



Source: Financial statements

Financial strategy

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The revenue budget for 2015-16 is £254.6 million and anticipates a breakeven position which requires a planned draw down of £0.5 million from the Council's reserves.

Revenue budget

The Council's revenue budget of £254.6 million for 2015-16 was agreed in February 2015. As in the prior year, public budget consultation exercise on the Revenue Financial Plan was undertaken, with a Budget Simulator made available to members of the public on the Council website to give the opportunity for these views to be captured. This interactive Simulator allows residents and other stakeholders to provide feedback on how they would like the Council's revenue spending prioritised. The table shows the budgeted amounts for 2015-16 and the actual amounts from 2014-15.

	Revenue budget	Actuals
	2015-16 £000	**2014-15 £000**
Chief executive's department	27,291	28,805
People	167,336	163,650
Place	36,145	35,808
Loan charges and other	23,799	29,444
Expenditure	**254,571**	**257,707**
Council Tax income	(51,602)	(51,699)
General Revenue Support Grant	(168,472)	(175,624)
Other grants and reserve transfers	(34,497)	(30,786)
Income	**(254,571)**	**(258,109)**
(Under) / over spend	**-**	**(402)**

Source: Financial Plan 2014/15 – 2018/19

At 31 March 2015, the Council has performed ahead of budget and management confirmed that the Council remains on track with its financial strategy, however, continued monitoring will be required to ensure savings are achieved and there is no adverse impact on service delivery. Management monitors the budget throughout the year. As identified in previous years, the majority of underspend is presented in the final quarter of the financial year as greater certainty emerges in relation financial performance against budget in relation to Council services.

The Council has recognised that its current service model needs to change in order to achieve significant savings, meet demand and ensure that the quality of services is maintained. There is a published cumulative funding gap between income and expenditure of £27.1 million over the next five years as identified in the corporate plan.

The Council's response to this is detailed on the following page.

Financial strategy (continued)

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The Council's five year financial strategy assumes that council tax rates will remain frozen throughout this period and that service cost pressures will be met from service transformation projects and efficiency savings.

Efficiency savings of £8.1 million were delivered during 2014-15 in order to balance the cost of delivering services with available resources.

Business transformation and efficiency savings

A service transformation programme has been introduced to help deliver the Council's priorities, meet financial challenges, close the financial gap detailed on the previous page and maximise efficiency. The delivery of ongoing savings associated with business efficiencies and transformation projects remains a challenge to the Council and will require to be a significant focus of management attention in future. There is increased uncertainty in funding levels due to delays in the Scottish spending review being concluded later in 2015-16.

The Council achieved efficiency savings of £8.1 million in 2014-15 (£6.3 million in 2013-14). Of this amount, 80% was fully achieved by departments in line with the original plan on a permanent basis, with 20% delivered via alternative corporate savings and additional income. Only 1% of these alternative measures are recurring and therefore the Council faces the challenge of making the remaining 19% of savings on a permanent basis. This is reported to elected members on a quarterly basis as part of the revenue monitoring process.

The comparative achievement on a permanent basis in line with the plan in 2013-14 was 70%, demonstrating an improvement in the Council's performance.

During 2014-15 the Council's Corporate Management Team redeveloped the Transformation Programme to support the delivery of the Council's Financial Strategy 2015-20. This covers four areas:

- making best use of our people;
- working with our partners;
- looking after the Borders; and
- business process transformation.

It also includes alternative methods of service delivery, such as the establishment of a Cultural Trust and the launch of SBCares to deliver many of the frontline services previously provided directly by the Council.

This programme has been split into a detailed operational focus for the first three years with savings clearly identified, then an indicative strategic plan for years four and five.

Summary of business transformation

- The Council has a multi faceted transformation programme, and key elements include Children and Young People's transformation, a Borders Railway programme, energy efficiency, an IT programme and workforce transformations.
- Alternative service delivery methods are being implemented, such as SBCares and a cultural trust.
- A five year savings plan is in place. Specific programmes are planned for years 1 – 3, with years 4 and 5 having departmental targets identified which are refined over time.

Financial strategy (continued)

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The Council has set a 10 year capital plan. In 2015-16 the Council plans to spend £48.3 million on a range of capital projects and a further £10.1 million on business process transformation projects.

Capital plan

The Council has formulated a ten year capital plan which anticipated £352.1 million investment in the period to 2024-25. This plan has been split into a three year operational plan and an indicative strategic plan for the remaining seven years.

The strategic plan is intended to provide an indication of the level of resources and the type of demands on the capital financial plan. It is acknowledged that this will be subject to continuous refinement and will be subject to amendment reflecting the priorities of the Council.

Total planned capital expenditure in 2015-16 is £58.4 million and is to be funded from the sources shown in the table.

Capital plan funding source	£000
Specific Scottish Government capital grant	26,192
General Scottish Government capital grant	15,207
Borrowing	10,205
Other grants and contributions	2,146
Plant and vehicle fund	2,000
Capital receipts	1,699
Capital fund/capital receipts	830
Developer contributions	150
Total capital funding 2015-16	**58,429**

Source: Administration Capital Financial Plan 2015-16- 2024-25

The most significant (by value) capital projects in the operational plan for 2015-16 are shown in the following table. These represent the cost anticipated to be incurred in 2015-16, with projects such as the Selkirk flood protection scheme (£30 million) and Kelso High School (£21 million) being multi year projects.

Project	£000
Selkirk flood protection	10,261
General roads and bridges block	3,710
Energy efficient street lighting	1,000
Kelso High School	14,250
Duns Primary School and locality support centre	4,485
Early learning and childcare block	1,656
Complex needs – central education base	1,180
Peebles 3G synthetic pitch	1,095
Next generation broadband (BDUK)	4,200

Source: Administration Capital Financial Plan 2015-16- 2024-25

A large capital project to provide the permanent home for the Great Tapestry of Scotland at Tweedbank adjacent to the rail-head is planned to begin in 2015-16, with the majority of the £6 million indicative budget falling in 2016-17. This location was approved by the Tapestry trustees and external funding of £2.5 million has been secured.

The capital plan for 2015-16 has increased significantly compared to that delivered in 2014-15. We note that a new capital projects director was appointed in 2014-15 who has brought a fresh approach to the management of the capital plan. The team is considered to be sufficiently well resourced to ensure delivery of this larger plan. As at 30 June 2015, 9.6% of the plan (£5.63 million) had been delivered.

Financial statements and accounting

Our perspective on the preparation of the financial statements and key accounting judgements made by management

Audit conclusions

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We have issued an unqualified audit opinion on the financial statements.

Audit conclusions

Our audit work is complete. Following approval of the financial statements by the Council we have issued an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2015, and of the Council's surplus for the year then ended. 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 all key risks and audit focus areas;
- liaised with internal audit and reviewed their reports to ensure all key risk areas having a potential financial statements impact 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 senior management and internal audit 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
- attended the audit and risk committee to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

We have also continued to work with management to identify areas where the content of the financial statements could be enhanced to make the information more understandable and relevant to the reader whilst still satisfying the relevant disclosure requirements. Management have been proactive in this task.

Materiality

Planning materiality was provided in the audit strategy and plan for 2014-15 dated 9 January 2015 and discussed with the Council's audit and risk committee on 19 January 2015. There were no changes made to materiality for the final audit.

Materiality was set at £6.4 million which is approximately 2% of total expenditure in 2014-15. We designed our procedures to detect errors at a lower level of precision of £4.8 million. We report identified errors greater than £250,000 to the audit and risk committee.

Financial statements preparation

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Council management has continued to develop arrangements for the compilation of draft financial statements and associated reports.

The financial statements, were made available on a timely basis and were accompanied by high quality working papers

New regulations applied to reporting arrangements for 2014-15.

Financial statements preparation

- The Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014, replacing regulations which had applied since 1985. The regulations contain provisions for the unaudited annual financial statements as submitted to the auditor to be considered by the audit and risk committee no later than 31 August, and the audited financial statements to be presented to the audit and risk committee for consideration and approval prior to auditor signature before 30 September.
- High quality working papers and full draft financial statements were provided on the statutory deadline of 30 June 2015. This included the explanatory foreword, management commentary, remuneration report and governance statement. The latter had already been considered, along with supporting evidence, and approved by the Council's audit and risk committee. The management commentary was in line with guidance, contained a readily understandable overview of the Council and was presented clearly, with good use of tables and graphs.
- In advance of our audit fieldwork, we issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. The standard of documentation was very good.
- There are no significant matters in respect of (i) audit differences; (ii) auditor independence and non-audit fees; and (iii) management representation letter content, as reported in appendix one.

Significant risks and audit focus areas

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The significant areas of risk identified in our audit strategy were in respect of:

- **management override of controls; and**
- **the Council's financial position;**

and other focus areas of:

- **accounting for provisions in relation to landfill sites;**
- **valuation of property, plant and equipment; and**
- **participation in the Scottish Borders Council Pension Fund.**

A new audit focus area was identified during our final audit work in respect of the Borders Railway financing commitment.

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

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

Significant risk	Our response	Audit findings
Financial position As highlighted earlier in our reporting, the Council is operating in a challenging economic environment, with funding reductions and increasing expenditure pressures. The Council has underspent against budget in total each year since 2012-13. In 2014-15 the Council recorded an underspend of £0.4 million against the final revised budget (2013-14: underspend of £0.5 million).	We have updated our understanding of the Council's financial position and year end outturn position through review of quarterly reports and other management information. We have commented on this on pages 8 to 11. We have performed controls testing over the budgeting process including the monitoring of budgets throughout the year. We have performed substantive procedures, including substantive analytical procedures, over income and expenditure comparing the final position to budget and investigating significant variances.	We found that management are adequately monitoring their financial position through regular internal reporting. This is communicated to members on a regular basis. Management have applied the going concern assumption in preparing the financial statements. We have considered this assumption on page 23 and concluded that this is appropriate.

Significant risks and audit focus areas (continued)

DRAFT

Focus area	Our response	Audit findings
Accounting for provisions, specifically in relation to landfill In September 2014, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued further guidance on how local authorities should be accounting for asset decommissioning obligations in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Under this standard, the future costs (including decommissioning, restoration and ongoing monitoring) should be recognised when the asset is brought into use and an associated provision created on the balance sheet which future costs would be charged against.	Under IAS 37 a provision should be recognised when: ▪ an entity has a present obligation as a result of a past event; ▪ it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and ▪ a reliable estimate can be made of the amount of the obligation. Our year end audit procedures included gaining an understanding of any actions the Council had taken and evaluating the Council's approach against the guidance. Management has considered the future capital costs and revenues associated with the decommissioning of open cells at its Easter Langlee landfill site, and a provision was recognised on the balance sheet at 31 March 2014 for relevant capital costs. In addition, a further provision of £2.855 million was made as at 31 March 2015 for associated monitoring and aftercare cost. This included £0.6 million from future gas revenues to offset associated monitoring and aftercare cost, bringing the total provision to £4.02 million. The Council received appropriate advice from internal and external specialists and we have challenged the assumptions used.	We found that management had applied the LASAAC guidance and applied its principles. We noted that certain of the assumptions used in the calculation of the provision, principally those relating to anticipated income during the period of monitoring and aftercare and the discount rate used, to be out of line with our expectations. These differences offset however and overall we consider the level of provision held to be appropriate.

Significant risks and audit focus areas (continued)

DRAFT

Focus area	Our response	Audit findings
Valuation of property, plant and equipment In order to comply with the requirements of the Code, Council assets are subject to rolling valuations. In 2014-15, this was applied to surplus assets and Common Good and Trust properties. In addition, formal revaluations are undertaken for major PPE assets when they are brought into use, even when this is outwith the existing revaluation cycle. Valuations are undertaken by the Council's estates manager.	Our audit work consisted of: ■ engaging KPMG valuation specialists to challenge the assumptions used by the valuer; ■ confirming the accounting treatment of the valuations by agreeing capital accounting journals; and ■ agreeing the values posted in the financial statements to those provided by the internal valuer.	From the work of our valuation specialists, which included direct contact and challenge of the valuer, we consider that the revaluation is materially appropriate. We also consider that: ■ the methodology and approach taken by the Council's estates manager is appropriate and in line with KPMG expectations; ■ the Council's estates manager was appropriately professionally qualified and had sufficient experience and expertise to provide the information for use by the Council; and ■ the valuation is appropriately recognised and disclosed in the annual accounts.

Significant risks and audit focus areas (continued)

DRAFT

Focus area	Our response	Audit findings
Participation in the Scottish Borders Council Pension Fund The Council accounts for its participation in the Scottish Borders Pension Fund in accordance with IAS 19 *Retirement benefits*, using a valuation report prepared by actuarial consultants. The Council's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The determination of the retirement benefit obligation is inherently judgemental and there is a financial statement risk as a result.	Our audit work consisted of: ■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks, the result of which are at Appendix three; ■ testing the scheme assets and rolled-forward liabilities; ■ testing the level of contributions used by the actuary to those actually paid during the year; ■ testing the membership data used by the actuary to data from the Council; and ■ agreeing actuarial reports to financial statement disclosures.	We are satisfied that the retirement benefit obligation: ■ is correctly stated in the balance sheet as at 31 March 2015; ■ has been accounted for and disclosed correctly in line with IAS19 *Retirement benefits*; and ■ assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range. We set out further information in respect of the defined benefit obligation at Appendix three. The defined benefit obligation decreased by £32.3 million compared to 31 March 2014, driven by growth in the value of the Fund's investment assets relative to the present value of the future pension obligations.

Significant risks and audit focus areas (continued)

DRAFT

Focus area	Our response	Audit findings
Borders Railway financing commitment This area was highlighted by management following the presentation of our Audit Strategy. It is included as an audit focus area. The Council, as part of a wider agreement, has an obligation over the next 30 years to collect contributions totalling £8.748 million from developers which it must pay to Scottish Minister. The amount of £8.478 million is stated at 2013 prices and will be inflated in line with the BCIS Tender All-In Index. With the running of the first passenger train on the Borders Railway in early September the first payment fell due.	Our audit work consisted of: ■ Reviewing the agreement between the Council and The Scottish Ministers; ■ Liaising with the auditors of Midlothian Council and City of Edinburgh Council to consider the treatment and ensure consistency of approach; ■ Considering the accounting treatment adopted by the Council; and ■ Review the related disclosures presented with the annual accounts.	We note that the Council has considered whether a provision should be made now that it is obliged to begin making payments to the Scottish Ministers. To assist in this a model has been prepared which demonstrates that under a number of probable different scenarios there will be no outflow of economic benefit and as such no provision is required. We have reviewed and challenged the model and underlying assumptions and consider them to be appropriate. We concur with the view that no provision is required.

Accounting policies

DRAFT

The Council prepares annual accounts in accordance with the 2014-15 Code. There have been no changes to accounting policies in the year, however the requirements of the transport code will represent a change in accounting policy from 2016-17.

Accounting framework and application of accounting policies		
Area	**Summary observations**	**Audit findings**
Accounting policies	There have been no changes to adopted accounting policies in the year. Critical accounting judgements continue to relate to the valuation of property, plant and equipment as well as the valuation the present value of defined benefit obligations under IAS 19 (as calculated by the Council's actuary, Hymans Robertson) using agreed financial assumptions. It is expected that the 2016-17 Code will adopt requirements of the *Code of practice on transport infrastructure assets* ("the transport code"), which requires measurement of these assets on a depreciated replacement cost basis. This will represent a change in accounting policy from 1 April 2016 and require full retrospective restatement for the Council's 2015-16 balance sheet. Local authorities are advised to develop a project plan to during 2014-15 to help achieve successful implementation. We considered the Council's plan for the requirements of the transport code and discussed this with Environment & Infrastructure staff members (Roads Assets department) and finance staff. We found that discussions have been taking place and the Roads Assets department plans to collect further survey information. However, a formal project plan has not been formed in line with CIPFA's indicative timeline published in July 2014. This information is already captured in the whole of government accounts ("WGA") submission. However this was not prepared in time for the initial submission.	We are satisfied that the accounting policies and estimates adopted remain appropriate to the Council. We have not identified any indications of management bias. In respect of readiness for the 2016-17 code, whilst the Council is in line with other local authorities in its preparedness, a formal project plan has not been formed and the WGA submission for 2014-15 is yet to be provided. The transport infrastructure asset valuation is being completed for WGA, however staff acknowledge this does not yet represent a complete listing. Recommendation one
Private Finance Initiative (PFI)	In 2006-07, the Council entered into a PFI agreement for the provision of three schools completed in 2009-10 and 2010-11. Due to materiality of PFI, we consider this area as part of our annual audit, refresh our understanding and ensure the Council's approach remains appropriate. The Council employed PricewaterhouseCoopers LLP (PwC) to provide a model to apportion the unitary charge over the life of the asset and produce the required financial disclosures. We have evaluated the use of PwC as an external expert and confirmed that there are no concerns with the independence or objectivity of PwC. This model is used by a number of public sector bodies to generate the required PPP accounting entries.	We conclude that the use of the PwC model remains appropriate.

Accounting policies (continued)

DRAFT

Accounting framework and application of accounting policies		
Area	**Summary observations**	**Audit findings**
Financial reporting framework	Scottish Borders Council prepares annual accounts in accordance with the Code of Practice of Local Authority Accounting in the United Kingdom ("the 2014-15 Code") which is based upon International Financial Reporting Standards ("IFRS"). The 2014-15 Code has a number of amendments from the 2013-14 version. The amendments include: ▪ adoption of the new group accounting standards IFRS 10, IFRS 11, IFRS 12 and IAS 28; ▪ amendments in respect of the restated opening balance sheet; and ▪ changes to the requirements for accounting for combinations of bodies and transfer of functions. We have considered the adoption of the new group accounting standards on page 25. We do not consider these changes to have a material impact on the Council's annual accounts. There was no requirement for a restated opening balance sheet and no combinations or transfer of funds.	We are satisfied that the accounting policies adopted remain appropriate to the Council and have been correctly applied.
Going concern	Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. The balance sheet shows that at 31 March 2015 the Council has net assets of £18.3 million compared to a net liability of £26.6m in 2013-14. This includes a pension fund liability of £166.1 million which will only crystallise over the long term. Given the general nature of the funding arrangements of the Council, we are satisfied that it is appropriate for the financial statements to be prepared on the basis adopted. The Council recognised a surplus in the year, providing further comfort over the Council's financial position. Over the past few years there has been a reduction in the overall cost base and further efficiency savings are incorporated in budgets.	We concur with management's view that the going concern assumption remains appropriate for the reasons noted.

Management reporting in financial statements

DRAFT

Area	Summary observations	Audit findings
Management commentary	The Local Authority Accounts (Scotland) Regulations 2014 requires the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. Regulation 8(2) of the 2014 regulations introduces a requirement from 2014-15 for the annual accounts to include a management commentary. Despite this requirement notification being issued relatively late in the accounts preparation process, the management commentary was included within the unaudited annual accounts received on 30 June 2015. We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and are content with the proposed report. We provided management with some relatively minor suggestions relating to how the management commentary could be enhanced and where additional information disclosures should be made. Overall the management commentary was of a high standard. Key areas were in line with guidance, contained a readily understandable overview of the Council and was presented clearly, with good use of tables and graphs. The management commentary also contained strong links to service data.	We are required to consider the management commentary and provide our opinion on the consistency of it with the annual accounts. We are satisfied that the information contained within the management commentary is consistent with the annual accounts.
Remuneration report	The remuneration report was included within the draft annual accounts and supporting reports and working papers were provided. We satisfactorily tested exit packages and other disclosures in the remuneration report to supporting documentation. There were no exit packages relating to higher paid or senior Council staff. We also ensured that it complied with the Local Authority Accounts (Scotland) Regulations 2014.	We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts.

Subsidiaries and associates

DRAFT

Separate statutory audits in respect of the following subsidiaries have been carried out:

- **Bridge Homes LLP;**
- **Scottish Borders Council Common Good Funds;**
- **Scottish Borders Council Charitable Trusts;**
- **SBC Educational Trust;**
- **SBC Welfare Trust;**
- **SBC Community Enhancement Trust;**
- **Thomas Howden Wildlife Award Fund; and**
- **Ormiston Trust for Institute.**

Requirements	Summary observations	Audit findings
Statutory audit required for Bridge Homes LLP	A National Housing Trust (NHT) local authority variant model was set up to deliver the Council's affordable housing programme. The principal activity of Bridge Homes during the period was investment in mid-market residential property for domestic rental to meet an identified social need within the Scottish Borders. Draft financial statements were received for audit by the statutory deadline. These were of good quality with only two minor areas for comment: ▪ the accounting period is an extended one based on date of incorporation. This has been corrected by management; and ▪ the members' valuation disclosure and the accounting policy in terms of investment properties are both required for this LLP. These have been incorporated in the final version of the financial statements. We agreed the purchase of homes to supporting documentation with no issues noted.	We have concluded our work in relation to Bridge Homes LLP and issued an unqualified opinion.

Subsidiaries and associates (continued)

DRAFT

Revised financial reporting and audit arrangements are applicable to the Council's charitable trusts and common good funds from 2013-14 as a result of new Office of the Scottish Charity Regulator (OSCR) regulations.

Requirements	Summary observations	Audit findings
The application of the legislation and related regulations requires that a separate trustees' report and financial statements is required for the charitable trusts and common good funds in accordance with *Accounting and Reporting by Charities*: Statement of Recommended Practice.	The Council acts as trustee for 289 trusts and endowments, of which 113 were registered as charities in 2013-14. 37 of these trusts and endowments were registered as individual charities with the Office of the Scottish Charity Regulator (OSCR) and a group of 76 (SBC Charitable Trusts) were registered as a single charity with OSCR. The Charitable Trusts and the Common Good Funds were first subject to a statutory audit in 2013-14. These entities were audited again in 2014-15, along with the three newly established charitable entities covering the charitable purposes of relief of poverty, education and community enhancement and into which 35 of the previously individually registered charities were reorganised with the approval of OSCR. The remaining two stand alone funds were also registered for audit. This reorganisation is an ongoing process in consultation with OSCR to fully consolidate the remaining trusts and endowments and this is expected to be concluded in 2015-16. Draft trustees' reports and financial statements for all charitable entities were received for audit by the statutory deadline. These were presented and formatted consistently across all entities. Audit work included: ■ agreeing the charitable purposes of each charity as stated in the financial statements to OSCR; ■ reviewing the bodies' procedures for making grant awards where appropriate; and ■ testing significant items and agreeing to supporting documentation (note that materiality was determined for each charity separately). The audit process identified a number of presentational and disclosure amendments required to achieve full compliance with the framework set out in *Accounting and Reporting by Charities*: Statement of Recommended Practice. These were all made satisfactorily.	We have concluded our work in relation to Scottish Borders Council's charities and issued unqualified opinions.

Subsidiaries and associates (continued)

DRAFT

We have considered the Council's subsidiaries and associates against the requirements of group accounting standards.

We have considered the Council's arrangements in respect of following the public pound and arms-length external organisations (ALEOs).

Requirements	Summary observations	Audit findings
The 2014-15 Code includes a requirement for the adoption of the new group accounting standards IFRS 10, IFRS 11, IFRS 12 and IAS 28. As part of adopting the new standards, management was required to identify interests in other entities and determine whether these were classified as subsidiaries, joint ventures or associates and ensure appropriate disclosure in the annual accounts.	Management prepared a schedule of group entities in advance of the audit and considered each entity against the new standards and classified each entity as a subsidiary or an associate. We compared management's disclosure of group entities against the requirements of the Code, incorporating the new group accounting standards. Subsidiaries are entities over which the Council can exercise control. Control occurs if the Council has: ▪ power over the investee; ▪ exposure, or rights, to variable returns from its involvement with the investee; and ▪ the ability to use its power over the investee to affect the amount of the investor's returns. The Council considers that the Trust Funds, Common Goods Funds and Bridge Homes LLP are subsidiaries. Associates are entities in which the Council can exercise a significant influence without support form other participants. The Council considers that the Borders Sport and Leisure Trust and the Jedburgh Leisure Facilities Trust are associates. The Council was not involved in any joint ventures in 2014-15. Our audit work also involved the consideration of the completeness of this disclosure and whether the Council is required to disclose any other related parties, such as Scottish Borders Housing Association.	We agree with management's classification of subsidiaries and associates in line with the requirements of group accounting standards. The subsidiaries are consolidated within the group accounts and receive separate statutory audits as required. We are satisfied with the completeness of this disclosure with no additional related parties identified through our consideration of completeness.
Auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound ("the FtPP Code").	We have considered management's processes to comply with the FtPP Code. Internal audit completed a review of social enterprise grants in 2014-15, which identified the impact, issues and opportunities relating to the areas which would assist the Council in fulfilling its duties and responsibilities in respect of providing Best Value services and adopting the FtPP principles. Management have confirmed that the Audit Scotland report *Arms Length External Organisations: Are you getting it right?* report was considered as part of the work on the establishment of new ALEOs. An internal audit review in 2014-15 gave a substantial level of assurance over contract monitoring arrangements with the sports trusts that are classified as ALEOs. In addition, the Limited Liability Partnership Strategic Governance Group (LLPSGG) has been established and its remit includes scrutiny of SB Cares, the Council's recently established ALEO.	No significant recommendations have been made to the Council in respect of weaknesses in compliance with the FtPP Code.

Governance and narrative reporting

Update on your governance arrangements and controls findings from our audit

Corporate governance arrangements

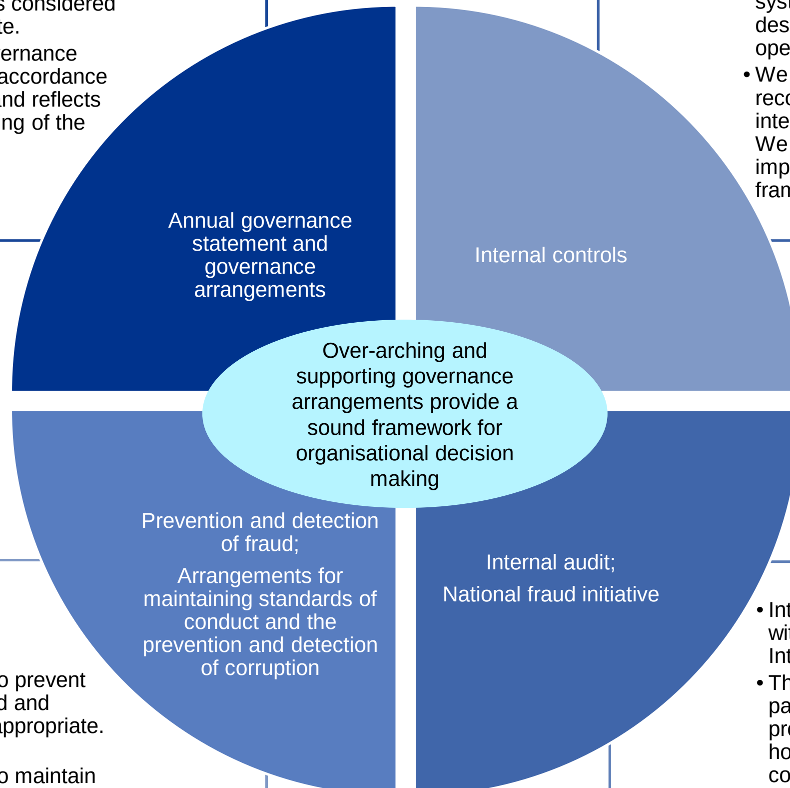
DRAFT

We considered the Council's corporate governance arrangements against a number of key areas which we consider to make up an effective governance framework.

Our audit findings against each key area are provided opposite.

- The governance framework of the Council is considered to be appropriate.
- The annual governance statement is in accordance with guidance and reflects our understanding of the organisation

- Controls relating to financial systems and procedures are designed appropriately and operating effectively.
- We raised minor recommendations in our interim management report. We do not consider these to impact the overall control framework.



- The Council's arrangements to prevent and detect fraud and corruption are appropriate.
- The Council's arrangements to maintain standards of conduct are appropriate

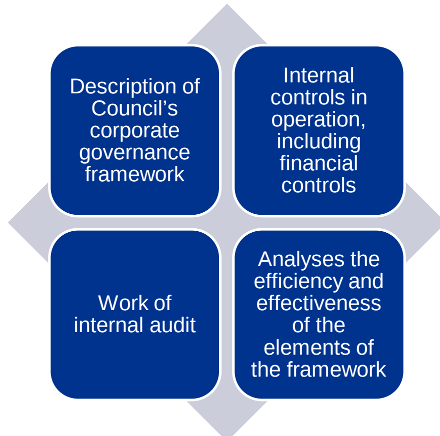
- Internal audit is compliant with the Public Sector Internal Audit Standards.
- The Council has participated in the NFI process for 2014-15, however, has only commenced in August 2015 the follow up on matches identified.

Corporate governance arrangements (continued)

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

Annual governance statement

The Council includes an annual governance statement within its annual accounts. We consider the governance statement to be in accordance with guidance and reflects our understanding of the organisation. The following elements have been included.



Risk management

Management is continuing to review risk management arrangements to provide assurance to elected members over the mitigation of identified risks. The risk management strategy and supporting documentation demonstrate a commitment to good practice.

A corporate risk register is in place and is updated on an annual basis. The corporate risk register was updated and approved by council in February 2015.

Governance arrangements

The Council operates a cabinet structure, and has an audit and risk committee to ensure sound governance arrangements. A new committee structure has been in place since 1 January 2015 as a result of the council's review of governance and accountability. This was approved in principle by the Council in October 2014, with the scheme of administration and remits of each committee approved in November 2014.

Some of the issues that this review aimed to address included the perceived reduction in formal performance monitoring and corporate reviews in service committees and the perceived lack of independent scrutiny of decisions.

Key changes include removing service committees, the establishment of a scrutiny committee, along with a call-in procedure which will allow the group to review decisions made by the executive committee, and an extension of the executive committee remit.

Part of the scrutiny committee's remit is to independently monitor the performance of the Council towards achieving its policy objectives and priorities, and review the effectiveness of the Council's work against agreed standards, targets and budgets. It is considered beneficial to have independent scrutiny outside of the committee which made the original decision. The scrutiny committee has met on a monthly basis since its creation.

The review was carried out with the input of all political groups, as well as that of senior officers in the Council. The review recognised the new corporate structure within the Council and was informed through research on the effectiveness of committee structures in other local authorities, namely a December 2013 briefing report from the Financial Scrutiny Unit provided an overview of the decision making structures of local authorities in Scotland.

Corporate governance arrangements (continued)

DRAFT

We raised four recommendations in the interim audit report, in respect of bank reconciliations, journal authorisation and organisational policies. We welcome the progress in implementing the recommendations. In addition, a further control recommendation has been made as a result of our year end audit work.

Internal controls

Scottish Borders Council management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the annual accounts. Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively.

The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work.

As part of our interim audit report, we raised four recommendations in relation to control weaknesses, all of which were due to implemented by 31 May 2015. In addition, a control deficiency in relation to the fixed asset register reconciliation was identified during our year end audit testing.

Recommendation two

As the financial and operating environment in which the Council operates continues to change, with developing priorities and new and emerging financial and non-financial risks, it is increasingly important that the Council plan, supporting service plans and other developments are underpinned by effective organisation-wide controls, robust financial management processes and effective key financial controls.

Termination of waste management contract

In 2014-15, £2.2 million was written off as a result of the termination of a waste management contract. We have reviewed the Council's decision making process in relation to the termination of the contract. Key points include:

- these costs do not include any early termination fees or additional costs claimed by NES, as a "no fault" termination provision formed part of the contract;
- the decision was considered and made by the Council in February 2015:
- information was provided by an internal project team, supported by appropriate external professional advisors; and
- appropriate options were considered and due diligence processes are evidenced as being followed.

We are satisfied that the Council has followed appropriate procedures in relation to this decision. We have reviewed the business case relating to this decision, which was presented in February 2015 and set out the options available to the Council. The recommendations were approved by Scottish Borders Council in February 2015 and a joint statement issued publicly thereafter.

Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risks, confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively. Since the conclusion of our interim work, we have noted improvements in processes. There have been no other changes to the operation of controls under review.

Corporate governance arrangements (continued)

DRAFT

The Council has procedures in place for the prevention and detection of fraud and corruption.

The Council has only commenced in August 2015 the follow up on matches identified.

Prevention and detection of fraud

No material fraud or other irregularities were identified during the year. The arrangements include policies and codes of conduct for staff and board members, supported by a fraud prevention policy and response plan. The Council participates in the national fraud initiative ("NFI") exercise, led by internal audit. We have discussed the Council's involvement in NFI opposite.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The Council has appropriate arrangements including policies and codes of conduct for staff and elected members, supported by a whistleblowing policy, and these are available to staff on the intranet. Management and members are responsible for setting the 'tone at the top' and are responsible for abiding by the code of conduct and disclosing interests which may be of importance, material or otherwise, to their work at the Council.

The Council is also supported in this regard by a standards committee which assists in monitoring and scrutinising councillor and senior officer conduct.

National Fraud Initiative ("NFI")

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

We completed a return to Audit Scotland in December 2014 in respect of the council tax single person discount to electoral roll NFI exercise.

We completed a further return in June 2015, where our review of the Council's NFI participation resulted in a red grading (defined by Audit Scotland as "unsatisfactory where improvement is required as a priority").

The Council has only commenced in August 2015 the follow up on matches identified, however a draft plan is being developed and implemented in phases to complete this work. The timeline shows that management anticipate sample checking matches, reviewing and updating the system to meet the timetable set out in NFI guidance for 2014-15.

It should be noted that not all matches require to be followed up, however the Council should be focusing on high quality matches.

Recommendation three

We consider that the Council has appropriate arrangements to prevent and detect fraud, inappropriate conduct and corruption.

However, the follow up of identified matches within the NFI process has not been carried out in a timely manner

Corporate governance arrangements (continued)

DRAFT

The Council's internal audit department supports management in maintaining sound corporate governance arrangements and internal controls. We have found internal audit to be compliant with the Public Sector Internal Audit Standards.

Internal audit

Internal audit is provided by the Council's internal audit department and supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses to management for action. The head of internal audit has direct access to the audit and risk committee and the chief executive.

Audit Scotland's Code of Audit Practice sets out the wider dimension of public sector audit. It requires external auditors to perform an annual assessment of the adequacy of the internal audit function. We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. This included a review of the internal audit charter, reporting lines, independence, accountability, objectivity and proficiency and the range of work carried out by internal audit. We also considered the requirements of International Standard on Auditing 610 *(Considering the Work of Internal Audit)*.

From this assessment, and considering the requirements of International Standard on Auditing 610, we can apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there was no impact on our planned substantive testing.

Internal audit has completed its agreed plan for the year ended 31 March 2015 and the annual report states that reasonable assurance can be placed on the overall adequacy and effectiveness of Scottish Borders Council's framework of governance, risk management and control for the year to 31 March 2015. The graphic opposite provides a summary of internal audit's work during the year.

Summary of internal audit work

- The agreed plan was broadly completed as planned for the year, with a few exceptions in agreement with management.
- 45 reviews completed.
- Out of a total of 34 recommendations, none were categorised as 'Priority 1 – high risk', eight as 'Priority 2 – medium risk', and 26 as 'Priority 3 – low risk'.
- Controls assurance statement provides reasonable assurance on the overall adequacy and effectiveness of the Council's governance framework, risk management and controls.
- Internal audit provides the Council with assurance over its control framework.

We have concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards.

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

Integration of health and social care

DRAFT

The integrated joint board receives its delegated powers as of 1 April 2016.

We have considered the Council's progress against milestones to date and its preparedness for key milestones for activities from 1 April 2016.

We consider the Council's progress to be appropriate and in line with most local authorities.

Health and social care integration

In March 2014 the Public Bodies (Joint Working) (Scotland) Act was passed by the Scottish Government. This requires all Councils and NHS Boards to formally and legally establish integration of health and social care by April 2016. We have considered the Council's progress against milestones to its preparedness for activities from 1 April 2016. All statutory requirements have been met to date.

Milestone	Summary observations	Our view
Establishment of Shadow Board	The shadow board met throughout 2013-14 and 2014-15. Terms of reference and functions to be delegated as part of its remit were discussed and agreed. There has been good attendance at meetings.	The shadow board has fulfilled its role during 2013-14 and 2014-15.
Approval of integration scheme and establishment of Integrated Joint Board ("IJB")	The integration scheme for Scottish Borders Council was submitted to the Scottish Government in April 2015. The IJB met for the first time on 27 April 2015.	The Council met statutory requirements in relation to the integration scheme. With the IJB already operating, this is ahead of many councils in Scotland.
Governance and membership arrangements	The voting and non-voting members of the IJB were formally appointed and draft standing orders are in place.	Progress is in line with expectations. Management will need to consider remits of committees within the Council due to the impact of services transferred to the IJB, to ensure they reflect the new responsibilities and maintain scrutiny of services.
Appointment of chief officer and chief finance officer	The chief officer was appointed at the first meeting of the IJB. In respect of the chief finance officer (section 95 officer), recruitment is ongoing.	A vacancy in the chief finance officer post is not unusual for IJBs at this stage. However, there is a risk to the IJB's readiness for 1 April 2016 given the requirement for financial planning and due diligence in advance of this date.

Integration of health and social care (continued)

DRAFT

Health and social care integration (continued)

Milestone	Summary observations	Our view
Development of strategic plan	Section 32 of the Public Bodies (Joint Working) (Scotland) Act places a duty on IJBs to establish a strategic planning group ("SPG") which is involved in all stages of developing and reviewing the strategic plan. Membership of the SPG and its role and remit have been approved by the IJB. A consultation on the joint strategic plan has been undertaken and the second draft was considered by the IJB on 22 June 2015 and the Board of NHS Borders on 25 June 2015. The final draft for formal consultation will be presented to the IJB in October, with the final version (incorporating comments received from consultation) expected to be approved by the IJB in February 2016.	We consider that progress with developing the strategic plan is on track, and that the SPG will act as an appropriate forum to develop the strategic plan.
Budgets	Annual accounts will be required for the joint board from 2015-16 onwards and it is anticipated that partners will include financial information regarding the joint board in annual accounts for the same period. There is currently an aligned budgetary process until 1 April 2016, therefore any overspends remain the responsibility of the individual partner organisations.	As minimal spend is expected in 2015-16 we are comfortable that no formal budget is required. A budget for 2016-17 will need to be formed, and appointment of a chief finance office is a key step to enable this to happen.
Communication	Scottish Borders Council has a Communications and Stakeholder Engagement Plan and keeps stakeholders informed of the progress of Health and Social Care Integration and the IJB through the Council website, a newsletter and a series of engagement events. A communications officer has been engaged. The website has sections on the background of integration, the draft strategic plan and answers to frequently asked questions. Minutes are also available online.	The Council website, newsletters and events are considered sufficient to keep stakeholders informed. The IJB has stated that feedback from the engagement events fed into the development of the second draft of the strategic plan.

Performance management

Our perspective on the performance management arrangements, including follow up work on Audit Scotland reports

Performance management

DRAFT

Our work has identified that the Council's Best Value and performance management arrangements are generally robust.

Performance management and Best Value

Scottish Government guidance on Best Value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

Included within the internal audit plan each year is a review of the systems for preparation and reporting of performance indicators, to provide assurance over best value. Internal audit considers best value as part of wider reviews, for example within the 2014-15 social enterprise grants review.

Our consideration of the work of internal audit, as part of our extended control work, did not indicate high risk findings within these areas. We consider that the Council has adequate processes to ensure best value. However we recognise that there are a number of criteria to consider within best value and the Council focuses its resources on particular areas.

In June 2015 Audit Scotland presented a report to the Accounts Commission summarising a review of all Scottish councils' response to the Commission's Statutory Performance Information Direction (2012). The Council scored favourably on the report, with full compliance in 12 of 18 themes. Areas for improvement identified include reporting on the following areas:

- staff engagement;
- property maintenance;
- criminal justice social work; and
- use of comparators.

Statutory performance indicator ("SPI") information is reported in detail on the Council's website, and progress is reported to the policy and performance review committee on a quarterly basis. We have prepared a report to Audit Scotland outlining the Council's process for collecting and reporting on SPIs.

We consider that the Council has appropriate arrangements to effectively manage performance and achieve Best Value in processes.

Performance management (continued)

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The Council has established processes for the consideration of Audit Scotland's national performance audits.

We have prepared a return to Audit Scotland in 2014-15 in respect of our findings on financial capacity within the Council.

Local response to national studies

Audit Scotland periodically undertakes national studies on topics relevant to the performance of local government bodies. To ensure that added value is secured through the role of Audit Scotland and its appointed auditors, auditors consider if audited bodies respond appropriately to reports from Audit Scotland's programme of national performance audits.

The Council has established processes for the consideration of national performance audits. All Audit Scotland performance audit reports are presented to the audit and risk committee. Presenting these to the audit and risk committee ensures members are aware of sector and national issues, and there is appropriate challenge for management in addressing any potential weaknesses.

Financial capacity in public bodies

Through the process of feedback within annual audit reports, current issues reports and sector meetings, Audit Scotland has identified that overall reductions in staff numbers in public bodies may be affecting the capacity of back-office functions and specifically finance.

Audit Scotland has requested the collation of baseline data across the public sector to inform sector specific overview reports and may inform a follow-up to the joint report on the public sector workforce which was published in November 2013 or support the development of the future performance audit programme.

We have completed a return to Audit Scotland in respect of our findings. Our review in response to the request for data collection identified that there is appropriate financial capacity within the organisation to ensure effective management. However, financial responsibility is concentrated and it is likely that with the establishment of the integrated health and social care joint board, responsibilities for the finance team will increase and capacity may be further stretched.

Recommendation four

We consider that the Council has appropriate arrangements to effectively respond to national studies.

We consider that the Council has appropriate financial capacity to effectively manage the organisation. Improvements could be made with regard to succession planning of key finance positions and ensuring capacity for the integration of health and social care.

Community Planning Partnership (CPP)

DRAFT

Audit Scotland carried out work in 2014 to assess the progress the CPP had made since its audit in 2012-13.

The latest Local Scrutiny Plan for the Council highlights that Audit Scotland also plans to carry out more follow-up work during 2015-16 to assess what further progress the CPP has made in addressing its improvement agenda.

Audit Scotland has audited 8 community planning partnerships (CPPs) since 2013 and produced a national report on community planning in Scotland *Community planning: turning ambition into action* in November 2014. The audit report on Scottish Borders Council CPP was published in March 2013 as part of the first tranche of three local CPP audits that took place during 2012-13. The audit focused on:

- whether the CPP set a clear strategic direction, with clear improvement priorities, agreed by all partners, which reflect the needs of the area and are based on effective community engagement;
- whether the CPP has effective governance and accountability arrangements, and is it able to demonstrate effective shared leadership which drives improved outcomes for the area;
- whether the CPP established effective performance management arrangements which are delivering performance improvements (including effective self-evaluation arrangements) and securing best use of public resources (including service integration); and
- whether the CPP could demonstrate that its actions are making a difference for the area and delivering improved outcomes for local people.

This report included a seventeen point improvement agenda for the CPP and in 2015 Audit Scotland carried out some follow up work to assess what progress the CPP has made in addressing these improvement areas.

Strategic direction

The CPP now has in place three clear key priorities; reducing inequalities, grow the economy and maximise the benefits of the low carbon agenda. Following the appointment of a communities and partnership manager and corporate performance and information manager last year, work has been taking place to develop a Performance Management Framework for the first of the key priorities, grow the economy. This has been scrutinised and approved by the Strategic Board and will be brought to them twice a year. This framework and approach for evaluation and monitoring will now be implemented for the other priorities.

Governance

Following an initial mapping of governance arrangements, there has been a streamlining and rationalisation of groups and sub groups that feed into the CPP. At the end of 2014 a review of the governance arrangements was carried out and the outcomes of this, alongside forthcoming changes from the Community Empowerment Act for the CPP will be presented to the Strategic Board in September 2016.

Aligning the work of partners

Partners are taking more responsibility for their contribution to the community planning process, although there is still a lack of clarity around the alignment of some individual partners priorities with the SOA. Whilst there has been little progress made in understanding the total resources available for all CPP work (which is acknowledged by the partnership), identifying resources and budgetary contributions from across the CPP partnership has been more successful at an individual project level.

Appendices

Mandatory communications

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Mandatory communications relate to the Council and its related bodies.

There were no audit adjustments which required adjustment for in the financial statements.

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	There were no audit adjustments required to the draft financial statements which impacted on the net assets or net operating cost for the year. A number of numerical and presentational adjustments were required to some of the financial statements notes, to add extra disclosures or to include additional information to aid the reader of the financial statements.	-
Unadjusted audit differences	We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you.	-
Confirmation of Independence Letter issued by KPMG to the audit and risk committee	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 two
Schedule of Fees Fees charged by KPMG for audit and non-audit services	Audit fees were agreed with management in accordance with the range specified by Audit Scotland. There were no non-audit services in 2014-15, but additional audit fees were agreed for the requested audit of Bridge Homes LLP.	-
Management representation letter Letters issued by the Council to KPMG prior to audit sign-off	We require representations from each of the audited bodies. There are no changes to the representations required for our audits from last year.	-

Auditor independence and non-audit fees

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Auditing Standards require us to consider and confirm formally our independence and related matters in our dealings with the Council.

We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.

Auditor independence

Professional ethical standards require us to provide to you at the conclusion of an 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.

We have considered the fees paid to us by the Council and its related entities for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

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

- instilling professional values;
- regular communications;
- internal accountability;
- risk management; and
- independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the audit and risk committee.

Confirmation of audit independence

We confirm that as of 30 September 2015, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the audit and risk committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

Defined benefit obligation

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In respect of employee benefits, each of the assumptions used to value the Council's net pension deficit are within an acceptable range of KPMG's expectations.

We set out below the assumptions in respect of employee benefits.

Defined benefit pension liability		
2015 £'000	2014 £'000	KPMG comment
(166,072)	(198,398)	In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.

Assumption	SBC 2013-14	SBC 2014-15	KPMG central	Comment
Discount rate (duration dependent)	4.5%	3.3%	3.25%	Acceptable. The proposed discount rates are within an acceptable range of KPMG's central rates as at 31 March 2015.
CPI inflation	RPI - 0.8%	RPI – 0.8%	RPI – 1.0%	Acceptable. KPMG's view is that the differential between RPI and CPI should be higher and closer to 1%. SBC's assumptions could therefore be considered prudent (i.e. resulting in a higher liability).
Net discount rate (discount rate – CPI)	1.7%	0.9%	1.00%	Acceptable. The proposed assumptions are within the acceptable range of +/- 0.3%.
Salary growth	RPI + 1.4%	RPI + 1.0%	Typically 0 –1.5% above RPI	Acceptable. The proposed assumptions are within the acceptable range.

The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of around 19 years. SBC's assumptions are towards the prudent end of KPMG's acceptable range.

A reconciliation from opening to closing deficit is included on the next page.

Defined benefit obligation (continued)

DRAFT

The table opposite shows the reconciliation of the movement in the movement of reserves statement.

Decreases to the pension scheme deficit in the year have been driven by changes to financial assumptions and growth in the value of the Fund's investment assets.

Our pension specialists have confirmed that the movements within I&E and movement in reserves statement are reasonable for the size and duration of SBC's pension scheme.

	£'000	Deficit / loss	Surplus / gain	Impact	Commentary
	Opening pension scheme deficit			**(198,398)**	The opening IAS 19 deficit for the Scheme at 31 March 2015 was £198.4 million (consisting of assets of £433.4 million and defined benefit obligation of £631.8 million).
I & E	Service cost			(16,394)	The scheme is open to accrual. The service cost represents the value of new benefits built up over the year.
I & E	Past service cost			(1,094)	A past service cost of £1.1 million is recognised, relating to early retirement over the year.
I & E	Net interest			(8,973)	This is the difference between the expected return on assets and the interest on the defined benefit obligation.
I & E	Unfunded pension payments			1,422	These total £1.4 million which is in line with the prior year.
Cash	Contributions			12,517	The Council made contributions of £12.5 million, broadly in line with contributions made last year.
OCI	Actuarial gain – demographic assumptions			35,030	There was an actuarial gain on the demographic assumptions of around £35.0 million.
OCI	Actuarial loss – financial assumptions			(75,272)	There was an actuarial loss on the financial assumptions of around £75.3 million. This is primarily driven by a 1.1% decrease in the discount rate assumption as a result of falls in corporate bond yields.
OCI	Other experience			47,711	Other experience re-measurements resulted in a gain of £47.7 million.
OCI	Return on assets			37,379	The return on plan assets, excluding net interest expense, was £37.4 million.
	Closing pension scheme deficit			**(166,072)**	The closing IAS19 deficit for the scheme at 31 March 2015 is £166.1 million (consisting of assets of £485.0 million and defined benefit obligation of £651.1 million).

I&E – impacts on surplus /(deficit) within statement of comprehensive income and expenditure statement

Cash – cash-flow impact

OCI – charged through other comprehensive income

Action plan

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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(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Transport infrastructure assets		**Grade three**
It is expected that the 2016-17 Code will adopt requirements of the *Code of practice on transport infrastructure assets* ("the transport code"), which requires measurement of these assets on a depreciated replacement cost basis. Local authorities are advised to develop a project plan to during 2014-15 to help achieve successful implementation. This information is already captured in the whole of government accounts ("WGA") submission. However this was not prepared in time for the initial submission. There is a risk that management will not have the depreciated replacement cost figures for transport infrastructure assets as at 1 April 2015 to allow for a restatement of the 2015-16 balance sheet in line with the requirements of the Code.	In respect of readiness for the 2016-17 code, whilst the Council is in line with other local authorities in its preparedness, a formal project plan has not been formed and the WGA submission for 2014-15 is yet to be provided. The transport infrastructure asset valuation is being completed for WGA, however staff acknowledge this does not yet represent a complete listing. Management should continue to work on completing the transport infrastructure assets tab of the WGA prior to final submission. Going forward, this should be included in the first submission.	Agreed. **Responsible officer:** Corporate Finance Manager **Implementation date:** 31 December 2015

DRAFT

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
2 Fixed asset reconciliation		**Grade three**
The client has not prepared a reconciliation between the fixed asset register and general ledger at year end. There is a risk that these do not agree and then differences are presented on the balance sheet. Our testing did not identify any differences, however in future, if there were differences there is a risk that they would not be addressed in a timely manner. It is noted however that the Council implemented a new fixed asset register during the year and that a reconciliation to the general ledger was carried out before and after data migration which was reviewed.	Management should ensure a reconciliation is prepared in advance of the year end audit to confirm that the financial ledger has captured fixed assets correctly.	Agreed. **Responsible officer:** Accounting Manager **Implementation date:** 30 June 2016
3 National Fraud Initiative		**Grade three**
We completed a return to Audit Scotland in June 2015 to review the Council's participation in NFI. This resulted in a red grading, defined by Audit Scotland as "unsatisfactory where improvement is required as a priority". The Council has only commenced in August 2015 the follow up on matches identified, however a draft plan is being developed and implemented in phases to complete this work. The timeline shows that management anticipate sample checking matches, reviewing and updating the system to meet the timetable set out in NFI guidance for 2014-15.	The Council should follow up on matches identified in a timely manner. In respect of the most recent exercise, it is recommended that the Council ensures the plan for completion is followed. It should be noted that not all matches require to be followed up, however the Council should be focusing on high quality matches.	Agreed. **Responsible officer:** Corporate Fraud and Compliance Officer **Implementation date:** In progress, though to be completed by 31 March 2016

DRAFT

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
4 Financial capacity in public bodies		**Grade three**
We completed a return to Audit Scotland in respect of our findings on financial capacity within the Council. Our review in response to the request for data collection identified that there is appropriate financial capacity within the organisation to ensure effective management. However, financial responsibility is concentrated and it is likely that with the establishment of the integrated health and social care joint board, responsibilities for the finance team will increase and capacity may be further stretched.	It is recommended that management consider its responsibilities in terms of the integrated joint board and ensure these are allocated to appropriate individuals. Preparation of the annual accounts of the integrated joint board should be included within the year end timetable for 2015-16 onwards. Annual accounts will be required for the period from the date of establishment of the Integration Joint Board, on the basis that there will be relevant transactions, such as Integration Joint Board operating costs,	Agreed. **Responsible officer:** Chief Finance Officer **Implementation date:** 31 December 2015

Interim audit findings and recommendations

DRAFT

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Organisational policies		**Grade three**
Council policies state that they will receive an annual review, however these have not been evidenced as carried out on some of the policies we have reviewed as part of our interim audit. For example, the last review of the IT password policy is dated 11/11/2011 and the last review of the IT security policy was carried out April 2013. In addition, we made a similar recommendation in the prior year that policies should be updated, specifically the Housing and Council Tax Benefit Counter Fraud Policy (2010). It was confirmed by review of the policy on the intranet that it has not been updated.	The relevant policies should be reviewed and updated as necessary on the frequency stated in the policy. We note that since our interim audit the password policy and the security incident reporting and management procedure (associated with the computer security policy) have been reviewed and endorsed by the council's information governance group but have yet to be published on the intranet. We will review this again at our final audit and recommend that in future review is carried out as necessary on the frequency stated in the policy.	Agreed. **Responsible officer(s):** Chief Officer - IT **Implementation date:** 31 May 2015
2 Bank reconciliations		**Grade three**
Bank reconciliations have been prepared for each month, they have been signed as reviewed and prepared but they are not dated to indicate when the preparation and review took place. Therefore we cannot ensure that these are being prepared on a timely basis. In addition, bank balances are not fully reconciled to the ledger each month and there are balancing figures which cannot be explained at the time of our interim audit. The largest in the two months that we sampled was £48,500 in June 2014. Staff are looking into this and these balances will be reconciled or written off at year end (31 March 2015).	Differences become harder to reconcile as more time passes, therefore the risk is that there will be differences which cannot be reconciled. The differences identified are not material at present, therefore there are no concerns that this could potentially lead to a material misstatement. However, bank balances should be fully reconciled on a regular basis.	Agreed. **Responsible officer(s):** Chief Financial Officer **Implementation date:** 31 May 2015

Interim audit findings and recommendations (continued)

DRAFT

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
3 Journal authorisation		**Grade three**
We found that 4 journals from our sample of 25 did not have documentation to support the performance of the authorisation control. Confirmation of authorisation of these journals had not been retained as required and therefore we could not confirm that this had been received before the journal was released. However, as a mitigating measure we were able to verbally confirm this, as well as reviewing supporting documentation to confirm that the journal was not posted in error.	All staff should follow the authorisation control as designed. Management could consider communicating with staff and circulating a reminder of the process.	Agreed. **Responsible officer(s):** Chief Financial Officer **Implementation date:** 31 March 2015
4 Password policy		**Grade three**
The password policy states that all organisational passwords should be a minimum of 9 characters, however this is not followed by the FIS system. In addition, we made a similar recommendation in the prior year that the policy should be updated to state the systems that this does not apply to. It was confirmed by review of the intranet that this policy has not been updated.	The password policy should be updated to explicitly state that these minimum password requirements do not apply to the systems that cannot support the required level of complexity.	Agreed. **Responsible officer(s):** Chief Officer - IT **Implementation date:** 31 May 2015

cutting through complexity