

Scottish Borders Council

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Members of Scottish Borders Council and the Controller of Audit
November 2022

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Key messages

2021/22 annual accounts

- 1 Our audit opinions on the annual accounts are unqualified but our independent auditor's report includes a matter reported by exception.
- 2 Our audit opinions on the six section 106 charities administered by the council are unmodified.
- 3 Identified gross misstatements of £85.3 million (including £55.7 million in respect of asset revaluations) were adjusted in the group annual accounts. We did not need to revise our audit approach as a result of these misstatements.

Financial management and sustainability

- 4 The council operated within budget in 2021/22.
- 5 The council continues to balance its budget each year and maintains a healthy level of reserves.
- 6 There are appropriate and effective budget setting, financial management and monitoring arrangements in place.
- 7 The council faces significant uncertainty for 2022/23 and beyond in line with every other Local Authority in Scotland.
- 8 Medium and longer-term financial plans are in place and have been updated to reflect the impact of the pandemic. This should help the council manage its future transformation planning.

Governance and transparency

- 9 Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively.
- 10 There is effective scrutiny, challenge and informed decision making.

Best Value

- 11 The council is making good progress in securing Best Value.
- 12 We have evaluated the council's arrangements for performance reporting and concluded that the council has made the necessary arrangements for collecting, recording, and publishing the statutory performance information.

Introduction

1. This report summarises the findings arising from the 2021/22 audit of Scottish Borders Council (the council) and its group.

2. The scope of the audit was set out in our 2021/22 Annual Audit Plan presented to the 27 June 2022 meeting of the Audit and Scrutiny Committee. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) namely, financial management, financial sustainability, governance and transparency, and value for money.

3. The main elements of our audit work in 2021/22 have been:

- an audit of the annual accounts of the council and its group including the statement of accounts of the six section 106 charities administered by the council and the issue of independent auditor's reports setting out our opinions
- a review of the council's key financial systems
- audit work covering the council's arrangements for securing best value
- consideration of the four audit dimensions.

4. The global coronavirus pandemic and wider external factors including the war in Ukraine and Brexit have had a considerable impact on Scottish Borders Council during 2021/22. This has had significant implications for the services particularly with regards to the recruitment and retention of staff. Throughout 2021/22 the council continued to focus on business-critical activities.

Adding value through the audit

5. We add value to the council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides

- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

6. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

7. The council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability and,
- Best Value arrangements.

10. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#). and supplementary guidance.

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

12. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

Auditor Independence

13. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. 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 2021/22 audit fee of £293,310 (which includes £6,000 for the audit of the trusts) as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Audit appointment from 2022/23

15. The Accounts Commission is responsible for the appointment of external auditors to local government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

16. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23, a new engagement lead from Audit Scotland will be the appointed auditor for Scottish Borders Council. We are working closely with the new audit team to ensure a well-managed transition.

17. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

18. There are several significant changes introduced by the new Code, namely the integration of Best Value work into wider scope audit work and the audit of Best Value across the Integration Joint Boards.

19. We would like to thank Elected members, Audit Committee members, Directors, and other officers, particularly those in finance, for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts are unqualified but our independent auditor's report includes a matter reported by exception.

Our audit opinions on the six section 106 charities administered by the council are unmodified.

Identified gross misstatements of £85.3 million were adjusted in the group annual accounts. We did not need to revise our audit approach as a result of these misstatements.

Our audit opinions on the annual accounts are unqualified but our independent auditor's report includes a matter reported by exception

20. The accounts for the council and its group for the year ended 31 March 2022 were approved by the council on 24 November 2022. As reported in the independent auditor's report:

- 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, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance
- the following matter has been included within our independent auditor's report as a matter reported by exception.

“Scottish Borders Council has a duty under section 10 of the Local Government in Scotland Act 2003 to conduct their significant trading operations so that income is not less than expenditure over a rolling three-year period. Scottish Borders Council has failed to comply with this statutory requirement for the three-year period ending 31 March 2022 in respect of their significant trading operation, SBc Contracts.”

The Covid-19 pandemic had no impact on audit evidence

21. The working papers provided with the unaudited accounts were of a good standard and finance officers provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

22. The annual audit continued to be conducted remotely. The completeness and accuracy of accounting records, and extent of information and explanations that we required for audit were not affected by this, and we were able to obtain the evidence we required for our audit testing.

There annual accounts were submitted in line with our agreed audit timetable

23. The unaudited annual accounts were received in line with our agreed audit timetable on 24 June 2022.

Our audit opinions on Section 106 charities were unmodified

24. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities' legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Scottish Borders Council are sole trustees, irrespective of the size of the charity.

25. Due to Covid-19, the council has made limited progress in 2021/22 in reducing the number of Section 106 charities.

26. Our audit opinions on the six Section 106 charities are unmodified.

There were no objections raised to the annual accounts

27. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations. There were no objections to the 2021/22 accounts.

Whole of Government Accounts (WGA)

28. We have completed the 2020/21 WGA assurance statement and submitted it to the National Audit Office (NAO) in accordance with guidance recently issued.

29. The 2021/22 WGA exercise is yet to be confirmed by the NAO and Treasury.

Overall materiality is £6.7 million

30. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the independent auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

31. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

32. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values (add Group materiality if relevant)

Materiality level	Planning materiality		Revised materiality	
	Council	Group	Council	Group
Overall materiality	£6.2 million	£6.2 million	£6.7 million	£6.7 million
Performance materiality	£3.7 million	£3.7 million	£4.0 million	£4.0 million
Reporting threshold	£250,000	£250,000	£250,000	£250,000

Source: Audit Scotland

We have significant findings to report on the audited annual accounts

33. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

34. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the annual accounts

Issue	Resolution
<p>1. Valuation of land & buildings</p>	
<p>On 1 April 2021, Scottish Borders Council completed a formal revaluation of Social Work, Resources and Surplus assets in line with their rolling programme of asset valuations. These valuations were reflected within the 2021/22 unaudited accounts.</p>	<p>Management made the decision to instruct the internal valuer to carry out a full desktop review of all land and building assets at 31 March 2022.</p>
<p>As part of the year end audit process, the internal valuer and finance team were asked to carry out an assessment of those assets not revalued in 2021/22 to provide assurances that the carrying value of assets was not materially misstated at 31 March 2022.</p>	<p>The finance team updated the asset registers to reflect these revised valuations and adjusted the annual accounts to reflect an uplift in the carrying value of council assets of £53.9 million.</p>
<p>A review of the valuation of a sample of assets across all categories was completed by the internal valuer and this indicated that there was a material movement in asset values, particularly in respect of those assets valued on a depreciated replacement cost basis. This increase was due to significant market driven movements which resulted in an increase in asset values.</p>	<p>The financial statements of the Trust and Common Good funds, which form part of the group, were also adjusted to reflect an uplift in the carrying value of assets of £0.4 million and £1.4 million respectively.</p>
<p>As a result of this assessment and known market conditions there was a potential material misstatement in the carrying value of land and buildings at 31 March 2022.</p>	<p>Management have agreed to amend their formal revaluation date to 31 March for asset categories starting with Education & Lifelong Learning properties scheduled to be revalued in 2022/23.</p>
	<p>An exercise will be carried out annually by the internal valuer to ensure that assets not revalued in year are assessed for indication of material movements and provide assurance to management that the carrying value of assets represents fair value.</p>
	<p>Recommendation B/fwd 1 (Refer Appendix 1, action plan)</p>

Issue	Resolution
<p>2. Common Good Fund assets</p> <p>Following a judicial review and public consultation, a number of assets within the council's balance sheet were identified as Common Good Fund assets as they sit on Common Good land. These assets were transferred to the Common Good Funds and accounted for as a disposal within the council's 2021/22 unaudited annual accounts.</p> <p>Our review of the assets transferred identified a number of assets which were operated by Scottish Borders Council to provide services and therefore should be accounted for as finance lease assets within the council accounts. No formal lease agreements were in place between the council and the Common Good Funds for the continued use of these assets at 31 March 2022.</p> <p>For the remaining assets it was identified that the carrying value of these assets was material to the Common Good Funds. The appropriate accounting treatment would therefore have been to restate the prior year accounts on the basis that these assets were always owned by the Common Good Funds.</p>	<p>Management agreed that all assets identified as currently used by the council to deliver services should be treated as finance lease assets, and the carrying value of these assets would be retained within the council's accounts until formal arrangements for the council's continued use of the assets were put in place.</p> <p>Adjustments to the council's accounts totalling £8.6 million were made to include those assets at 31 March 2022 for these assets.</p> <p>Gross adjustments totalling £9.0 million were made to the Common Good Funds for the removal of these assets. The difference (£0.4 million) being depreciation and revaluation applied after the original transfer which were reversed.</p> <p>A prior year restatement of £0.5 million was made to reflect those remaining assets transferred to the Common Good Funds.</p> <p>Additional disclosures have been made within the Management Commentary and notes to the accounts.</p> <p>Management have agreed to review the arrangements between the Common Good Funds and the council for the continued use of assets in 2022/23 and will make any adjustments required to the accounts once these have been agreed.</p> <p>Recommendation B/fwd 2 (Refer Appendix 1, action plan)</p>

Issue	Resolution
<p>3. Accounting for Covid-19 grants</p> <p>During the 2021/22 audit, we identified that transactions relating to Covid-19 grants, which Scottish Borders Council administer on behalf the Scottish Government, were incorrectly included within the 2021/22 Comprehensive Income & Expenditure Statement.</p> <p>These grants are accounted for as agency arrangements and therefore should not be included within the council's reported results.</p> <p>Therefore, both income and expenditure were overstated by £20.1 million with no overall impact on the reported surplus.</p> <p>We noted appropriate disclosures of these grants had been made within the council's agency note in the accounts.</p>	<p>Management agreed to adjust the income and expenditure for 2021/22 by £20.1 million to exclude these grants from the reported results.</p> <p>This was due to an administrative error and appropriate adjustments have been made to ensure that the income and expenditure are not materially misstated.</p>

Source: Audit Scotland

We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It 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 financial statements

Audit risk	Assurance procedure	Results and conclusions
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Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise are 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>Reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing related party relationships 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>Substantively tested income and expenditure transactions around the year-end to confirm they were accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p>	<p>Results: We found no instances of material misstatement due to fraud caused by management override of controls.</p>
<p>2. Estimation in the valuation of land & buildings</p> <p>Scottish Borders Council held land and buildings with a net</p>	<p>Reviewed the information provided to the valuer to assess for completeness.</p> <p>Evaluated the competence, capabilities, and objectivity of</p>	<p>Results: Our findings in respect of the audit work we carried out are detailed in Exhibit 2.</p> <p>Adjustments have been made</p>

Audit risk	Assurance procedure	Results and conclusions
<p>book value (NBV) of £397 million as at 31 March 2021. Land and building property categories are revalued on a five-year rolling basis on 1 April by an internal valuer.</p> <p>There can be a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist knowledge and management assumptions which can change, and result in material changes to valuations.</p>	<p>the professional valuer.</p> <p>Obtained an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Critically assessed the approach the council has adopted to ensure that assets not subject to valuation are not materially misstated and consider the robustness of that approach.</p> <p>Tested the reconciliation between the financial ledger and the property asset register.</p> <p>Critically assessed the adequacy of the council's disclosures regarding the assumptions in relation to the valuation of land and buildings.</p>	<p>to the financial statements to ensure that the carrying value of land & buildings represent fair value at 31 March 2022.</p> <p>Assurance has been gained that there are no material misstatements in the carrying value of land & buildings.</p>

Other areas of audit focus

35. We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus were:

- The review of Common Good assets to identify those assets held by the council but which are properly owned by the Common Good Funds.
- The pension liability valuation due to the material value and significant assumptions used in the calculation of the liability.
- The ongoing impact of Covid-19 and how related expenditure and additional funding is being accounted for in the annual accounts.
- The accounting for and disclosure of any provisions or contingencies relating to litigation and claims resulting from historic cases.

36. We kept these areas under review throughout our audit. Based on the findings of our audit procedures, we have the following matters to report.

37. Our findings in respect of Common Good Funds assets and accounting for Covid-19 funding are detailed in [Exhibit 2](#).

38. Provisions & contingencies: Following discussion with Scottish Borders Council's legal team it was identified that the council had admitted liability in a recent case. To date no claims have been brought against the council. The financial statements have been updated to include a contingent liability disclosure.

Identified gross misstatements of £85.3 million were adjusted in the group annual accounts. We did not need to revise our audit approach as a result of these misstatements

39. Total misstatements identified within the group annual accounts were £85.3 million (including £55.7 million in respect of asset revaluations). Details of these adjustments are included within our findings highlighted in [Exhibit 2](#).

40. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. We did not need to review our audit approach as a result of these misstatements.

41. Adjustments made in the group annual accounts increased the overall net surplus in the Group Comprehensive Income and Expenditure Statement by £55.3 million and increased net assets in the Group Statement of Financial Position by £55.3 million.

42. Adjustments made in the council's annual accounts increased the overall net surplus in the Comprehensive Income and Expenditure Statement by £63.0 million (which included the prior year restatement of assets of £0.5 million) and increased net assets in the Statement of Financial Position by £62.5 million.

43. There were no unadjusted misstatements that exceeded our reporting threshold.

Progress was made on prior year recommendations

44. The council has made progress in implementing our 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 is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Main judgements

The council operated within budget in 2021/22.

The council continues to balance its budget each year and maintains a healthy level of reserves.

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

The council operated within budget in 2021/22

45. The council approved its 2021/22 budget on 19 March 2021. The budget was set at £314.7 million which included planned savings of £5.1 million and planned use of £1.5 million of earmarked reserves.

46. The council has a good track record of delivering services within budget over several years. The actual outturn for the year was expenditure of £289.6 million, which was an underspend of £5.1 million against the revised budget of £294.7 million for the year. £3.7 million was transferred to reserves at the year end, for use on a number of initiatives across the council, leaving a net underspend of £1.4 million against the revised budget.

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

Exhibit 4

Summary of the more significant under/overspends against revised budget

Area	£m	Reason for variance
Underspends		
Corporate	0.7	Corporate underspend achieved following Scottish Joint Council and Chief Officer 2021/22 pay award being less than anticipated

Area	£m	Reason for variance
Social Work & Practice	1.1	Higher client income and lower client care costs than forecast
Education & Lifelong Learning	0.4	Lower than forecast spending in respect of Covid-19
Overspends		
Infrastructure & Environment	0.5	Costs incurred in response to emergency flooding and storm events
Strategic Commissioning & Partnerships	0.6	Information technology costs due to revised impacts from digital transformation programme

Source: Scottish Borders Council 2021-22 Revenue Outturn

The council has appropriate and effective budget setting and monitoring arrangement in place

48. The Council continues to balance its budget each year and maintains a healthy level of reserves.

49. The Executive Committee receive regular revenue and capital monitoring reports and, from a governance perspective, conducts detailed scrutiny of financial performance. 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.

50. The council has appropriate and effective budget setting and monitoring arrangements in place.

The Covid-19 pandemic had a significant impact on the 2021/22 budget

51. The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses, and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

52. Covid-19 costs were £22.2 million with most of these (£20.5 million) being met by additional resources provided by Scottish Government during 2021/22. This included £4.6 million for Integration Joint Board (IJB) funding provided through Local Mobilisation Plans. The remainder (£1.7 million) were funded by the council.

53. The council's Covid-19 reserve was established during 2020/21 to address the ongoing impact of Covid-19. During 2021/22, the Covid-19 reserve decreased by £6.2 million and was used to offset costs incurred in-year. The balance of the fund at 31 March 2022 was £9.5 million. Elements of the carry forward funding have already been committed in 2022/23 with the remainder available to help the council address the ongoing impact of Covid-19.

There has been a significant increase in the level of General Fund reserves

54. One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves increased from £48.3 million in 2020/21 to £64.5 million in 2021/22. The General Fund surplus represents £15.5 million of the increase, the Capital Fund has increased by £0.9 million, the Property Maintenance Fund has decreased by £0.3 million, and the Insurance Fund has increased by £0.1 million.

55. 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.

56. 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 2022/23, the Corporate Financial Risk Register was considered by the Council in February 2022. At this time the financial risk was assessed as being £13.8 million with the projected unallocated general fund balance of £8.4 million sufficient to cover 61% of the risks at that time. This is an increase on the prior year position which covered 49% of the assessed risks at that time.

57. We consider the council's approach to reserves to be good practice and are satisfied that reserves are being regularly reviewed to confirm that they remain at an appropriate level.

Planned efficiency savings were achieved

58. The 2021/22 budget included planned savings of £5.1 million and the planned use of £1.6 million of earmarked reserves to address the funding gap.

59. Financial plan savings of £9.3 million were reported in 2021/22. The total savings are made up of £5.1 million included within the 2021/22 financial plan plus £4.2 million of savings brought forward from previous years. Of these savings £3.5 million (38%) were reported as delivered permanently.

60. [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 2021/22

Capital expenditure was less than originally budgeted in 2021/22

61. The council agrees a ten-year capital plan each year as part of its budget process. Total capital expenditure in 2021/22 was £59.6 million. The total capital spend was £7.1 million below the revised capital budget of £66.7 million.

Borrowing levels have decreased in 2021/22

62. At 31 March 2022, long term borrowing stood at £210.5 million, an increase of £18.2 million on the 2021 level of £192.3 million. During the same period, short term borrowing decreased from £28.5 million to £4.8 million.

63. The council continues to maintain an under-borrowed position. Capital financing need was not fully funded by external loan debt and instead by internal cash. This strategy has been applied on the basis that this is prudent

and cost effective in an environment where investment returns are low and counterparty risk is high.

64. 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.

Overall we concluded that the council has satisfactory systems of internal control in place

65. 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.

66. We carried out a review of the key controls within the financial systems used by Scottish Borders Council during our interim audit. Whilst overall we concluded that the council has satisfactory systems of internal control in place, there are a number of areas where the application of internal controls can be improved.

67. The findings from our interim work are summarised below:

- **Debtors:** A recommendation was made during the 2020/21 audit that a formal process be implemented for the regular review of aged debtor balances by senior staff. This would ensure that any issues can be identified at an early stage to improve the likelihood that debts can be recovered. This recommendation was not implemented within 2021/22 due to changes in senior staffing and resource pressures within the department.
- **Verification of Supplier Bank Details:** A recommendation was made during the 2020/21 that a standard process for the verification of supplier bank details be implemented. A new system for supplier data management was introduced in January 2022 and the implementation of this for new and existing suppliers was in progress. In respect of payments to individuals it was identified that reliance was still being placed on bank details provided by other teams with no formal requirement to verify the information provided. The accounts payable team is liaising with each department to determine the appropriate process to be implemented with regards to the verification of bank details for individuals.

- **Non-Domestic Rates (NDR) & Council Tax:** Recommendations were made during the 2020/21 audit to ensure appropriate reviews of reliefs granted were being completed and regular reconciliations of property assessor reports and reviews of user access to systems were being undertaken. Significant progress has been made in respect of reviews of reliefs with this being made a priority during 2021/22. User access reviews were completed, and assurance was gained that appropriate individuals had access to the NDR and Council Tax systems. Limited progress has been made with regards to reconciliations of property assessor reports due to resourcing pressures. Our testing confirmed that the appropriate reconciliations had been completed at the year end.
- **Journals:** Assurance was gained that the workflow controls operating within Business World systems were operating as expected to ensure that journals were being appropriately approved. Journals with > 500 lines are unable to be processed through the established Business World workflows and therefore there is a manual approval process for these journals. We identified that there were journals where this process was not being followed and there was inadequate evidence for the approval of these journals. Our recommendation is that this process and the related controls are reviewed and that the agreed process is communicated to all journal processors.

68. The above issues have been discussed with the relevant teams and management have agreed that our recommendations will be actioned during 2022/23.

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

69. Scottish Borders 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.

70. The risk profile of public bodies during 2021/22 has been significantly affected by the Covid19 pandemic. This is likely to have increased the risk of fraud and error as control environments and internal controls have had to change to allow for services to operate effectively and respond to issues in a timely manner.

71. 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.

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

73. The Integrity Group carried out a Counter Fraud Controls Assessment for 2021/22 which was presented to the Audit and Scrutiny Committee on 14 February 2022 and provided assurances about the effectiveness of the council's existing systems and arrangements for the prevention, detection, and investigation of fraud. An action plan of recommendations to enhance the council's resilience to fraud was approved at the meeting.

74. We have reviewed the arrangements put in place by Scottish Borders 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

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

76. We reported in our 2020/21 Annual Audit Report that Scottish Borders Council had not investigated any NFI matches due to ongoing capacity issues in the relevant service areas.

77. This issue was highlighted by the Chief Officer for Audit & Risk at the Integrity Group and SBC Response & Recovery Group meetings. However, full participation in the 2020/21 NFI exercise was not achieved due to continued resourcing pressures. Only minimal progress has been made in respect of the review of matches identified.

78. Management advised that planning for, and 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.

79. Management should continue to monitor the delivery of their planned actions to ensure improved participation in this initiative.

Refer to [Appendix 1](#), recommendation B/fwd 6

3. Financial sustainability

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

Main judgements

The council faces significant uncertainty for 2022/23 and beyond in line with every other Local Authority in Scotland.

Medium and longer-term financial plans are in place and have been updated to reflect the impact of the pandemic. This should help the council manage its future transformation planning.

We have obtained audit assurances over the wider audit dimension risks relating to Financial Sustainability identified in our 2021/22 Annual Audit Plan

80. [Exhibit 6](#) sets out the significant risks of material misstatement we identified in our 2021/22 audit plan, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

Exhibit 6

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

Audit risk	Assurance procedure	Results and conclusions
Financial sustainability The council continues to operate in an increasingly complex and challenging environment, where core national funding is reducing relative to rising demands for services and cost pressures.	Reviewed the council's annual budget setting arrangements. Reviewed and assessed the budget monitoring arrangements. Reviewed the council's medium to longer-term financial planning.	Results and conclusion: We reviewed the body's medium to longer-term financial planning and concluded that the processes in place are good. (See paragraphs 81 – 87)

Audit risk	Assurance procedure	Results and conclusions
<p>A wide range of financial uncertainties has been further complicated due to the Covid-19 pandemic, the war in Ukraine and overall rising costs of living.</p> <p>The council faces significant challenges to remain financially resilient and deliver services sustainably.</p> <p>There remains a risk to financial sustainability and the sustainability and quality of services in the future.</p>	<p>Review of the council's financial position and delivery of planned savings.</p>	

The council faces significant uncertainty for 2022/23 and beyond

81. The financial impact of the pandemic on Scottish Borders Council is likely to extend across several years. The council faces significant uncertainty for 2022/23 and beyond in terms of financial settlement, recovery from Covid-19, inflation and rising living costs.

82. 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 has been prepared against the significant financial uncertainty caused by the Covid-19 pandemic.

83. The approved budget covers a five-year forecast covering the period 2022/23 to 2026/27. The budget has been developed to ensure the financial plans of the council are aligned with its business and people planning objectives and the level of resources available. The principal pressures identified are due to anticipated continued restraints on external revenue and capital funding from central government, the uncertainty around national pay negotiations and increasing pressures from the demographics within the region.

84. Budget monitoring is reported to the Executive Committee on a quarterly basis. The monitoring report was presented to the Executive Committee in August 2022 and was based on the first quarter of 2022/23. This report indicated additional forecast annual expenditure and impacts on income associated with Covid-19, inflation, and service pressures of £4.2 million. The decision was made to redirect the current 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 will be drawn down as required to meet identified financial pressures.

85. 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 are in place and have been updated to reflect the impact of the pandemic

86. 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. For the longer-term financial plan 2022/23 represents the year 1 base year. The council's medium-term budget covers the period to 2026/27 with the longer-term financial plan projecting forward to 2031/32. This plan was approved by council in February 2022.

87. The council should continue to monitor, review and reforecast its plans as appropriate, to take into account ongoing uncertainties.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively.

There is effective scrutiny, challenge and informed decision making.

Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively

88. Scottish Borders 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.

89. The council made significant changes to its governance arrangements in response to the pandemic in 2020/21 which included changes to when and where services were provided, changes to standing orders, systems remote access, virtual meetings, and redeployment of staff to alternative duties. These changes continued to operate during 2021/22.

90. A new chief executive was appointed at the end of March 2021. However they resigned their position in June 2022 to take up another post. An acting chief executive has been appointed to ensure business continuity, while the permanent recruitment process takes place.

91. During 2021/22, the council carried out a review of its Corporate Management Team and made changes to the management reporting structure. This resulted in changes to the scheme of delegation to reflect new job titles and changes to line management. The reported income and expenditure in respect of services in the prior year within the Comprehensive Statement of Income & Expenditure has been restated to reflect this new management reporting structure. There was no overall impact on the reported net cost of services for 2020/21 as a result of this restatement.

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

We have obtained audit assurances over the wider audit dimension risks relating to Governance and transparency identified in our 2021/22 Annual Audit Plan

93. [Exhibit 7](#) sets out the significant risks of material misstatement we identified in our 2021/22 audit plan, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

Exhibit 7

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

Audit risk	Assurance procedure	Results and conclusions
<p>Governance and transparency</p> <p>In February 2022, the Council received a critical report on its handling of school assault allegations. It will be important to demonstrate appropriate governance and transparency in responding to the report.</p>	<p>Reviewed the reporting arrangements.</p> <p>Reviewed the progress in the implementation of recommendations.</p>	<p>Results: Following the council meeting in February 2022, an action plan implementing the recommendations highlighted in the inquiry report was presented and 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 the council at their meetings in June, August, and October 2022 with 26 of the 52 actions points completed to date.</p> <p>Conclusion: Scottish Borders 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>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>

Reporting of financial performance

94. Management Commentaries included in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced, and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

95. The Management Commentary describes the council's highlights of 2021/22 as well as setting out the council's financial strategy, key risks, financial plans, and financial performance. We comment more on performance reporting in [Part 5](#) of the report.

96. Overall we concluded that the council's management commentary was consistent with the financial statements.

ICT Governance

97. CGI supported the council with their switch to home working during the pandemic. An extension of the council's strategic partnership with CGI has been negotiated which extended their contract for fully managed ICT services by 10 years, until 2040. It was reported that this will provide an £11 million reduction in service costs. In return the council has committed to spending £34 million over the next three years on IT transformation with CGI.

98. We reported in our 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 is currently being reviewed.

99. The council's Public Service Network (PSN) accreditation expired in September 2021 and reaccreditation was achieved in May 2022.

100. On disaster recovery arrangements, work to migrate application services from Scottish Borders Council headquarters to the CGI hosting facilities in DataVita and Waterton data back-up facility in Wales was completed in 2021/22. CGI have not yet undertaken a full disaster recover 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.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

The council is making good progress in securing Best Value

We have evaluated the council's arrangements for performance reporting and concluded that the council has made the necessary arrangements for collecting, recording, and publishing the statutory performance information.

The council is making good progress in securing Best Value

101. Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council has been considered by the Accounts Commission at least once in this period. The BVAR report for the council was published in October 2019 and found that the council had made steady progress since the previous Best Value report.

102. There were seven recommendations included within the BVAR. Scottish Borders Council prepared a detailed action plan in response to these recommendations which included 40 actions spread across the seven recommendations.

103. The most recent update on the progress relating to the Best Value action plan was presented to the Audit and Scrutiny Committee in February 2022. Within this report 20 action points are reported as being fully complete with the remaining 20 action points highlighted at various stages of completion. Some elements of the plan were noted as having been superseded due to changed ways of working resulting from the Covid-19 pandemic.

104. Officers at the council continue to monitor progress in respect of the action plan have advised that to date 37 of the 40 action points are now marked as fully complete with 3 action points remaining outstanding.

105. The outstanding actions that are still being progressed are:

- Ensure each department has a 5-year people plan which aligns with the corporate plan and Fit for 2024 principles (80% complete).
- Develop a members' section of SBLearn where specific materials linked to Councillor responsibilities could be housed (50% complete).
- Survey with the members to identify skills gaps (25% complete).

106. The progress made in respect of the action plan has not been reported to the Audit Committee since February 2022.

107. Overall the council has made good progress against the recommendations in the BVAR and resulting action plan but reporting to the Audit Committee could be improved.

108. The SPI directive requires the council to publish audit assessments of its performance against its Best Value duty, and how it responded to these assessments. Although the council has published the most recent BVAR from 2019 on its website, action plans and updates on progress relating to actions are not published within the performance section of the council's website.

109. We recommend that Scottish Borders Council continues to monitor the progress with regards BVAR recommendations and updates their website to include further information in respect of the response to recommendation made within the BVAR.

110. The Controller of Audit will consider the results of this follow up work, and report to the Accounts Commission on the extent of improvements made.

Refer to [Appendix 1](#), B/fwd recommendation 7

Significant trading operation

111. Scottish Borders 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.

112. 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.

113. SBc Contracts reported an operating surplus of £0.4 million in 2021/22. However, following technical accounting adjustments for IAS 19 Employee Benefits (including pensions), the final position was a deficit for 2021/22 of £0.3 million for external works and a three-year cumulative deficit of £0.2 million. 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.

114. As Scottish Borders Council has failed to meet a prescribed objective in respect of its significant trading operation, this has been reported in our Independent Auditor's Report as a matter reported by exception. Further details are included at [paragraph 20](#).

115. We recommend that a review is carried out of SBc Contracts to examine the cost effectiveness of the service provided to ensure that it continues to represent best value for the council.

Refer to [Appendix 1](#), recommendation 2

Performance management arrangements provide a sound base for improvement

116. We reviewed the performance information submitted to the Executive Committee on a quarterly basis to assess whether performance measures are aligned to the council's key priorities and outcomes. The Council's Corporate Plan for 2018-2023 had four categories: Our services for you; Independent, achieving people; Thriving economy with opportunities for everyone; and Empowered vibrant communities. Performance reports provided during the year were based around these themes.

117. The council approved a revised Council Plan for 2022/23 in February 2022 and the Performance Management Framework 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.

118. The Performance Management Framework provides a sound base for improvement, with performance information closely linked to the objectives in the Plan.

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

119. 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.

120. 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.

121. 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 Corporate Plan and Community Plan. These indicators are updated quarterly and reported through the Executive Committee. The performance information is grouped under the council's four themes. 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.

122. Annual reporting of performance information: The council reports on a series of annual performance measures in its Annual Performance Report; the report for 2021/22 was considered at the June 2022 meeting of the Executive Committee.

123. Reporting framework: The council has prepared an updated Performance Management Framework which was approved in June 2022, along with a Council Plan for 2022/23 which replaced the previous Corporate Plan. The Performance Management Framework sets out how the council will measure and report information each year.

124. 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 2021/22 information concluded that substantial assurance could be provided over the performance information but did identify improvements for processes for validating Cultural & Leisure information.

125. 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.

National performance audit reports

126. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, Audit Scotland published a number of reports which may be of interest to the body. These are outlined in [Appendix 2](#).

127. The Council has good arrangements in place for considering and reviewing national reports issued during the year, with the reports being considered by the Audit and Scrutiny Committee (separate Audit Committee since September 2022) on a regular basis.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Inquiry Action Plan</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>Risk – the required improvement actions are not being addressed</p>	<p>Scottish Borders 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>Exhibit 7</p>	<p>Agreed – the action plan will continue to be progressed during 2022/23.</p> <p>Responsible officer Acting Chief Executive Director of Education and Lifelong Learning</p> <p>Agreed date 31 March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>2. Significant trading operation</p> <p>Scottish Borders 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>Risk – that the council's significant trading operation activities do not represent best value for the council.</p>	<p>Scottish Borders 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>Paragraph 111</p>	<p>Agreed - there has already been work carried out as part of a wider appraisal that looks to improve depot based services that includes SBc Contracts. As part of this work we will undertake some initial analysis of financial trading data to identify key areas for improvement or focus. In addition, work is underway to introduce improved IT software to support the service and to better record and track income and expenditure. This is seen as a pivotal and necessary step to enable a more rigorous review to be undertaken to examine cost effectiveness and best value of SBc Contracts, this is expected to be delivered within 12-15 month timeframe.</p> <p>Responsible officer</p> <p>Director Infrastructure & Environment Acting Chief Financial Officer</p> <p>Agreed date</p> <p>Initial financial analysis by 31 March 2023</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Asset valuations</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>Risk – 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% of each asset category annually rather than each asset category every five years which can lead to large swings in asset values</p>	<p>In progress</p> <p>The rolling programme of asset valuations has been amended to be completed at 31 March instead of 1 April starting with Education and Lifelong Learning properties at 31 March 2023.</p> <p>A formal review of assets not valued to be carried out at 31 March by the internal valuer to provide management with the evidence to determine if there is a risk of material misstatement in the carrying value of assets.</p> <p>Responsible officer</p> <p>Director, Infrastructure and Environment</p> <p>Revised date</p> <p>31 March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>2. Assets on Common Good Land</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. Scottish Borders Council has a number of operational assets which 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>Risk –the Common Good Funds omit assets which rightly belong to them.</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>In Progress</p> <p>A review of the arrangements / agreements in place between the Common Good Funds for the use of their assets to be completed and appropriate adjustments included within the financial statements of the council and Common Good Funds where required.</p> <p>Responsible officer</p> <p>Acting Chief Financial Officer and Chief Legal Officer</p> <p>Revised date</p> <p>31 March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Internal recharges</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>Risk –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>In Progress</p> <p>We reviewed the supporting evidence for internal charges to capital. While it was noted that the supporting reporting had improved, there was inconsistency in the supporting evidence available for internal charges and reports provided did not always reconcile with the charges capitalised into asset values.</p> <p>Further work is required to establish a standard process and controls in respect of internal charges made to capital assets.</p> <p>Responsible officer Financial services manager</p> <p>Revised date 31 March 2023</p>
<p>4. Scottish Water balance</p> <p>The council collects water/sewage rates on behalf of Scottish Water as an agency arrangement as part of Council Tax collection. In the accounts, Note 30 Creditors includes a £1.0 million debtor balance relating to Scottish Water for water/sewage amounts written off as part of council tax write offs. The write offs are mostly historic from 2014/15 onwards.</p> <p>Risk –this understates Creditors unnecessarily and remains an unresolved balance that sits in the ledger.</p>	<p>The council should liaise with Scottish Water on this historic balance and determine whether it can be removed from the council’s ledger.</p>	<p>Complete</p> <p>Appropriate adjustments have been processed in 2021/22 and the amounts owed to Scottish Water have been reconciled at 31 March 2022</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>5. Non-Domestic Rates</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>Risk –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>In Progress</p> <p>Scottish Borders 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>Responsible officer Financial Services Manager</p> <p>Revised date 31 March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>6. NFI match investigation</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>Risk –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>In Progress</p> <p>Full participation in the 2020/21 NFI exercise was not achieved due to continued resourcing pressures and only minimal progress was made in respect of the review of matches identified.</p> <p>Planning for and participation in the 2022/23 NFI exercise has commenced. NFI Self-Appraisal Checklist 2022/23 has been completed and presented to the Integrity Group. Management has identified persons within the relevant services for data submissions in November and December 2022 and investigation of data matches from January 2023 to improve participation in the NFI.</p> <p>Responsible officer Chief Officer Audit & Risk</p> <p>Revised date 31 March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>7. Best Value Action Plan</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>Risk -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>In Progress</p> <p>The council has made good progress against the recommendations in the BVAR and resulting action plan with 37 out of the 40 action points completed.</p> <p>During our review we noted that the council had not fully complied with the SPI directive which requires councils to publish audit assessments of its performance against its Best Value duty, and how it responded to these assessments.</p> <p>Although the council has published the most recent BVAR from 2019 on its website, action plans and updates on progress relating to actions are not published within the performance section of the council's website</p> <p>We recommend that Scottish Borders Council continues to monitor the progress with regards BVAR recommendations and updates their website to include further information in respect of the response to recommendation made within the BVAR.</p> <p>Responsible officer</p> <p>Senior Manager –Business Strategy & Resources</p> <p>Revised date</p> <p>31 March 2023</p>

Appendix 2. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Scottish Borders Council

2021/22 Annual Audit Report

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