

SCOTTISH BORDERS COUNCIL AUDIT COMMITTEE

MINUTES of Meeting of the AUDIT
COMMITTEE held in via Microsoft Teams on
Wednesday, 23 November 2022 at 2.00 pm

Present:- Councillors E. Thornton-Nicol (Chair), N. Richards (Vice-Chair), J. Anderson, P. Brown, M. Douglas, J. PatonDay, E. Robson, S. Scott, F. Sinclair, Mr S. Whalley and Mr P. Whitfield

Apologies:- Councillors J. Cox

In Attendance:- Acting Chief Executive, Acting Chief Financial Officer, Chief Officer Audit and Risk; Ms G. Woolman, Mr A. Haseeb, and Ms J. Law (Audit Scotland; and Democratic Services Officer (W. Mohieddeen).

CHAIR'S REMARKS

The Chair welcomed Members, officers and observers to the Meeting. The Chair extended a welcome to Mr Whalley and Mr Whitfield who had been selected as External Members of Audit Committee and were to have their appointments confirmed by a meeting of Scottish Borders Council on 24 November 2022.

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 12 September 2022.

DECISION

AGREED to approve the Minute for signature by the Chair.

2. **ANNUAL TREASURY MANAGEMENT REPORT 2021-22**

- 2.1 There had been circulated copies of a report by Acting Chief Financial Officer that presented the annual treasury management activities undertaken during the 2021-22 financial year. The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) required an annual report on treasury management to be submitted to Council following the end of each financial year. The report highlighted the Council's treasury activity undertaken in the year ended 31 March 2022 and the performance of the Treasury function. Appendix 1 of the report is the annual report of treasury management activities for 2021-22 and contained an analysis of performance against targets set in relation to Prudential and Treasury Management Indicators. The performance comparisons reported were based on the revised indicators agreed as part of the mid-year report approved on 16 December 2021. The Appendix showed the Council's borrowing requirement to fund the capital investment undertaken during 2021-22, how much the council actually borrowed against the sums budgeted and the level of external debt within approved limits. During the year, the Council had, where possible, deferred borrowing using surplus cash rather than undertaking new borrowing. However, in March 2022, the Council did proactively undertake long-term borrowing of £20 million toward the financing of the capital program before interest rates were increased by the Bank of England, saving £3.94m over the life of the loan on a comparable basis to 2 November 2022 rates. Treasury management activity for the year had been undertaken in compliance with approved policy and the Code. The Council remained under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2022.

- 2.2 The Acting Chief Financial Officer presented the report and answered Members' questions. The Acting Chief Executive explained that overnight rates were a means to manage Council's cash in a proactive way to maintain an appropriate overdraft facility and put surplus cash to a positive third party. The approach to the investment strategy was to address the security of SBC money, assure liquidity and then, as a tertiary priority, obtain yield on investments. With regards to borrowing undertaken on 10-year fixed-rate terms, it was explained that the rates on which money was borrowed at would be fixed for the duration of the 10-year term and that treasury management advisers, Link Asset Services, would be consulted on re-borrowing. The Chief Officer Audit and Risk advised that Link Asset Services recently held a training seminar on Capital Strategy and Treasury Management to support the learning and development of new Members to the Audit Committee and was also a useful refresher for continuing Members; the seminar was an open invite to all Members. Link Asset Services expressed willingness to share the training slides on request for Members of the Committee and the wider Council that weren't able to attend. Members raised a number of typing errors in the Report that would be addressed before being presented to Council.

DECISION

AGREED:

- (a) **That treasury management activity in the year to 31 March 2022 was carried out in compliance with the approved Treasury Management Strategy and Policy as detailed in this Report and in Appendix 1 of the Report; and,**
- (b) **To address typing errors in the Report before presented to Scottish Borders Council.**

3. EXTERNAL AUDIT ANNUAL REPORTS 2021-22 - SCOTTISH BORDERS COUNCIL PENSION FUND 2021 ANNUAL AUDIT REPORT

- 3.1 There had been circulated copies of the Audit Scotland Scottish Borders Council Pension Fund 2021-22 Annual Audit Report. Ms Woolman introduced Mr Asif Haseeb to present the report. Mr Haseeb explained that report had been presented to the Pension Fund Joint Board/Committee and was before the Audit Committee for information. Mr Haseeb emphasised that the Council was the administrative authority for the fund and stewarded a fund of over £900 million. There were no significant audit findings; however there were four recommendations made which were detailed in Appendix 1 of the report and which were accepted by officers with an agreed action plan. Appendix 1 of the report also set out the progress on recommendations for the previous year. Mr Haseeb summarised the key messages of the report which were that:

- The audit opinions on the annual report and accounts are unmodified;
- The financial statements of Scottish Borders Council Pension Fund gave a true and fair view of the state of affairs of the Fund as at 31 March 2022 and have been properly prepared in accordance with the financial reporting framework;
- the Fund paid out more than it collected annually from fund members, with investment returns making up the difference;
- the value of the Fund increased by 5.9% to £911 million during 2021-22, but investment performance was below the benchmark return set for the year;
- the Fund has appropriate and effective financial management arrangements in place which included comprehensive reporting of investment performance;
- recent triennial valuations provided assurance over the financial sustainability of the fund and the viability of its funding strategy;
- the Fund reviewed its investment strategy following the March 2020 triennial valuation and would continue to diversify the investment structure to support income generation,
- governance arrangements had been appropriate and operated effectively;
- there was effective scrutiny, challenge and informed decision-making by committee;
- the Fund actively considered Environmental, Social and Governance matters as part of its Investment Strategy;

- the Fund had an appropriate best value framework in place which included effective arrangements for monitoring investment performance and scrutinising management expenses;
- Scottish Borders Council Pension Fund was awarded Local Government Pension Scheme (LGPS) Fund of the Year (assets under £2.5bn) at the LAPF Investments Awards; and,
- 2021-22 was a challenging year for Scottish Local Government Pension Schemes. Ten of the eleven funds in Scotland still reported positive movements in net assets during the year, but only three of those funds, not including Scottish Borders, reported above benchmark returns.

3.2 In response to questions from Members, Mr Haseeb confirmed Audit Scotland was satisfied the incidence of an error in calculation of pension benefits was an isolated one and that retesting was not necessary. Discussions had taken place with management and Audit Scotland was satisfied with the response received. Mr Robertson advised that advice was sought on the incident, including from the Strathclyde Pension Fund, and that an isolated error was made which management understood why it happened and steps were taken to learn lessons so the mistake would not happen again. Mr Haseeb further advised that Audit Scotland that testing on transfers did not raise significant concerns and that future auditors may wish to look into this area.

DECISION

NOTED Scottish Borders Council Pension Fund Annual Report 2021-22 from the Council's External Auditor.

4. EXTERNAL AUDIT ANNUAL REPORT 2021-22 - AUDIT SCOTLAND SCOTTISH BORDERS COUNCIL ANNUAL REPORT

4.1 There had been circulated copies of the Audit Scotland Scottish Borders Council annual report and associated covering letters. The report explained that the external auditors' work on the 2021-22 annual accounts was substantially complete and subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of annual accounts for final review, Audit Scotland anticipated being able to issue a modified but unqualified audit opinion in the independent auditor's report on 24 November 2022. Members discussed the timing of the paper's submission to the committee. Ms Woolman apologised for the late submission of the paper to the meeting, however the report had not been scheduled to be submitted for September 2022. Prior to the Covid-19 pandemic, the audited annual accounts were usually concluded by 20 September each year. An agreement had been reached with the Scottish Government that the revised deadline for audited annual accounts would be 30 November and Audit Scotland were delighted that the paper was submitted in time for a meeting of Scottish Borders Council on 24 November for approval of the accounts. The date of the meeting was changed in light of difficulties that encountered during the audit. Ms Woolman recognised that finance team and audit team had worked very well together in partnership in preparation of the unaudited and audited accounts.

4.2 Ms Woolman highlighted in paragraph 5 of the report that there were no unadjusted misstatements yet to be corrected. Furthermore, in presenting the report to the Audit Committee, confirmation was sought from those charged with governance of any instances of any actual, suspected or alleged fraud, any subsequent events that have occurred since the date of the financial statements, or material non-compliance with laws and regulations affecting the entity that should be brought to the attention of the external auditors. Normally Audit Scotland are kept informed of those matters during their liaison with officers. A letter of representation from the Acting Chief Financial Officer was further sought, which was regarded as standard at the conclusion of an audit. Ms Woolman confirmed that the external auditors gave an unqualified audit opinion on the annual accounts. Furthermore, in the opinion of the external auditor, the financial statements gave a true and fair view in accordance with applicable law and the 2021-22 Code of the state of affairs of the Council and its group as at 31 March 2022 and of the income and

expenditure of the Council and its group for the year then ended. Ms Woolman presented a summary of the annual audit report for members. Audit Scotland were positive that management sought additional expertise regarding the valuation of land and buildings which resulted in a significant upward revaluation of assets. Related to common good fund assets, Council officers had been diligent in recognising that assets constructed on common good land be identified as belonging to the common good, and where assets were used constantly by the Council, it was more appropriate for them to be recognised as finance leases in the Council's balance sheets. These adjustments were made to Audit Scotland's satisfaction. With regards to transaction of Covid-19 grants, these were incorrectly included within the 2021-22 comprehensive income and expenditure statement as Scottish Borders Council was acting as agent on behalf of the Scottish Government. This was an administrative error and appropriate adjustments had been made to ensure that the income and expenditure were not materially mis-stated.

- 4.3 A number of questions were raised on the annual accounts. Close attention was paid to what was reported in Management Commentary and supporting evidence. The audit opinion covered the Management Commentary and that a correct balance was made in terms of backward and forward view. Audit Scotland tested that the Management Commentary was able to act as a standalone document. Testing was not made on detailed function as this would ordinarily be the role of Internal Audit; however Audit Scotland would assess whether appropriate internal arrangements were made to look into it. Mr Whalley asked for Council to be aware that Audit Committee did not receive enough time to review the report in detail, however the verbal report from the external auditors was reassuring. With regards to International Accounting Standard (IAS) 19 employee benefits and the impact on SBc Contracts, Ms Woolman explained that in the balance sheet of Scottish Borders Council, there was an IAS 19 liability related to the difference between assets and liabilities of pension fund as pertained to employees of Council. SBc Contracts own IAS 19 liability was contained within the Council overall liability. The Acting Chief Financial Officer explained that SBc Contracts delivered an operating surplus however there was a requirement to make technical statutory adjustments related to IAS 19. The pension adjustment valued all future pension liabilities if pension payments were made at present. The Acting Chief Executive advised that SBc Contracts had previously been classified as a direct labour organisation (DLO), and when the relevant legislation lapsed SBc Contracts was then reclassified as a significant trading organisation. This meant that it needed to be accounted related to IAS 19. SBc Contracts was performing more work internally and whether being a significant trading organisation was still relevant.

MEMBER

During discussion of the item, Councillor Douglas left the meeting.

- 4.4 The Acting Chief Financial Officer explained that external turnover of SBc Contracts increased from £2.1 million to £5.1 million from 2020-21 to 2021-22 which was likely due to restrictions in ability for SBc Contracts to do external work during 2020-21. The Acting Chief Financial Officer confirmed that the Chief Legal Officer would be the responsible officer for Follow-up of Prior Year Recommendations Action 2 Assets on Common Good Land. The Chief Officer Audit and Risk recommended that, with regards to Follow-up of Prior Year Recommendations Action 7 Best Value Action Plan, the Chair recommended to Council that Audit Committee would continue to scrutinise progress toward full completion of actions.
- 4.5 Ms Woolman confirmed that it was the final meeting for the external audit team, and extended thanks to finance officers, internal auditors and wider officer teams that have assisted Audit Scotland with their audit. The chair thanked Ms Woolman and the external auditors for the work on the audit.

DECISION

NOTED the Annual Reports from the Council's External Auditors prior to Council approval.

5. AUDITED ACCOUNTS 2021-22

- 5.1 With reference to paragraph 10 of the Minute of the Meeting held on 27 June 2022, there had been circulated copies of a report by Acting Chief Financial Officer that presented Members with copies of the Council's audited Annual Accounts for 2021-22. The audit appointment of Audit Scotland for Scottish Borders Council (SBC) accounts included the requirement to provide an auditor's report for the Council as well as related charities. KPMG had continued to provide the external audit of the Council subsidiary Bridge Homes. 2021-22 represented the sixth year of Audit Scotland undertaking of the External Audit of the Council's Annual Accounts with the process completed. As required under the Local Authority Accounts (Scotland) Regulations 2014, the audited Annual Accounts for Scottish Borders Council, SBC Pension Fund, SBC Common Good Funds, the SBC Charitable Trusts, Bridge Homes LLP and Lowood Tweedbank Ltd were being presented to the Audit Committee prior to signature. KPMG had concluded their audit of Bridge Homes LLP and had raised no issues or matters to report.
- 5.2 Mr Haseeb highlighted minor changes since the report had been circulated with the agenda which officers had corrected related to typing errors in the contents page, name of the committee and in notes to the accounts. The Chair highlighted that a playpark that was noted as having opened in St Boswells had in fact been opened in Newtown St Boswells. The Acting Chief Financial Officer advised that the changes would be made before the accounts were signed. The Acting Chief Financial Officer summarised the report and responded to questions from members. Ms Woolman advised that Councils did not have guidance for what level of percentage should aim for in Reserves to cover risk. The Acting Chief Executive advised that most local authorities aimed for 2-4% of net expenditure as an allocated contingency balance and that Scottish Borders Council sat at just over 2%. Mr Whitfield highlighted a typing error on page 70 of the report with regards to the comparative years which the Acting Chief Financial Officer confirmed would be corrected prior to signing of the accounts.

DECISION

(a) AGREED to recommend the following accounts for officer signature and Council approval:

- (i) the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2022;**
- (ii) the Scottish Borders Council's Pension Fund audited Annual Accounts for the year to 31 March 2022;**
- (iii) the Scottish Borders Council Common Good Funds (Charity SC031538) audited Annual Accounts for the year to 31 March 2022;**
- (iv) the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2022;**
- (v) the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2022;**
- (vi) the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2022;**
- (vii) the SBC Ormiston Trust for Institute (Charity SC019162) audited Annual Accounts for the year to 31 March 2022;**

- (viii) the Scottish Borders Council Charitable Trusts (Charity SC043896) audited Annual Accounts for the year to 31 March 2022;**
 - (ix) the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2022; and,**
 - (x) Lowood Tweedbank Ltd Annual Accounts for the year to 31 March 2022,**
- (b) AGREED to address typing errors in the Report before presented to Scottish Borders Council.**

CHAIR'S REMARKS

The Chair thanked Ms Woolman, Mr Haseeb, Ms Law and previous members of the external audit team; that the Committee would look forward to working with the new external audit team, welcomed Mr Whalley and Mr Whitfield as new external members of the committee; and all officers including the Acting Chief Executive, Acting Chief Financial Officer, and the finance team.

The meeting concluded at 3.40 pm.