

# Scottish Borders Council

2022/23 Annual Audit Report – PROPOSED



 AUDIT SCOTLAND

Prepared for the Members of Scottish Borders Council and the Controller of Audit  
September 2023

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# Key messages

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## 2022/23 annual accounts

- 1 Our audit opinions on the annual accounts of Scottish Borders Council (the Council) and its group are unmodified, i.e., the financial statements and related reports are free from material misstatement.
- 2 Adjustments have been made to the annual accounts as a result of the audit process as detailed in Exhibit 2 of the report.

## Financial management and sustainability

- 3 The Council continues to balance its budget each year and operated within budget in 2022/23. While facing significant financial challenges through inflationary pressures on pay and non-pay costs as well as demand on services, the Council continues to demonstrate sound financial management maintaining reserves in line with the long term Revenue Financial Strategy.
- 4 There are appropriate and effective budget setting, financial management and monitoring arrangements in place.
- 5 Medium and longer-term financial plans reflect the Council's strategic priorities and outcomes.

## Best Value

- 6 The Council plan outlines the Council's vision for 2033 and elected members have shaped that vision.
- 7 The Council has elements of an effective performance framework but needs to ensure it can measure its performance against clearer outcome-based targets for the next ten years.
- 8 A Best Value Assurance Report on Scottish Borders Council was published in October 2019, containing seven improvement recommendations. The Council has concluded these have now been addressed.

## Vision, leadership and governance

- 9 Governance arrangements are appropriate and operated effectively.
- 10 There is effective scrutiny, challenge and informed decision making.

## **Use of resources to improve outcomes**

- 11** There is strong partnership working to meet the health and social care challenges facing the Scottish Borders.
- 12** The Council failed to comply with the statutory requirement for their significant trading operation, SBc Contracts to break even.

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# Introduction

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1. This report summarises the findings from the 2022/23 annual audit of Scottish Borders Council. The scope of the audit was set out in our Annual Audit Plan presented to the 13 March 2023 meeting of the Audit Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Scottish Borders Council's annual accounts
- conclusions on Scottish Borders Council's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
  - Financial Management
  - Financial Sustainability
  - Vision, Leadership, and Governance
  - Use of Resources to Improve Outcomes.

2. This report is addressed to the members of Scottish Borders Council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment from 2022/23

3. I, John Boyd, have been appointed by the Accounts Commission as auditor of Scottish Borders Council for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank councillors, audit committee members, senior management, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

## Responsibilities and reporting

5. Scottish Borders Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. Scottish Borders Council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

**6.** The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

**7.** Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of Scottish Borders Council from its responsibility to address the issues we raise and to maintain adequate systems of control.

**8.** This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

## **Auditor Independence**

**9.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £328,340 (£323,340 in respect of the Council and £5,000 in respect of the Trust accounts) as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**10.** We add value to Scottish Borders Council by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

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# 1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

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## Main judgements

Our audit opinions on the annual accounts of Scottish Borders Council (the Council) and its group are unmodified, i.e., the financial statements and related reports are free from material misstatement.

Adjustments have been made to the annual accounts as a result of the audit process as detailed in Exhibit 2 of the report.

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## Audit opinions on the annual accounts are unmodified

**11.** The Council approved the annual accounts for Scottish Borders Council and its group for the year ended 31 March 2023 on 28 September 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with the financial reporting framework
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## Overall materiality for the group was assessed as £9.350 million

**12.** Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

**13.** Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#). The revision had no impact on our audit approach.

## Exhibit 1

### Materiality values

Materiality level	Council	Group
Overall materiality	£9.0 million	£9.350 million
Performance materiality	£5.4 million	£5.6 million
Reporting threshold	£250,000	£250,000

**Source: Audit Scotland**

**14.** The overall materiality threshold for the audit of the annual accounts of the Council was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

**15.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60 per cent of overall materiality, reflecting findings reported in prior years.

**16.** It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

### Significant findings and key audit matters

**17.** Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the body's accounting practices.

**18.** The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. The significant findings are summarised in [Exhibit 2](#).

## Exhibit 2

### Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p><b>1. Valuation of land and buildings</b></p> <p>A number of issues have been identified from our testing of land and buildings assets:</p> <ul style="list-style-type: none"> <li>• Buildings valued using depreciated replacement cost (DRC) were sample tested and issues identified. The accuracy of underlying data and assumptions (including obsolescence) was incorrect, and these have been revisited by the valuer. Our sample was overstated by £ 0.64 million. Further work was carried out which increase and decreased values of DRC assets with a final position of £0.13 million understatement.</li> <li>• An impairment review did not identify that Parkside primary school buildings had been demolished in year. Assets were overstated by £1.19 million.</li> </ul>	<p>No adjustment has been made in the accounts. We are satisfied that the errors identified are not material to the accounts.</p> <p><b>Recommendation 1</b> (Refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>2. Significant trading operation</b></p> <p>The Council has one significant trading operation (STO), SBc Contracts. Under the Local Government in Scotland Act (2003) the trading accounts of significant trading operations have a prescribed objective to break even over a rolling three-year period.</p> <p>SBc Contracts reported an operating surplus of £1.299 million in 2022/23. However, following technical accounting adjustments for IAS 19 Employee Benefits (including pensions), the final position was a deficit for 2022/23 of £75,000 for external works and a three-year cumulative deficit of £0.331 million.</p>	<p>The Council should carry out a review of SBc Contracts to examine the cost effectiveness of the service provided to ensure that it continues to represent best value for the Council.</p> <p>There is no impact on our Independent Auditor's Report.</p> <p><b>Recommendation 2</b> (Refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>3. Internal recharges</b></p> <p>In 2022/23, a total of £14.2 million of infrastructure asset additions were completed by SBc Contracts. Included in this is a 16 per cent profit margin, equivalent to £2.3 million.</p> <p>As SBc Contracts is a significant trading operation of the Council, this would not be classed as a cost which is wholly attributable to bringing the asset into use, in line with IAS 16.</p>	<p>No adjustment has been made in the accounts. We are satisfied that the maximum potential error is not material to the accounts.</p> <p><b>Recommendation 3</b> (Refer <a href="#">Appendix 1</a>, action plan)</p>

Issue	Resolution
<p>£2.3 million represents the maximum error which would be identified in the accounts, but further work needs to be carried out by the Council to fully understanding the costings model in place.</p>	
<p><b>4. Pension ceiling asset</b></p> <p>The unaudited accounts recognised the Council's share of its local government pension scheme assets and liabilities as at the balance sheet date. In the unaudited accounts, the net pension asset was recognised in accordance with IAS 19: Employee Benefits of £64.297 million.</p> <p>IFRIC 14 limits the measurement of the net defined benefit asset to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. In accordance with IFRIC 14, the pension asset derived through IAS 19 valuation should be capped in accordance with IFRIC 14 at the pension asset ceiling. This represents the economic benefit available as a reduction in future contributions.</p>	<p>The Council engaged with the actuary, Hymans Robertson, to provide an actuarial valuation of the net pension asset ceiling (cap) in accordance with IFRIC 14.</p> <p>This information was not received from the actuary before the unaudited accounts were submitted to audit.</p> <p>This is calculated as the Present value of IAS 19 future service costs (calculated based on IAS 19 assumptions as at the balance sheet date) less the Present value of future service contributions. This has been calculated as £32.666 million and is reflected in the updated accounts.</p> <p>The audit team have reviewed the actuarial assumptions applied and basis of calculation and satisfied that this is appropriate and that the net pension asset ceiling has been appropriately capped in accordance with IFRIC 14.</p>
<p><b>5. Assets on Common Good Land</b></p> <p>A judicial review concluded that all Council assets built on Common Good land cannot be considered as owned separately from the land they stand on and are therefore Common Good assets. The Council has a number of operational assets which stand on Common Good land.</p>	<p>The current accounting treatment reflects the substance of the transaction but that the Council should look to establish a formal agreement between the Council and common good funds for the use of the assets.</p> <p><b>Recommendation 4</b></p> <p>(Refer <a href="#">Appendix 1</a>, action plan)</p>

Source: Audit Scotland

## Our audit work responded to the risks of material misstatement we identified in the annual accounts

**19.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we

performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Considered the need to test journal entries and other adjustments during the period.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year</p>	<p><b>Results:</b> We found no instances of material misstatement due to fraud caused by management override of controls.</p>
<p><b>2. Estimation in the valuation of land and buildings.</b></p> <p>Scottish Borders Council held land and buildings with a NBV of £458 million as at 31 March 2022. Land and building asset categories are revalued on a five-year rolling basis and following</p>	<p>Reviewed the information provided to the external valuer to assess for completeness.</p> <p>Evaluated the competence, capabilities, and objectivity of the internal and external professional valuers.</p> <p>Obtained an understanding of the management's involvement in the valuation process to</p>	<p><b>Results:</b> Our findings in respect of the audit work we carried out are detailed in <a href="#">Exhibit 2</a>.</p> <p>Adjustments have been made to the financial statements to ensure that the carrying value of land &amp; buildings represent fair value at 31 March 2023.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>an audit recommendation the valuation date has been changed from 1 April to 31 March.</p> <p>There can be a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p>	<p>assess if appropriate oversight has occurred.</p> <p>Critically assessed the approach Scottish Borders Council has adopted to assess the risk that assets not subject to valuation are materially misstated, consider the robustness of that approach and the appropriateness of any assumptions made.</p> <p>Tested the reconciliation between the financial ledger and the property asset register.</p> <p>Reviewed the reasonableness of the underlying assumptions used in the valuation and confirmed that the valuations were undertaken in accordance with the CIPFA Code of Practice on Local Authority Accounting.</p>	<p>Assurance has been gained that there are no material misstatements in the carrying value of land &amp; buildings.</p>

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**Source: Audit Scotland**

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**20.** In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- The review of legal agreements relating to, and accounting treatment of those assets utilised by Scottish Borders Council, but which have been identified as properly owned by the Common Good.
- The pension liability valuation due to the material value and significant assumptions used in the calculation of the liability. We will utilise the work of PwC as auditor expert in assessing the reasonableness of the methodology used and assumptions made by the Council’s actuary, Hymans Robertson LLP, in arriving at the IAS 19 pension valuation as at 31 March 2023.
- In 2021/22, the Council failed to comply with the statutory requirement for their significant trading operation, SBc Contracts to break even. A matter reported by exception was included within our Independent Auditor’s Report. The presentation and disclosure of significant trading operations will be reviewed to determine if there are any implications for our Independent Auditor’s Report.

**21.** We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, we have outlined our recommendations as set out in [Exhibit 2](#).

## **Identified misstatements of £6.7 million were adjusted in the financial statements**

**22.** In addition to the misstatements outlined in [Exhibit 2](#), other misstatements of £6.7 million were identified in the annual accounts and are detailed within [Appendix 2A](#). As noted in [Exhibit 2](#) the adjustment relating to the net pension asset ceiling of £31.6 million related to late information from the actuary. Adjustments have been processed to the annual accounts for the above misstatements. We concluded that further audit procedures were not required as the misstatements arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

## **There were number of non-material misstatements identified within the financial statements**

**23.** We identified a number of misstatements which were not corrected by management in the audited accounts. We considered the size, nature and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material. Further details of the uncorrected misstatements are included in [Appendix 2B](#).

## **The unaudited annual accounts were received in line with the agreed audit timetable**

**24.** The unaudited annual accounts were received in line with our agreed audit timetable on 29 June 2023. Scottish Borders Integration Joint Board (the IJB) figures were not included in the group accounts, as information had not been received from the IJB.

## **Limited progress was made on prior year recommendations**

**25.** The Council has made limited progress in implementing prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

## 2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

### Conclusion

The Council operated within budget in 2022/23.

The Council continues to balance its budget each year and the level of reserves is in line with the long term Revenue Financial Strategy.

There are appropriate and effective budget setting, financial management and monitoring arrangements in place.

### The Council operated within budget in 2022/23

**26.** The Council approved its 2022/23 budget in February 2022. The budget was set at £324.9 million, including the use of £2.4 million of earmarked reserves carried forward from 2021/22 and £8.1 million of savings. The budget was prepared against the significant financial uncertainty caused by the Covid-19 pandemic.

**27.** The decision was made to redirect the Covid-19 reserve to a “Recovery Fund” and to utilise this fund to balance the 2022/23 budget. The remaining balance of £5.8 million within the Recovery Fund was drawn down as required to meet identified financial pressures arising during the year.

**28.** The Council has a good track record of delivering services within budget over several years. The actual outturn for the year was expenditure of £323.4 million, which was an underspend of £1.5 million against the final approved budget for the year.

**29.** The more significant under and overspends are summarised in [Exhibit 4](#).

### Exhibit 4

#### Summary of significant under/overspends against budget

Area	£m	Reason for variance
<b>Underspends</b>		
Infrastructure and Environment	1.14	Underspend in temporary accommodation and catering. There are compensating overspends within Resilient Communities and School Meals.

Area	£m	Reason for variance
		The net position for I&E is an underspend of £0.868 million primarily being driven by an increased surplus within SBc Contracts, additional income and staff turnover.
Social Work & Practice and Public Health	0.48	Underspend in Older People, People with Physical Disabilities and Joint Mental Health Services.
Finance & Corporate Governance	0.21	Staff turnover and discretionary underspends
People, Performance & Change	0.23	Staff turnover, additional income and discretionary spend savings
<b>Overspends</b>		
Strategic Commissioning & Partnerships	0.51	Information Technology being over budget due to increased service charges and mobile telephony costs

Source: Scottish Borders Council 2022/23 Annual Accounts

## The Council has appropriate and effective budget setting and monitoring arrangement in place

**30.** The Council continues to balance its budget each year and maintains the level of reserves is in line with the long term Revenue Financial Strategy.

**31.** The Council has an Executive Committee with 17 members, half of all council elected members. This operates as the overall strategic committee for the Council and has cross-party membership. The Executive Committee receive regular revenue and capital monitoring reports and, from a governance perspective, conducts detailed scrutiny of financial performance.

**32.** From our review of these reports, we concluded that these provide an overall picture of the budget position at service level and good explanations for significant variances against budget. These allow both members and officers to carry out scrutiny of the Council's finances.

**33.** Council members worked collaboratively to set the Council budget for 2023/24. A cross party budget working group was established as a mechanism to support this and facilitated robust early discussions that enabled scenarios and options to be worked through.

**34.** The Council has appropriate and effective budget setting and monitoring arrangements in place.

## **The level of General Fund reserves has decreased slightly however uncommitted reserves is in line with the financial strategy**

**35.** One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves reduced slightly from £64.5 million in 2021/22 to £62.2 million in 2022/23. The General Fund is the largest usable reserve and is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of such expenditure. The total level of general fund reserves has reduced from £51.991 million in 2021/22 to £49.647 million in 2022/23. However, the level of uncommitted reserves has increased from £9.849 million in 2021/22 to £9.980 million in 2022/23.

**36.** The Council reviews the level of its uncommitted reserves when setting the budget each year. The review is based on an assessment of corporate risks, with each risk being assigned a likely financial amount as well as a likelihood of the risk occurring. As part of the budget setting process for 2023/24, the Financial Strategy Risk Register was considered by the Council in February 2023. At this time the financial risk was assessed as being £14.3 million with the projected unallocated general fund balance of £8.4 million sufficient to cover 59 per cent of the risks at that time. This is a decrease on the prior year position which covered 61 per cent of the assessed risks at that time.

**37.** We are satisfied that reserves are being regularly reviewed to confirm that they remain at an appropriate level.

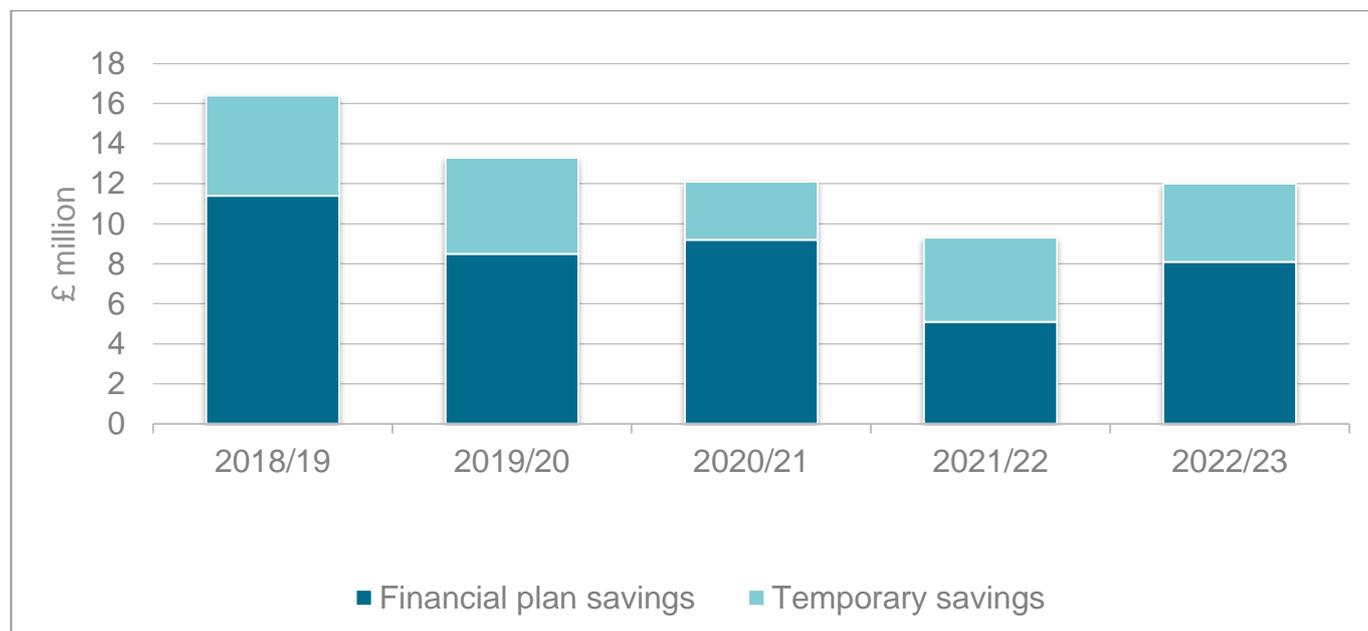
## **Planned efficiency savings were achieved**

**38.** Financial plan savings of £12.027 million were reported in 2022/23. The total savings are made up of £8.147 million included within the 2022/23 financial plan plus £3.880 million of savings brought forward from previous years. Of these savings £8.934 million (74 per cent) were reported as delivered permanently and a recurring saving to the Council. This is important to support the Council deliver financially sustainable services.

**39.** [Exhibit 5](#) below highlights the level of savings being reported within the Council on an ongoing basis. The savings are categorised into those established as part of the Financial Plan in each year and those temporary savings brought forward from previous years for permanent delivery.

## Exhibit 5

### Savings



Source: Scottish Borders Council annual accounts 2022/23

### Capital expenditure was less than originally budgeted in 2022/23

**40.** The Council agrees a ten-year capital plan each year as part of its budget process. Total capital expenditure in 2022/23 was £63.537 million. The total capital spend was £11.583 million below the revised capital budget of £75.120 million. The main areas of underspend were in respect of flood and coastal protection of £4 million, plant and vehicle £1.8 million and the school estate £4.8 million.

### Borrowing levels have decreased in 2022/23

**41.** At 31 March 2023, long term borrowing stood at £209.9 million, a slight decrease of £0.6 million on the 2022 level of £210.5 million. During the same period, short term borrowing decreased from £4.8 million to £3.6 million.

**42.** Capital financing need was not fully funded by external loan debt and instead by internal cash. The Council has applied this strategy on the basis that this is prudent and cost effective in an environment where investment returns are low and counterparty risk is high.

**43.** Total external debt, which includes the Council's long-term liabilities, was within the authorised limit and operational boundary set in the Treasury Management Strategy. The current borrowing position complies with the Prudential Code, and the Council will continue to consider the affordability of future borrowing.

## **The Council has not identified any buildings/sites which have Reinforced Autoclaved Aerated Concrete**

**44.** Reinforced Autoclaved Aerated Concrete (RAAC) was widely used in the construction of floors and roofs from the 1950s to early 1990s. Recent investigations have identified that leaks or water exposure could lead to the deterioration of RAAC planks.

**45.** The Scottish Government are working in partnership with the UK Government on research into the extent of the use of RAAC in public buildings and public bodies, including the Council, have been advised to check as a matter of urgency whether any buildings in their estates have roofs, floors, cladding or walls made of RAAC.

**46.** The Council has undertaken an assessment of its estate and has not identified the existence of RAAC in its buildings, with specific work on the school estate concluding in September. We will monitor any further work on this to fully understand the impact of RAAC and any future potential remediation work required.

## **Overall, we concluded that the Council has satisfactory systems of internal control in place**

**47.** Our responsibilities under the Code of Audit Practice requires us to assess the system of internal control put in place by management. We seek to gain assurance that the Council:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud, or corruption
- complies with established policies, procedures, laws, and regulations.

**48.** We carried out a review of the key controls within the financial systems used by the Council during our interim audit. We concluded that the Council has satisfactory systems of internal control in place, however business continuity testing could be improved. A significant number of continuity plans are in place across the council (departments, schools, care homes) and these should be refreshed periodically to ensure that they are readily accessible to staff. Disaster recovery is addressed in paragraph [80](#).

## **Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate**

**49.** The Council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

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

**51.** The Integrity Group, which supports management in their primary responsibility for the prevention, detection, and investigation of fraud, met regularly during the year.

**52.** The Integrity Group carried out a Counter Fraud Controls Assessment for 2022/23 which was presented to the Audit Committee on 13 February 2023 and provided assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection, and investigation of fraud. A Cyber Security Maturity Assessment had been undertaken that has delivered recommendations on how to enhance and increase the effectiveness of current controls and identify areas where resilience against persistent threats could be improved. An action plan of recommendations to enhance the Council's resilience to fraud was approved at the meeting.

**53.** We have reviewed the arrangements put in place by the Council to address any heightened risks and concluded that there are appropriate arrangements for the prevention and detection of fraud, error, and irregularities.

## National Fraud Initiative

**54.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud.

**55.** The previous external auditors reported that the Council had not investigated any NFI matches due to ongoing capacity issues in the relevant service areas and full participation in the 2020/21 NFI exercise was not achieved due to continued resourcing pressures.

**56.** Participation in the 2022/23 NFI exercise has commenced, and the NFI Self-Appraisal Checklist 2022/23 has been completed and presented to the Integrity Group and subsequently considered by the Audit Committee on 13 February 2023. Assurances were given that the remaining questions on the Self-Appraisal would be completed and reviewed by the Integrity Group in alignment with the phases within the timetable of the National Fraud Initiative 2022/2023 exercise.

**57.** In July 2023, we were advised that work is being carried out on the NFI exercise, but this has been offline with information still to be recorded on the NFI portal. It is important that the investigation work and conclusions reached are recorded in the NFI portal in a timely manner to inform the national review.

# 3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

## Conclusion

The Council has appropriate budget setting and monitoring arrangements in place.

Medium and longer-term financial plans reflect the Council's strategic priorities and outcomes.

## We have obtained audit assurances over the wider audit dimension risks relating to Financial Sustainability identified in our 2022/23 Annual Audit Plan

58. [Exhibit 6](#) sets out the wider scope risks relating to Financial Sustainability we identified in our 2022/23 Annual Audit Plan. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

## Exhibit 6

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

Audit risk	Assurance procedure	Results and conclusions
<p><b>Financial Sustainability</b></p> <p>Scottish Borders Council continues to operate in an increasingly complex and challenging environment where they aim to provide the best possible service within the resources available. The principal pressures identified by the Council are the continuing constraints on external revenue and capital funding from central government, rising costs resulting from high rates of inflation which is expected to continue through 2023/24,</p>	<p>Reviewed the Council's annual budget setting arrangements.</p> <p>Reviewed and assessed budget monitoring arrangements.</p> <p>Reviewed the Council's medium to longer-term financial planning.</p> <p>Reviewed of the Council's financial position and delivery of planned savings.</p>	<p><b>Results and conclusion:</b></p> <p>We reviewed the Council's medium to longer-term financial planning and concluded that clear plans are in place and are regularly reviewed and reported.</p> <p>The Council recognise the financial challenges facing the organisation but have appropriate measures in place to assess and monitor financial sustainability. It is recognised that over the medium to longer term.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>and increasing service pressures, particularly relating to population demographics where there are increasing number of older people requiring care services and children requiring to be looked after and accommodated out with the authority.</p>		

### The Council has appropriate budget setting and monitoring arrangements in place

**59.** The Council faces significant uncertainty for 2023/24 onwards in terms of financial settlement, recovery from Covid-19, inflation and rising living costs.

**60.** The Council approved its 2023/24 budget in February 2023. Budget monitoring is reported to the Executive Committee on a quarterly basis. The latest monitoring report was presented to the Executive Committee in August 2023 and was based on the first quarter of 2023/24. The report projected overall pressures within the Council of £3.771 million at the financial year end made up of £3.267 million of service pressures together with £0.504 million of inflation pressures. The overall £3.771 million pressure identified created a significant risk to the Council's ability to balance the 2023/24 budget.

**61.** A review was undertaken by the Council Management Team. As a result, the recommendation was made that, as the Recovery Fund was not sufficient to address this scale of pressure a 20 per cent reduction in some previously approved earmarked balances, brought forward from 2022/23, be utilised as a solution to balancing the budget in 2023/24. This was approved by the Executive Committee.

**62.** We have concluded that the Council has appropriate budget setting and monitoring arrangements in place to ensure that the budget is reviewed on a regular basis to consider the impact of ongoing uncertainties.

### Medium and longer-term financial plans reflect the Council's strategic priorities and outcomes

**63.** The Council has continued to adopt a five-year approach to medium term revenue planning, and a ten-year timeframe for the capital plan. The long-term financial strategy, published for the first time as part of the 2022/23 financial planning process, has been extended to include revenue for a ten-year period to allow the Council to plan more effectively over a longer period.

**64.** During 2023/24, the Council will adopt the change in statutory accounting treatment for Service Concession Arrangements as set out by the Scottish Government in Finance Circular 10/2022. This permits the Council to undertake internal accounting changes that extend the period to the life of the asset over

which the principal repayment of the unitary charge can be made, instead of the life of the contract for the five schools built through Public Private Partnerships.

**65.** The Council Plan 2023/24 was published in April 2023 sets out a 10 year vision and outlines the priorities, proposed outcomes and actions for 2023/2024. The Council's medium-term budget covers the period to 2027/28 with the longer-term financial plan projecting forward to 2032/33.

**66.** The Council Plan is divided into three main sections:

- a **Strategic Context and Vision** section which, in responding to strategic challenges and opportunities, outlines a long-term vision for the Council
- a **Scottish Borders-Wide Actions** section listing the key strategic priorities and outcomes for the Council over the next financial year
- a **Locality Actions** section featuring key actions and priorities in each of the Borders' five Area Partnership localities.

**67.** The Council continues to monitor, review and reforecast its plans as appropriate, to take into account ongoing uncertainties.

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# 4. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

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## Conclusions

The Council plan outlines the Council's vision for 2033 and elected members have shaped that vision.

The Council has elements of an effective performance framework but needs to ensure it can measure its performance against clearer outcome-based targets for the next ten years.

A Best Value Assurance Report on Scottish Borders Council was published in October 2019, containing seven improvement recommendations. The Council has concluded these have now been addressed.

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## Best Value work in 2022/23

**68.** For 2022/23 the scope of Best Value work included conclusions on:

- Leadership of the development of new local strategic priorities (2022/23 thematic work)
- Council service performance improvement
- Effectiveness of council performance reporting
- Progress made against Best Value improvement actions made in previous years

**69.** As set out in the [Code of Audit Practice 2021](#), Best Value audit is integrated with other wider-scope annual audit work. Therefore, in addition to the work set out in the remainder of this section, Best Value work has informed the content and conclusions set out in parts three, five and six of this annual audit report.

**70.** Annual thematic Best Value work is set by the Accounts Commission. The results of this work were reported to elected members at the Audit Committee on 25 September 2023. This report will be published on the Audit Scotland website in due course.

**71.** The audit recommendations made in this report, together with the management responses, are included in [Appendix 1](#) of this report.

## Leadership of the development of new local strategic priorities

**72.** For the 2022/23 financial year, auditors were asked to focus on the councils' leadership of the development of new local strategic priorities. The key findings in this report are:

- Since the last BVAR in 2019, there has been a significant amount of change in the leadership of the Council at both officer and elected member level. However, the Council continues to demonstrate evidence of collaborative working between members of different political parties since the 2022 election. This is reflected in the development of the Council vision, following the election.
- The Council plan outlines the Council's vision for 2033. Elected members have shaped that vision. The Council plan is refreshed annually and sets out actions to deliver that vision. The overall community plan for the area was last updated in 2018 and the Council acknowledges it needs to work with partners to update this plan, that further work is required to align the corporate plan to the budget setting process and to directorate delivery plans.
- The Council has established a comprehensive induction programme to support elected members. It now needs to encourage the uptake of personal training and development plans for elected members. A period of stability in council leadership will support moving forward with plans to deliver the vision for 2034. The Council needs to ensure its revised approach to people, and succession planning, is delivering the anticipated benefits and addressing the challenges of workforce planning.
- The Council has elements of an effective performance framework but needs to ensure it can measure its performance against clearer outcome-based targets for the next ten years. The Council is coming to the end of its five-year transformation programme, Fit for 2024. While recognising the Council will continue to transform over the coming years, there is an opportunity for the Council to reflect on what improvements to service delivery and customer experience have been achieved through this programme.
- The Council has made efforts to engage with citizens and communities over the new council priorities but acknowledges it could do more to encourage participation in consultation. The revised corporate plan has a good focus on the building blocks of community engagement.
- Inequalities and climate change are incorporated into the Council plan outcomes. The Council is establishing its monitoring arrangements to assess its risk and impact in both these areas.

## **Best Value improvement recommendations from previous years have now been addressed**

**73.** A Best Value Assurance Report on Scottish Borders Council was published in October 2019, containing seven improvement recommendations. The Council responded by identifying 40 improvement action points. The Council has been reporting progress against those actions to the Audit Committee, with the most recent report in March 2023 showing progress made against all 40 actions, concluding that these are now addressed. As such, the Council has now closed off monitoring against the BVAR recommendations and will monitor against its corporate improvement plan.

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# 5. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

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## Conclusion

Governance arrangements are appropriate and operated effectively.

There is effective scrutiny, challenge and informed decision making.

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## Governance arrangements are appropriate and operated effectively

**74.** The Council's governance arrangements have been set out in the annual governance statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate.

**75.** In January 2023 the current Chief Executive was appointed to the post on a permanent basis, having been acting Chief Executive since June 2022. The senior leadership model within the Council has been reorganised with eight Director roles supporting the Chief Executive.

**76.** The Council has appropriate governance arrangement in place which support effective scrutiny, challenge and decision making. This is informed by our regular attendance at the Audit Committee and review of Council and other committee papers as appropriate. The Council decided in August 2022 to separate the Audit Committee from the Scrutiny & Petitions Committee which has been the practice since September 2022.

**77.** We have concluded that overall, Scottish Borders Council has appropriate governance arrangements in place which support effective scrutiny, challenge and decision making.

## ICT Governance

**78.** CGI report on contract performance to the External Services/Providers Monitoring Group each quarter. Reports provide detail on transformation progress, a summary of key projects and on service performance. The Social

Work Pathfinder project programme commenced in October 2022 with three key aims:

- provide mobile technology to front line staff which will be populated during home visits to save returns to the office to update data and should automatically populate the Mosaic system
- revise business processes to capture accurate data to allow the service to improve efficiency and make more informed decisions on further improvements
- develop a performance dashboard to provide senior managers with the information they need to manage their service area.

**79.** Audit Scotland reported in their 2020/21 Annual Audit Report that the Council was continuing to work to achieve Cyber Essentials + reaccreditation. The Council's application for reaccreditation was submitted on 30 September 2022 and was confirmed on 31 January 2023.

**80.** CGI have not yet undertaken a full disaster recovery test due to factors including available resources and agreement of a convenient time within the business for services to be taken offline. The IT team have, however, been able to successfully complete several disaster recovery tests in specific areas in response to service incidents.

**81.** In addition, mandatory training for data and cyber security eLearning modules was at a lower completion rate than when last reported to the Audit Committee. Actions were being undertaken including helping support non-office based staff to complete this training.

## Climate change arrangements

**82.** The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**83.** The Scottish Government has recently published guidance on public sector leadership on the global climate emergency to help public bodies in leading climate action. Addressing the climate emergency and setting actions to achieve net zero will need to be a key element of councils' recovery and renewal from the pandemic.

**84.** The Climate Change Act 2019 committed Scotland to Net Zero by 2045. The Public Bodies Climate Change Reporting Duties place a legal requirement on public bodies to set target dates for zero direct emissions and indirect emission reductions. They must also report on how spending and resources will contribute to these targets, and report on the body's contribution to Scotland's Climate Change Adaptation Programme.

**85.** The Council declared a climate emergency in September 2020, which was followed up with the development of a Climate Change Route Map in June

2021. The Council identified priority actions to deliver on the Route Map and the Council approved those in March 2022. The path to net zero was underlined in the Council Plan for 2023/24, with Outcome 1 in the Council Plan is a 'Clean, green future'.

**86.** The Council takes forward its vision for 'Clean, green future' in the actions for its five localities. Flooding and coastal erosion is a risk for the Council and there are actions on flood management in Berwickshire, Eildon, Teviot and Liddesdale and Tweeddale. Nature-based flood-management solutions, including natural flood defences have been put in place to manage the impact of extreme weather on the River Tweed.

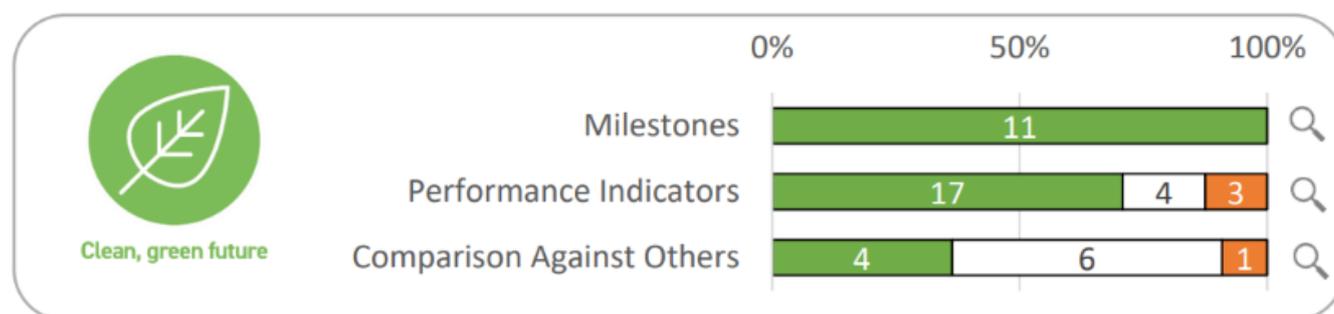
**87.** The Council is working with external bodies to clarify its approach to the challenges of climate change. They are working in partnership with South of Scotland Enterprise to establish carbon baselines for the Council as an organisation but also for the wider Scottish Borders area. The Council has also been working with the Edinburgh Climate Change Institute on their plans for action.

**88.** In line with other authorities, the Council submitted its [annual climate change report](#) to the Scottish Government in November 2022. It also has a [web-site page](#) laying out progress to date, however this is not measured against a baseline or targets. The Council does report quarterly and annually against its corporate plan outcomes, with its performance report for 2022/2023 being presented to the Executive Committee in June 2023.

**89.** The Council reports performance against milestones (actions and milestones to be achieved each year), performance indicators (quantitative indicators to measure performance) and comparison with others (comparisons to the Scottish average and comparator authorities). [Exhibit 7](#) shows some highlights of performance against Outcome 1.

## Exhibit 7

Highlights of annual performance for outcome 1, 'Clean, green future' for 2022/23.



Please see page 3 of the annual performance report for descriptions of colours against performance. In general, green is positive performance, amber denotes where further focus is required.

- Milestones: All Milestones set out for being achieved this year have been met. This has included positive progress on:
  - Increasing numbers of allotments
  - Extreme weather assessments of critical infrastructure
  - Creation of plans to improve sustainability of local energy systems
- Performance Indicators:
  - The recycling rate of household waste continues to be high and increasing, and less than half a percent of waste is going to landfill. This positive position is due to the closure of the Council's landfill in 2019, and a new contract that extracts as much recyclates as possible from the waste before it is treated in an energy from waste plant.
  - Electricity and Gas consumption has not decreased and has seen some increases from last year. This is due to colder weather conditions, and increased ventilation requirements due to Covid.
- Comparison with others:
  - Our household recycling rate is higher than authorities similar to us and Scotland's average.
  - We are similar to the Scottish average for our carbon emissions and although we are lower than authorities similar to us, we have a long way to go to achieve Net Zero by 2045.

**Source: Scottish Borders Council**

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**90.** The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

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# 6. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

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## Conclusions

There is strong partnership working to meet the health and social care challenges facing the Scottish Borders.

The Council failed to comply with the statutory requirement for their significant trading operation, SBc Contracts to break even.

The Performance Management Framework supports the delivery of the Council Plan.

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## There is strong partnership working to meet the health and social care challenges facing the Scottish Borders

**91.** The Council has well established working relationships with NHS Borders and the Scottish Borders Integration Joint Board (the IJB). The Council recognise the health and social care challenges facing the region in both demand led pressures with a changing demographic, by 2032 the population of those over 65 years of age will have grown by 51 per cent, and pressures on available resources.

**92.** The Council has implemented a number of improvements to health and social care service delivery, including the use of technology to support more efficient and effective frontline service delivery. However, the Council recognise the need for greater integration of services is required to develop a sustainable and patient centred model of care.

**93.** The Council, working with NHS Borders and the IJB established a vision to be the rural Integrated Healthcare Exemplar (rIHE) for the region. The aim is transforming the model of care from reactive to preventative and improve health outcomes and inequalities in a sustainable way. The key partners have developed an overarching business case which proposes significant process and technological changes to support an integrated model of care between the partners. This requires support from wider partners including Scottish Ambulance Service, NHS 24 and partners from wider industries to support required development.

**94.** The current proposals have yet to receive Scottish Government support that would be required to meet the investment required. Officers continue to work closely with key partners to engage with the Scottish Government around the system of care.

### **The Council failed to comply with the statutory requirement for their significant trading operation, SBc Contracts to break even**

**95.** The Council has one significant trading operation (STO), SBc Contracts, which provides a range of activities including revenue and capital works for council services and external contracts for other local authorities, the Scottish Government, and the private sector.

**96.** Under the Local Government in Scotland Act (2003) the trading accounts of significant trading operations have a prescribed objective to break even over a rolling three-year period.

**97.** SBc Contracts reported an operating surplus of £1.299 million in 2022/23. However, following technical accounting adjustments for IAS 19 Employee Benefits (including pensions), the final position was a deficit for 2022/23 of £75,000 for external works and a three-year cumulative deficit of £0.331 million.

**98.** The adjustments for IAS 19 are made to comply with accounting standards. The pension adjustment values all future pension liabilities for employees at the balance sheet date as if these pension payments were to be made now. This does not reflect the projected pattern of when pensions will be paid. As a trading organisation, the STO results require to be reported included this adjustment. Further details are included at [paragraph 20](#).

### **The Performance Management Framework supports the delivery of the Council Plan**

**99.** The Council reports and presents its performance information relating to each corporate priority on a quarterly basis to the Council Management Team and the Executive Committee. We reviewed the performance information submitted to the Executive Committee to assess whether performance measures are aligned to the Council's key priorities and outcomes.

**100.** The Council approved a refreshed Council Plan for 2023/24 which was published in April 2023. This is aligned to the Performance Management Framework which was updated in June 2022 to reflect the six new themes from that plan: Clean, green future; Fulfilling our potential; Strong inclusive economy, transport, and infrastructure; Empowered, vibrant communities; Good health and wellbeing; and Working together improving lives.

**101.** The Performance Management Framework supports delivery of the Council Plan and its annual review cycle. It looks to place a greater emphasis on the use and management of performance information in order to drive continuous improvement and deliver Best Value.

## The requirements of the Statutory Performance Information (SPIs) Direction are being met

**102.** The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced, and engaging performance information.

**103.** The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

**104. Quarterly performance indicators:** The Council has established a suite of set of key performance indicators to help monitor progress against the outcomes detailed in the Council Plan and Community Plan. These indicators are updated quarterly and reported through the Executive Committee. The reports are readily accessible on the Council's website and show actual performance against target performance, performance trend (whether improving or deteriorating), a brief commentary on performance, and comparison with other councils' performance.

**105. Annual reporting of performance information:** The Council reports on a series of annual performance measures in its Annual Performance Report; the report for 2022/23 was considered at the June 2023 meeting of the Executive Committee.

**106. Verification of performance information:** The Council's Internal Audit team carry out a review of key performance indicators submitted by the Council each year to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF). The report for 2022/23 information concluded that substantial assurance could be provided over the performance information included within the 2022/23 LGBF Return.

**107.** We have evaluated the Council's arrangements for fulfilling the above requirements and concluded that the Council has made the necessary arrangements for collecting, recording, and publishing the statutory performance information.

# Appendix 1. Action plan 2022/23

## 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Valuation of land and buildings</b></p> <p>Issues were identified with regard to the accuracy and underlying assumptions used during the valuation process.</p> <p>In addition, a demolished asset was not initially identified as part of impairment work.</p> <p><b>Risk</b> – assets are not held at the correct value in the accounts.</p>	<p>The Council should ensure there is a more robust process in place to review valuation assumptions, data used and ensure conclusion are robust. An overarching review to ensure that all valuations make sense should be completed at the end of the process.</p> <p><a href="#">Exhibit 2</a></p>	<p>2022/23 year end coincided with significant staffing movement in the Council and a new approach in engaging external support to deliver much of the valuation. Officers will undertake a lessons learned exercise to determine what improvements can be implemented for the 2023/24 audit process.</p> <p><b>Responsible officer:</b> Director of Infrastructure &amp; Environment, John Curry</p> <p><b>Agreed date:</b> 31 March 2024</p>
<p><b>2. Significant trading operation</b></p> <p>The Council has one significant trading operation (STO), <b>SBc Contracts</b>. Under the Local Government in Scotland Act (2003) the trading accounts of significant trading operations have a prescribed objective to break even over a rolling three-year period.</p> <p>SBc Contracts reported an operating surplus of £1.299 million in 2022/23. However, following technical accounting adjustments for IAS 19</p>	<p>The Council should carry out a review of SBc Contracts to examine the cost effectiveness of the service provided to ensure that it continues to represent best value for the Council.</p> <p><a href="#">Exhibit 2</a></p>	<p>This review has commenced and will be progressed during 2023/24 as part of the Council's Future Target Operating Model work.</p> <p><b>Responsible officer:</b> Director of Infrastructure &amp; Environment, John Curry</p> <p><b>Agreed date:</b> 31 March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Employee Benefits (including pensions), the final position was a deficit for 2022/23 of £75,000 for external works and a three-year cumulative deficit of £0.331 million.</p> <p><b>Risk</b> – that the Council's significant trading operation activities do not represent best value for the Council.</p>		
<p><b>3. Internal recharges</b></p> <p>The Council has identified that £14.2 million of infrastructure asset additions are included in the accounts and include in this is a profit margin of 16% equivalent to £2.3 million.</p> <p>This is not a charge which is wholly attributable in bringing the asset into use.</p> <p>The system reporting has made getting information challenging.</p> <p><b>Risk</b> – the value of the asset is misstated in the accounts.</p>	<p>As part of the review recommended in point 2 above, the Council should also review the accounting treatment of asset additions from work done by SBc Contracts to ensure it complies with accounting standards.</p> <p><a href="#">Exhibit 2</a></p>	<p>Officers can confirm that this will form part of the review of SBc Contracts.</p> <p><b>Responsible officer:</b> Director of Finance &amp; Procurement, Suzy Douglas</p> <p><b>Agreed date:</b> 31 March 2024</p>
<p><b>4. Assets on Common Good Land</b></p> <p>A judicial review concluded that all Council assets built on Common Good land cannot be considered as owned separately from the land they stand on and are therefore Common Good assets. The Council has a number of operational assets which stand on Common Good land.</p> <p><b>Risk</b> –that the Council does not have a formal agreement in place.</p>	<p>The current accounting treatment reflects the substance of the transaction but that the Council should look to establish a formal agreement between the Council and common good funds for the use of the assets.</p> <p><a href="#">Exhibit 2</a></p>	<p>Officers are committed to progressing this work during the remainder of 2023/24.</p> <p><b>Responsible officer:</b> Director of Finance &amp; Procurement, Suzy Douglas Director of Corporate Governance, Nuala McKinlay</p> <p><b>Agreed date:</b> 31 March 2024</p>

## 2022/23 recommendations from the BV thematic report

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Refresh of the community plan</b></p> <p>The Council should ensure it prioritises progressing the refresh of the community plan according to milestones set on the Council Plan.</p>	<p>The Council should ensure it prioritises progressing the refresh of the community plan according to milestones set on the Council Plan.</p>	<p>The Community Plan will be fully refreshed during 2023.</p> <p><b>Responsible officer:</b> Director Resilient Communities, Jenni Craig</p> <p><b>Agreed date:</b> September 2023</p>
<p><b>2. Ensure the performance management framework includes clearer outcome based targets for the next ten years, so it can demonstrate progress against outcomes</b></p> <p>The Council should ensure its performance management framework captures progress against the Council Plan. This should include actions being met according to target milestone and progress against the six council outcomes.</p>	<p>The Council should ensure its performance management framework captures progress against the Council Plan. This should include actions being met according to target milestone and progress against the six council outcomes.</p>	<p>A revised performance management framework will be developed to report performance against Council Plan strategic outcome to the Executive Committee on a quarterly Basis.</p> <p><b>Responsible officer:</b> Director People, Performance and Change, Clair Hepburn</p> <p><b>Agreed date:</b> September 2023</p>
<p><b>3. Transformation, innovation and service improvement</b></p> <p>Report on improvements to service delivery and customer experience that have been achieved through Fit for 2024. Set out how innovation and transformation will be taken forward over the next 5 years.</p>	<p>Report on improvements to service delivery and customer experience that have been achieved through Fit for 2024. Set out how innovation and transformation will be taken forward over the next 5 years.</p>	<p>Reporting of Transformation Outcomes and improvements will be developed during 2023. The Council will develop a new target Operating model to deliver improvements in service delivery, performance and ensure the Council is resourced to deliver its strategic priorities.</p> <p><b>Responsible officer:</b> Chief Executive, David Robertson</p> <p><b>Agreed date:</b> March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>4. Elected member leadership</b></p> <p>The Council should encourage uptake of personal development plans for elected members. These should be flexible to individual needs and be able to show that training is meeting needs.</p>	<p>The Council should encourage uptake of personal development plans for elected members. These should be flexible to individual needs and be able to show that training is meeting needs.</p> <p>The Council should continue to support opportunities for cross-party working and promote the benefits that brings.</p>	<p>A new policy on elected member training and development, tailored to the needs of individuals by through a training survey will be agreed and implemented for all members.</p> <p><b>Responsible officer:</b> Chief Executive, David Robertson</p> <p><b>Agreed date:</b> October 2023</p>
<p><b>5. Senior officer leadership</b></p> <p>The Council should review the senior management structure after a period of stability to determine how the changes at directorate level are supporting delivery of the Council Vision.</p>	<p>The Council should review the senior management structure after a period of stability to determine how the changes at directorate level are supporting delivery of the Council Vision.</p>	<p>Position will be reviewed and reported to Council as part of work on developing a new Operating Model for the Council</p> <p><b>Responsible officer:</b> Chief Executive, David Robertson</p> <p><b>Agreed date:</b> December 2023</p>
<p><b>6. Planning for the workforce</b></p> <p>The Council should prioritise improvement activity on planning for the workforce and addressing vacancies and hard to fill posts.</p>	<p>The Council should prioritise improvement activity on planning for the workforce and addressing vacancies and hard to fill posts.</p>	<p>People planning will be fully aligned with service and financial planning as part of the budget process for financial year 2024/25.</p> <p><b>Responsible officer:</b> Director People Performance and Change, Clair Hepburn</p> <p><b>Agreed date:</b> February 2024</p>

## Follow-up of prior year recommendations 2021/22

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Inquiry Action Plan</b></p> <p>An action plan implementing the recommendations highlighted in the inquiry report into the Council's handling of school assaults accusations was approved by Council at their meeting on 10 March 2022 along with the establishment of a Review Group to steer the progress of the work required.</p> <p>Progress updates were provided to Council at their meetings in June, August, and October 2022 with 26 of the 52 actions points completed to date.</p> <p><b>Risk</b> – the required improvement actions are not being addressed.</p>	<p>The Council needs to continue to monitor progress with regards to outstanding actions to ensure that all recommendations from the report are fully implemented.</p>	<p><b>In Progress</b></p> <p>The <a href="#">Independent Inquiry Action Plan Update</a> was presented to Councillors in March 2023. At 30 March 2023, of the 54 actions in total, 42 actions were completed, 4 were ongoing and 8 were to be completed at that point.</p> <p>It was agreed at the meeting that the Inquiry Action Plan Group would cease to meet and that any ongoing actions contained in the plan progress as continuous improvement.</p> <p>The Chief Executive was granted delegated authority to monitor and approve any actions deemed to be ongoing.</p> <p><b>Responsible officer:</b></p> <p>Chief Executive, David Robertson</p> <p><b>Revised date:</b></p> <p>March 2024</p>
<p><b>2. Significant trading operation</b></p> <p>The Council's significant trading operation, SBc Contracts, reported a deficit in trading relating to external services for the three-years ended 31 March 2022.</p> <p>Therefore, the Council failed to meet a prescribed financial objective, and this was reported in our Independent Auditor's Report as a matter reported by exception.</p>	<p>The Council should carry out a review of SBc Contracts to examine the cost effectiveness of the service provided to ensure that it continues to represent best value for the Council.</p>	<p><b>See recommendation 2 above.</b></p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>Risk</b> – that the Council’s significant trading operation activities do not represent best value for the Council.</p>		
<p><b>Follow-up of prior year recommendations 2020/21</b></p>		
<p><b>1. Asset valuations</b></p> <p>The Balance Sheet includes property, plant and equipment with a total value of £607 million. The Council has a five-year rolling valuation programme as detailed in Note 12 of the accounts. In line with the Council’s asset policy, assets were revalued at 1 April 2020. Given 2020/21 has been an exceptional year with the Covid-19 pandemic which affected how the Council operated, we needed further evidence for the asset values at 31 March 2021. The valuer’s certificate also included material uncertainty which was inconsistent with the latest guidance from RICS.</p> <p><b>Risk</b> – that a value at 1 April is not representative of fair value as at 31 March the following year, as required by the Code.</p>	<p>The Council should: review their accounting policy and consider valuing assets at 31 March, rather than at 1 April; and consider valuing 20 per cent of each asset category annually rather than each asset category every five years which can lead to large swings in asset values.</p>	<p><b>See recommendation 1 above.</b></p>
<p><b>2. Assets on Common Good Land</b></p> <p>A judicial review concluded that all Council assets built on Common Good land cannot be considered as owned separately from the land they stand on and are therefore Common Good assets. The Council has a number of operational assets which</p>	<p>The Council should conclude the process of reviewing the legal and accounting implications of the judicial ruling by March 2022 and make any accounting adjustments in the 2021/22 annual accounts of the Council and Common Good Funds.</p>	<p><b>See recommendation 4 above.</b></p>

Issue/risk	Recommendation	Agreed management action/timing
<p>stand on Common Good land.</p> <p>The full list of affected assets is still to be determined. The Council is in the process of reviewing the legal and accounting implications of the judicial ruling and expects to conclude the process in time for the preparation of the 2021/22 accounts.</p> <p><b>Risk</b> – the Common Good Funds omit assets which rightly belong to them.</p>		
<p><b>3. Internal recharges</b></p> <p>Through our testing of new assets we learned that they included some internal recharges to capital expenditure, for work such as architect fees and road overlays. However, the evidence to support the amounts recharged was not clear or comprehensive.</p> <p><b>Risk</b> – items are being incorrectly capitalised and revenue expenditure is understated.</p>	<p>The Council should revisit the rationale and calculations to confirm the basis for recharges remains relevant and accurate so that the amount that has been capitalised is defensible.</p>	<p><b>See recommendation 3 above.</b></p>
<p><b>4. Non-Domestic Rates</b></p> <p>Our testing found that the calculation of the NDR debtor is not consistent with the Code. Specifically, the balance in Note 30 Other Receivables, relating to NDR includes taxpayers' debt rather than what the Council is due to receive from or pay to the Scottish Government.</p> <p><b>Risk</b> – the Council's reporting to the Scottish Government on Non-Domestic Rates is inconsistent with the Code.</p>	<p>The Council should do further work and analysis to ensure that they are fully consistent with the Code.</p>	<p>The Council made adjustments within the 2021/22 financial statements to ensure that the carrying value of NDR balances due to the Scottish Government is in line with the Code.</p> <p>Work remains in progress to ensure that disclosures within the financial statements are fully compliant with the requirements of the Code.</p> <p>The 2022/23 audit work identified that, in respect of</p>

Issue/risk	Recommendation	Agreed management action/timing
		balances with taxpayers, the NDR year-end net debtor and NDR bad debt provision net to zero and therefore balances due from taxpayers are not recognised in the Balance Sheet, which is satisfactory.
<p><b>5. NFI match investigation</b></p> <p>As at September 2021, the Council had not investigated any NFI matches due to ongoing capacity issues in the relevant service areas. NFI includes data matching on business support grants where weaknesses in controls were identified by internal audit.</p> <p><b>Risk</b> – there are fraud and errors undetected without investigating the data matches.</p>	<p>The Council should investigate a sample of recommended and further matches to be assured that they are not indicative of fraud or error.</p>	<p><b>Ongoing</b></p> <p>We will continue to review progress for the 2022/23 NFI matches.</p>
<p><b>6. Best Value Action Plan</b></p> <p>The Council agreed an action plan in December 2019 in response to the Best Value Assurance Report (BVAR) published in October 2019. Updates on progress with the action plan were delayed due to the council's response to the Covid-19 pandemic.</p> <p><b>Risk</b> – that required improvement actions are not being addressed.</p>	<p>The Council should ensure that Best Value improvement recommendations continue to be actioned and progress reported to committees.</p>	<p><b>Complete</b></p>

# Appendix 2A: Summary of corrected misstatements

We report all corrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000.

The table below summarises corrected misstatements that were noted during our audit testing.

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr	Cr	Dr	Cr
<b>Accounting Misstatements</b>		<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>
1. Net asset pension ceiling ( <a href="#">Exhibit 2</a> )*	Net pension asset				31,631
	Pension Reserve			31,631	
2. Internal recharges of staff costs	Expenditure	5,275			
	Staff costs		5,275		
3. Place based investments	Grant expenditure	1,401			
	PPE Assets				1,401

\*The net pension asset ceiling adjustment stemmed from late information from the actuary.

# Appendix 2B: Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr	Cr	Dr	Cr
<b>Accounting Misstatements</b>		<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>
1. MMI contingent liability should be report as a provision	Expenditure	310			
	Provision				310
2. Impairment of Parkside School	Expenditure	1,191			
	PPE Buildings				1,191
3. Internal recharges – profit margin charged to capital	Expenditure	2,266			
	Infrastructure assets				2,266

# Scottish Borders Council Scottish Borders Council

## Proposed 2022/23 Annual Audit Report

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