

Scottish Borders Council

Report to Members and the Controller of Audit
on the 2006/07 Audit



October 2007



Contents

Key Messages	2
Introduction	5
Performance	6
Financial position	20
Governance	29
Financial statements	32
Final Remarks	37
Appendix A: Action Plan	38



Key Messages

Introduction

In 2006/07 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes in 2006/07 and the outlook for the period ahead.

Key outcomes from 2006/07 audit

We have given an **unqualified** opinion on the financial statements of Scottish Borders Council for 2006/07.

The council had corporate governance systems in place during 2006/07 that operated well within a sound control environment. It is important, however, that the new council keeps these systems under review to ensure that they remain appropriate to the new environment of multi-member wards and the council's area committees.

The council's Audit Committee is effective both in terms of its scrutiny investigations and its compliance with audit committee principles.

The findings of the Best Value and Community Planning audit carried out in late 2006 were published in March 2007. The council responded positively to the findings of the Accounts Commission and the key improvement actions agreed have been incorporated within the Council Improvement Plan.

The council is undergoing a period of major change driven by the Business Transformation Plan. The key elements needed to support this change are mostly in place. The need now is to ensure that these initiatives fit together and the change is achieved.

Sound asset management is a vital part of being an efficient organisation. Our 2006/07 Audit Risk Analysis and Plan highlighted that there is no cohesive and demonstrable approach in place at the council to ensure that corporate strategies and objectives are supported by asset management plans in the long-term. The council had been working towards development of a Corporate Asset Management Plan (AMP) by July 2007 although this timescale has now slipped.

The council has made significant progress in delivering a coherent and effective approach to risk management. It has a well considered Risk Management Strategy and has been pursuing an action plan that has delivered comprehensive Risk Registers and associated risk mitigation action plans. The council has agreed a review cycle and a methodology for linking Risk Management outcomes with Business Plans



and budgets. The 'Covalent' system will be used to store the Registers, monitor action plan delivery and ensure regular risk reviews are undertaken. The Strategy was first introduced in 2004 and a review is now underway to ensure that it remains fit for purpose and continues to fit the council's needs.

In June 2006 the council introduced a new performance management system which utilises 'Covalent' software to analyse and report both Statutory Performance Indicators and locally determined Key Performance Indicators. Statutory Performance Indicators show that the council has made improvements in a number of areas during the year. However, the council's internal performance data highlights that the council achieved only 67% of the priorities identified in its improvement plan on time and within budget as opposed to a target of 80%. The council is preparing to publish an updated version of its '*How Good Is Our Council?*' covering performance in 2006/07. This is supplemented by regular performance reporting in the council's newspaper SB Connect, together with a range of other statutory performance reports.

The future implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service. The council is taking forward this issue through its business transformation project. We are aware that there has been some slippage in this project; however the allocation of jobs to new role profiles is substantially complete. Development of the pay and grading structure and the terms and conditions package is well advanced. The council is aiming to begin implementation in April 2008.

At the end of the year the council had cash backed reserves and funds of £20.7 million. The non-earmarked portion of the General Fund balance was some £6 million. This is in accordance with the council's reserves strategy. The council continues to experience slippage in capital projects which needs to be more effectively managed to avoid a detrimental impact on future capital expenditure plans.

The council is developing a systematic approach towards the identification and achievement of efficiency savings. However, it is recognised that work remains to be done to develop monitoring systems to ensure that identified opportunities for savings crystallize and to ensure that the Council can report accordingly.

Outlook for future audits

The council's Business Transformation and Council Improvement Plans set the background for an ambitious and demanding programme of change which will be ongoing for several years to come. It is important that the council can develop a more strategic approach to capital planning, asset management and workforce planning to ensure that it has the right resources in the right place at the right time to support the achievement of these plans and deliver envisaged service improvements.

In common with other Scottish councils Scottish Borders Council has sought to limit its exposure to the financial risk associated with equal pay claims. In 2006/07 offers were made to a large number of employees. The council has, however, recognised that there are a number of on-going claims where



settlement has not yet been reached and has reviewed its provision to reflect this. The current provision is £2.195 million. While moves to agree compensation payments will help to reduce financial risk in this area to some extent, some risk remains while existing pay and reward structures are in place. The future implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service.

The planned implementation of the single status agreement in the council has not yet been achieved. Until single status is implemented the initial and continuing costs cannot be reliably estimated which represents some financial risk to the council. Evidence from other councils is that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. In implementing the agreement, the council needs to maximise the value for money from its investment in its staff.

The co-operation and assistance given to us by Scottish Borders Council Councillors and staff during the audit is gratefully acknowledged.

Audit Scotland

October 2007



Introduction

1. This report summarises the findings from our 2006/07 audit of Scottish Borders Council, the first year of a five year appointment. Findings are drawn together within four sections, namely, performance, financial position, governance and financial statements. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.
2. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the council's Management Team and Audit Committee in March 2007. Under the following strategic themes, the ARAP set out our views on the key business risks facing the council and described the work we planned to carry out:
 - transforming performance
 - strengthening governance
 - working with communities
 - workforce management
 - improving infrastructure.
3. We also undertook a number of detailed exercises which are currently being finalised and which will result in the submission of two audit reports. These reports will cover potential control weaknesses identified through our review of significant financial systems and a review of the capital monitoring process. Key messages from those separate reports for the consideration of members within this report. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A of this report sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.
4. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members during the course of our audit work.



Performance

Introduction

5. In this section we summarise key aspects of the council's reported performance during 2006/07 and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the best value audit which was carried out during the year and the findings of national performance audit studies.

Corporate objectives and priorities

6. The Corporate Plan for 2006 – 2009 sets out the key goals and priorities for the council until 2009 and explains how it plans to achieve these. The plan is set out in six themes, which cut across a variety of services:
 - strong, inclusive and safe communities
 - a robust and dynamic economy
 - a protected and enhanced natural environment
 - improved health and well-being
 - learning for everyone
 - a well connected Borders.
7. The corporate plan is then further broken down into 59 targets which underlie the key themes. In addition, the Corporate Plan is supported by the Council Improvement Plan (CIP) (formerly known as the corporate improvement plan) which sets out how the council will deliver its service improvements. The priorities of the council include:
 - to promote social justice and inclusion
 - focus on and further develop tourism
 - reduce waste and increase the re-use and recycling of materials
 - work in partnership to tackle ill-health
 - re-balance care towards people living at home or within the community
 - raise achievement and attainment levels



- reintroduce rail services in the Borders.
8. The council has several significant programmes for improvement and change which are key mechanisms for delivering its priorities and vision.
 9. Following the May 2007 elections, the former ruling coalition of Conservative and Independent members were joined by the Liberal Democrats to form the new ruling coalition with a similar majority as before. The leader of the council has retained his position during this period. Work is ongoing to develop a revised corporate plan which will incorporate the new administration's priorities.

Overview of performance in 2006/07

Annual Report

10. The Best Value report (issued March 2007), referred to the limited public performance reporting which had been undertaken by the council. The report highlighted the need for the regular reporting of up to date and relevant information. The council has taken steps to address this issue and recently submitted to its management team, the draft version of *How Good is our Council? (HGIOC)* which covers performance during 2006/07. It is intended that *HGIOC* will be formally published by the end of November 2007.
11. *HGIOC* includes consideration of performance against the specific targets set out in the corporate plan 2006-09. It also notes other achievements against the corporate themes. These include:
 - **strong, inclusive and safe communities** – developed a housing and care strategy to deliver 138 houses which will specifically meet the needs of older people and exceeded the cleanliness index target by 2% (72% actually achieved)
 - **a robust and dynamic economy** – an online Borders website was launched in partnership with NHS Borders, Careers Scotland and the Borders Forum of councils for Voluntary Services. The website provides information on services and training opportunities in the area and was 'highly commended' in the e-Government National Awards
 - **a protected and enhanced natural environment** – recycled or bulk composted over 28% of municipal waste, exceeding the target by over 3%. In addition Scottish Borders Council became the first authority to sign up to the Scottish Government's Climate Change Programme and has begun to take action to fulfil its commitments
 - **improve health and well-being** – achieved, in partnership with NHS Borders, the target of not more than 8 people waiting six weeks or more to be discharged from hospital. In addition a drug



awareness framework for all primary schools with clear learning outcomes was introduced together with a drug treatment and testing order programme for offenders

- **learning for everyone** – met or exceeded the targets for good/very good HMIE evaluations over 5 categories
- **a well connected borders:** – provided a flexible ‘on demand’ transport system in the Yarrow Valley.

12. *HGIOC* also records instances of non-achievement. For example, under each of the Corporate Plan themes, a range of issues are noted. These include:

- the council intended to reduce the number of looked after and accommodated children. A target of 169 was set for 2006/07, but actual numbers in care amounted to 194 children. However, a review of services has since been undertaken and actions identified for improvement
- the targets for Eco-schools achieving bronze, silver and green flag status were not achieved
- a delay in progressing the home care review has led to the non achievement of 2 targets (the number of available care home beds for older people and the percentage of hospital discharge home care services),
- 56% of the road network requires maintenance compared to the target of 43%. The council has planned to deliver an additional £3 million to address the backlog in repairs and maintenance.

13. The challenge will now be for the council to review its targets to ensure that they are properly stated and are realistic. In addition, the targets will require to reflect the new corporate plan and CIP and will need to be refined to meet the changing environment.

Action Plan no 1

Measuring Performance

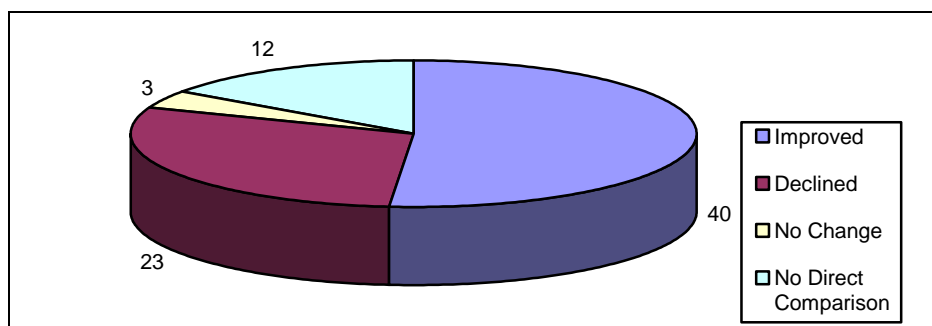
14. An integrated performance management framework which links various improvement activities within a single framework was introduced in June 2006. It is based on the use of both Statutory Performance Indicators and locally developed indicators, and monitors achievement of corporate plan priorities. The ‘Covalent’ system is used to provide detailed information together with a high level summary of performance to date. This is reported to committee on a regular basis.
15. Overall, as at 31 March 2007, the aim was to deliver 80% of the identified priorities and projects on time and within budget; the reported outturn position was that 67% were delivered on target.



16. This is an essential tool to provide members and officers with robust information allowing them to drive change within the organisation, demonstrate their challenge and scrutiny roles and generally seek improvement. It is a new system and is still bedding in but members and officers need to ensure that they get the most out of it and use it to drive improvement throughout the council.

Statutory performance indicators

17. Within the *HGIOC* draft report, statutory performance indicators (SPIs) are reported alongside the previous 3 years results. The long term trend is also shown graphically together with a summary of both long and short term trends. The council is of the view that 28 SPIs should be categorised as 'excellence SPIs' as they are considered to be key to the council's business and should be subject to closer monitoring and scrutiny. We noted that not all of the SPIs have been linked into the corporate plan/CIP targets and this should be considered as the council moves forward to further integrate and adapt its performance framework.
18. The Best Value report noted that in 2005/06 service performance was mixed with some performing well while others need to improve. This trend has continued into 2006/07 although a greater number of SPIs are reporting an improved position as compared with those with declining performance:



19. Substantial improvements have been made and maintained in:
- the number of home care hours per 1,000 population as a proportion of all homecare clients receiving personal care, evening/overnight care and weekend care
 - the average time taken for processing benefit claims
 - the average time taken to pay invoices
 - occupancy percentage levels of the ratio of pupils to places in secondary schools
 - street cleanliness and refuse recycling
 - inspection of premises undertaken within 2 years or less.



20. However, performance has declined in a number of areas including:
- sickness absences
 - planning applications dealt with within 2 months
 - number of borrowers from public libraries
 - the proportion of new probationers seen by a supervising officer within 1 week.
21. Each year we review the reliability of the council's arrangements to prepare SPIs. In general, the working papers provided were reasonable however there were inconsistencies in the working papers provided by services. This year we rated one indicator (the percentage of council buildings which the council delivers services to the public that are suitable for and accessible to disabled people) as X (unreliable). Data submitted for audit excluded information relating to the two Leisure Trusts contrary to the guidance provided.

Best Value audit

22. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.
23. The Best Value audit of Scottish Borders Council was carried out in 2006 and the findings published in March 2007. The audit concluded overall that:

Scottish Borders Council has become an ambitious council which demonstrates good self awareness. It has a clearly articulated vision and a sound strategic planning framework. Elected members, officers and community planning partners share a consistent vision and work well together. Within the council, elected members and senior officers provide strong, clear leadership supported by effective political and managerial structures.

Following the two public service failures which came to light in 2000 and 2002, the council focussed on building a corporate improvement culture. Many of its arrangements are new and it still has much to do in major areas of Best Value such as performance management, competitiveness, engaging with its communities, asset management and procurement.

The council is yet to realise the full benefit of its recent investments in improved service delivery and outcomes for local people. Service performance is mixed, with some services such as education, refuse collection and recycling performing well. There are other services which need to improve including planning, roads maintenance, aspects of criminal justice and



delivery of the planned strategic review of community care.

The council is committed to change and has adopted an ambitious Business Transformation Programme. In order to implement this as planned, it will need to look closely and realistically at its capacity to deliver planned improvements.

24. The Best Value report was considered and accepted by Scottish Borders Council in March 2007 when it was agreed that the new council should also have the opportunity to consider the report in full at its meeting in June 2007. The key improvement actions identified in the Best Value report have now been incorporated within the CIP which was approved by the council in August 2007. The key actions identified within the CIP will be monitored by the Performance Monitoring Panel (PMP) on a bi-monthly basis to ensure that objectives are being delivered within the agreed timescales and are achieving the intended results. We shall review progress against the CIP as part of the ongoing audit process.



Performance outlook – opportunities and risks

Introduction

25. In the course of our audit work we identified some of the strategic risks to Scottish Borders Council delivering on its stated objectives and priorities in the years ahead. These risks were set out in our Audit Risk Analysis and Plan and grouped into five risk themes. In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed. Where appropriate, matters arising in a number of these areas are also reported in more detail elsewhere in this report. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be “risk aware”, and have sound processes of risk management, rather than “risk averse”. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value. This is reflected in the council’s Risk Management Strategy, which commits the council to manage risk “intelligently”.

Transforming performance

26. The council’s ambitious Business Transformation Project (BTP) demonstrates its commitment to improvement and awareness of how much it needs to do. It takes a more strategic view of improvement activity and encompasses eight work streams. The BTP is a series of projects which together aim to deliver fundamental change for the council, reducing operating costs through efficiency savings, protecting front line services whilst reducing back office costs, and improving customer service through initiatives such as Customer First, Human Resources and Asset Management Planning. The previously discussed performance management framework provides information on the progress.
27. The tightening financial environment facing local government is putting increasing pressure on councils as they work to improve services, meet new demands while restricting increases in council tax and rents. The Efficient Government initiative has also incorporated some assumed efficiency savings into annual financial settlements.
28. While we are aware that the council has achieved some £5.7 million cash efficiency savings in 2006/07, the Best Value report noted that the council ‘currently lacks systems for measuring and monitoring efficiency savings’. This has been acknowledged by the council and as a consequence, from 2007/08 onwards, the intention is to use the BTP to deliver efficiency gains and to provide a basis for reporting against national targets. We will review the outcome of the project and its success in measuring and monitoring efficiency savings.



Action Plan no 2

Strengthening governance

29. Good governance strengthens credibility and confidence in public services and is necessary to enable the council to pursue its vision effectively, as well as underpinning achievement of the vision with mechanisms for control and management of risk. The council needs to ensure that it supports elected members appropriately following the 2007 elections, ensuring that its political governance structures are appropriate to changing circumstances, including the introduction of multi-member wards. Underlying internal control arrangements need to remain sound and improvements previously identified implemented.
30. Scottish Borders Council has a history of coalition working with periodic changes of administration. With the new electoral arrangements the council is likely to have to adapt its current approaches to ensure efficient multi-member ward working. The recent best value highlighted scope to clarify the respective roles and remits of current scrutiny committees and the council has also recognised the scope to improve the role of area committees.

Action Plan no 3

31. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk. In his Statement on Corporate Governance, the Chief Executive highlights a number of areas where work can be done that will enhance the control environment and support governance. These include:
- implementation of improvement actions arising from the audit of Best Value and Community planning to build on the groundwork needed to achieve Best value and to close the gap between the council's ambitions and its current performance
 - fully implement the council's performance management system
 - ensuring the framework and principles of good corporate governance are in place within joint working partnerships
 - ensuring that programme and project management disciplines are in place to deliver the required return on investment and efficiencies in support of performance improvement and to support the achievement of the council's transformation agenda.

Action plan no 4



32. The Chief Executive also emphasised the need for a continuing focus on comprehensive risk management across the council and within each department with management attention on mitigation action plans as part of the business planning process to deliver an appropriate balance between risk and control, more effective decision making, better use of limited resources and greater innovation.

Action plan no 5

Working with communities

33. Increasingly the council is dependent on partnership working to deliver service improvements and efficiencies. There is a risk that partners are unable or unwilling to work effectively in a joined-up manner and do not achieve best value in the use of overall public resources as a result. Implementing a more strategic approach to community engagement would better support community and service planning. There is also a need to feed back balanced information on performance and the results of consultation exercises more systematically. During the year the council commenced a project to analyse its exposure to partnerships and develop criteria for assessing the quality of the engagement and for the creation of future engagements.
34. Community Planning in the Scottish Borders is delivered by the New Ways Partnership, with a partnership forum chaired by the Leader of the council. The plan is delivered by six theme teams, each of which includes participants at officer and Member level from the council. Performance monitoring arrangements remain under development but are expected to follow those arrangements recently put in place in the council. This should help the Partnership focus better on the strategic themes and priorities set out in the community plan rather than following the separate priorities of partners.
35. A Community Consultation and Engagement Strategy was approved in August 2006 to develop and bring in a sense of consistency to consultation exercises. This is being supported by an information audit carried out by a new Corporate Information Management Group. The mechanism for reporting on performance to the public is also being updated with a view to providing more current and useful information that is focused on the council's priorities. This provides the council with an opportunity to derive greater benefit from a more corporate approach to consultation.

Workforce management

36. People play the key role in delivery of high performing services and the council needs to ensure that it has plans in place to provide the right skills, in the right place, at the right time. Organisational and job redesign, including the implementation of the single status agreement, also exposes the council to

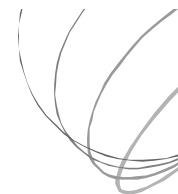


risks in relation to staff morale, potential industrial relations difficulties and the financial impact of revised pay and grading structures.

37. In common with many other Scottish councils, Scottish Borders Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer payments to specific groups of employees as part of a compensation package. While this helps to reduce financial risk in this area to some extent, there remain continuing risks while existing pay and reward structures remain in place. The risk of exposure to claims for possible contravention of the Equal Pay Act will be reduced when a revised pay and rewards structure based on equal pay principles is in place.
38. The future implementation of the single status agreement provides an opportunity to address any underlying inequalities in pay and other conditions of service. The council is taking forward this issue through its business transformation project. There has been some slippage in this project however we are advised the allocation of jobs to the new profiles is now substantially complete and that development of the pay and grading structure and the terms and conditions package are well advanced. The council aims to begin implementation in April 2008.

Action plan no 6

39. Workforce planning has, until recently, not been developed at a corporate level. The *Getting Fit for Transformation* programme includes the creation of the new Organisational Design and Development Unit within HR to take a more proactive role in the collation of information to allow a strategic approach to workforce planning.
40. The *Getting Fit for Transformation* project aims to redress pay arrangements to also ensure compliance with age discrimination legislation and make such arrangements more flexible to help the council fill hard to fill vacancies; prepare the organisation for either growth or downsizing and make it more flexible to deal better with change and development. The changes required by this programme are significant
41. The staff appraisal system, the Performance and Personal Development Planning Process (PPDPP) represents an important part of the organisational wide performance management system. It has been in place for some time but has not been consistently deployed across services. A revised monitoring system to ensure consistent application of the PPDPP across the council is expected to be in place by March 2008.



Improving infrastructure

42. The council needs facilities and infrastructure that are suitable and sufficient to meet the requirements placed on them in the provision of services and the delivery of council objectives both now and in the future. A number of projects are planned or ongoing, such as the provision of new schools by both traditional and PPP means, and the development of infrastructure such as the Heart of Hawick and Galashiels developments, while discussions continue on the regional waste management solution. Effective project management is essential to ensure successful delivery of the range of projects planned. Any weaknesses in arrangements may result in significant cost or time overruns.
43. The council holds a significant asset portfolio. The Corporate Property Asset and Management Plan, approved in October 2006, aims to generate capital receipts, reduce floor area and increase the space shared with partner organisations such as NHS Borders. A key challenge is now working towards implementing the strategy and meeting the success criteria. The successful implementation of a new corporate asset database will support this process.
44. The Waverley rail project to reinstate the rail link with Edinburgh is one of major importance to the council's plans to maintain the sustainability of its small towns. The Waverley Railway Line bill received Royal Assent in July 2006 and in March 2007 it was announced that the national transport agency for Scotland, Transport Scotland, would take on delivery of the project. This announcement shifted a considerable degree of risk from the council. However, the council still has a role to play in the delivery of the project and needs to manage the remaining risks to which it is exposed to ensure that it plays its part in the successful delivery of this key project. There is a further pressure to ensure that all development is sustainable, given the wide-ranging impact of this project.
45. To ensure successful delivery of the capital programme the council must ensure that projects are appropriately funded. The council has experienced problems in recent years in managing its capital spend evenly across the year. We therefore undertook a review of capital monitoring arrangements as part of our 2006/07 audit and noted that:
 - capital monitoring reports do not include vehicle purchases funded from the vehicle replacement fund
 - the authority delegated to the Executive to consider virements in the Revenue Financial Plan should be extended to include approval of virements in relation to the Capital Financial Plan
 - there is no corporate guidance identifying a procedure for systematic option appraisal of capital projects

The draft report is currently being finalised and will be submitted to management shortly.



National studies

46. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports of direct interest to the council are set out in paragraphs 47 – 58 below. Further information on these studies and reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk

Sustainable waste management

47. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU Directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that Local Authorities should recycle 25% of household waste by 2000. This target was not achieved.
48. Further EU Directives required Member States to “take appropriate steps to encourage the prevention, recycling and processing of waste” and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EC can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.
49. The purpose of Audit Scotland's study was to examine the performance of Local Authorities, the Scottish Environment Protection Agency (SEPA) and the Scottish Government in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area.
50. The key findings from Audit Scotland's national report published in September 2007 highlighted that:
- while significant progress has been made in meeting interim recycling targets, the rate varies considerably between councils and the type of collection system employed
 - there has been slow progress in developing facilities to treat residual waste. There is therefore a significant risk that EU directive targets may not be met
 - increased recycling has led to increased costs
 - all parties need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve the landfill Directive targets.



51. As noted in paragraph 11 above, the council has exceeded its 2006/07 target (25%) for the recycling of waste and is reporting an increase of some 12% when compared to 2005/06.

Dealing with offending by young people

52. Audit Scotland published reports on *Dealing with offending by young people* in December 2002 and November 2003. Audit Scotland undertook a follow-up study review to ascertain improvements in performance since 2002 of agencies who deal with young people who offend in the context of a changing policy landscape.

53. The key findings from the study, which was published in August 2007 are:

- while the Scottish Government has increased funding for youth justice services (£235 million in 2000/01 to £336 million in 2005/06), the effectiveness of the increased expenditure in reducing offending and improving the quality of life of local communities is not yet capable of being assessed?
- comprehensive reporting on performance against national standards cannot yet be undertaken due to weaknesses in the performance management arrangements
- the Scottish Government commitment to developing more rounded measures of the impact of support and interventions on offending behaviour is welcomed
- the introduction of antisocial behaviour orders (ASBOs) has created tensions with other approaches to dealing with offending by young people
- the principles underpinning the Children's Hearing System have been put under pressure through recent increase in referral activity
- while Police reporting and reporter decision making has significantly improved, Social work reporting remains unacceptably long. We are however, pleased to note that the proportion of social enquiry reports submitted by the council's social work department to the courts by the due date has remained consistently at 100% over the past 4 years
- although the study found evidence of extensive partnership working, there was much variation in the levels of representation and standards of performance.

Scotland's School Estate

54. Audit Scotland is undertaking a national review of how effective recent investments in the Scottish school estate have been in terms of improving the quality of the learning and teaching environment. The performance of the Scottish Executive and local authorities in improving the schools estate within



the context of the 2003 strategy 'Building our Future' – Scotland's school estate will be considered.
This work is due to be reported in February 2008.



Financial position

Introduction

55. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2007, providing an outlook on future financial prospects, including our views on potential financial risks. Our Audit Risk Analysis and Plan recognised the significant challenges being faced by the council both in relation to delivery of its transformation project but also with regard to managing ongoing financial pressures such as implementing single status. Our findings and key messages are set out in this section.

Council tax and the general fund

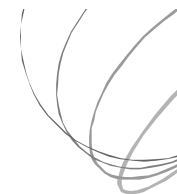
Operating performance 2006/07

56. The council's net operating expenditure in 2006/07 was £208.8 million. This was met by government grants and local taxation of £213.2 million, resulting in an Income and Expenditure surplus of £4.4 million. The original budget of £215 million was set on the basis of net expenditure exceeding income by £2 million which was to be funded from the council's reserves. Due to service pressures, savings identified and additional Revenue Support Grant received during the year, the budget was later revised to £213.6 million. After allowing for adjustments of £3.9 million to reflect the basis on which the council tax is set, the variance of departmental expenditure compared to the final budget was some £0.9 million (0.4% of the final revised budget). Reasons for this variance are discussed further at paragraph 59 below.

57. The budget set for 2006/07 was based on a Band D council tax level of £1,064 after taking into account revenue support grant, the council's share of the non domestic rates pool and a contribution of £2 million from the unallocated general fund reserves.

58. In his Foreword to the financial statements the Director of Corporate Resources highlights, that after allowing for net transfers to earmarked balances of £0.3 million, the non-earmarked element of the General Fund Reserve increased by £0.2 million.

59. As reported to the council in June 2007, within this overall outturn, there were a number of under-and-overspends against budget, although none were particularly material. The most significant variances occurred within the Education and Lifelong Learning (£0.4 million underspend), Social Work (£0.2 million underspend) and Technical Services (£0.2 million underspend).



60. The Education and Lifelong Learning under-spend was largely due to an underspending within both primary and secondary schools devolved budgets. These underspends have been earmarked within the General Fund to be carried forward to fund future schools' expenditure. In Social Work, the underspend occurred as a result of requiring less community support packages against those planned together with an underspend on adaptations and home improvement grants. Within Technical Services, overspends in a number of jobs being finalised and additional costs relating to services received from external contracts were offset by the receipt of additional tipping income, and other savings achieved through efficiencies.

Reserves and balances

61. At 31 March 2007 the council had total cash backed reserves and funds of £20.7 million, including an insurance fund that underpins the council's self-insurance arrangements and a capital fund to fund future capital expenditure and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets.

Reserves and Funds 2006/07

Description	2005/06	2006/07
	£ Million	£ Million
General Fund	13.958	14.475
Capital Fund	2.097	4.730
Corporate Repair and Renewal Fund	0	0.036
Insurance Fund	1.533	1.428
	17.588	20.669

62. The council aims to maintain a working balance of 2%-4% of net revenue expenditure (£4.3 million - £8.6 million in 2006/07). At 31 March 2007, the non-earmarked element of the General Fund was some £6 million which is below the mid point of the approved Financial Strategy limits. A range of financial issues which could further impact on the reserves position are discussed in our Financial Outlook section below.

63. Significant earmarked amounts include £4.511 million to fund future departmental expenditure, £2.093 million for devolved education management balances held by individual schools and some £1.936 million has been earmarked to support the 2007/08 budget.



Group balances and going concern

64. The overall effect of inclusion of all of the council's subsidiaries (the Common Good Fund and Trust Funds) and associates on the group balance sheet is to reduce net assets by some £186 million, substantially as a result of these liabilities. All group bodies' accounts have been prepared on a going concern basis.
65. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. With the exception of the Borders Sport and Leisure Trust which recorded a surplus for the year and a net asset position in its balance sheet, all other boards (Lothian and Borders Police Board, Lothian and Borders Fire and Rescue Board and Jedburgh Leisure Facilities Trust) had an excess of liabilities over assets at 31 March 2007 due to the accrual of pension liabilities. In total the overall net deficits amounted to £100 million, with the council's group share being £12.7 million.

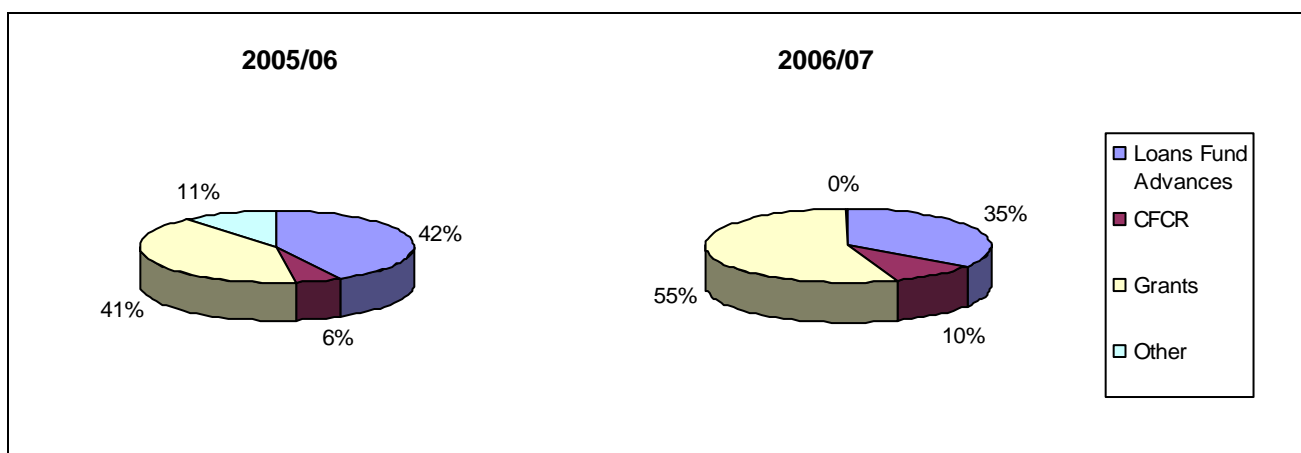
Spending on assets and long-term borrowing

Capital performance 2006/07

66. Following the introduction of the prudential code in April 2004 the council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The council's prudential indicators for 2006/07 were set in February 2006 and reflected an in year increase of £7.1 million in capital expenditure under these freedoms as the council seeks to improve its asset infrastructure.
67. Capital expenditure in 2006/07 totalled £33.7 million, rising from £24.1 million in 2005/06. Capital investment in the last two years was funded as shown below. As the council has increased its capital spending, the proportion funded by debt has increased with aggregate long-term borrowing at 31 March 2007 of £167.1 million, an increase of £4.4 million on the previous year.



Sources of finance for capital expenditure 2006/07

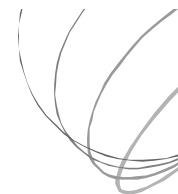


- 68. The increased borrowing costs arising from the general fund capital investment plans have had no impact on council tax in 2006/07.
- 69. Some 98% of long-term borrowing at the year-end matures after more than 10 years, and the council has actively managed its exposure to variable interest rate movements with minimum debt exposed to variable rate risk.
- 70. Following in year revision, budgeted capital expenditure for 2006/07 was £33.170 million (net of contributions from the vehicle replacement fund). Slippage, principally in corporate and technical services projects resulted in an underspend of £1.281 Million (3.9%).

Forward capital programme

- 71. The council's capital plans for 2007/08 and 2008/09 anticipate annual capital expenditure of £46.6 million and £23.1 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing totalling £43.1 million over the two years.
- 72. As in 2005/06 the overall variance on the capital plan was relatively small. However, we note that again over 40% of the budget was spent in the last two months of the year. The council has an ambitious programme for change which involves the commitment to deliver some significant capital projects. The council needs to ensure that it has effective project management arrangements in place to monitor the progress of capital projects and to ensure that they are delivered. Failure to do so could impact adversely on the programme of change.

Action plan no 7



Significant trading operations

73. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period. The council has one STO (SBCcontracts) which undertakes a range of revenue and capital works mainly on highways and bridge construction. In the three years to 31 March 2007, the STO met the statutory target with a surplus reported in each of the three years.

Pension funds

74. Scottish Borders Council is the administering authority for the council's Pension Fund (PF). The net assets of the funds that make up the PF at 31 March 2007 totalled just over £302 million. The funds are administered on behalf of Scottish Borders Council and a number of other bodies whose employees are members of the fund.
75. The council, as the administering authority for the PF, employs external fund managers to manage investment assets. Over the year net investment of the fund increased on a market value basis by approximately £18 million to total just over £302 million. As at 31 March 2005, the actuarial valuation showed a funding level of 93 per cent with a deficit of some £15.9 million, which the council agreed to recover over a period of 12 years. However a recent interim valuation report as at 31 December 2006 indicated a funding level of 102 per cent.

Financial outlook

Current budget

76. The 2007/08 budget was based on a band D council tax level of £1,084, a rise of 1.9%. General allowances for pay and some cost inflation pressures were built into the budget, together with a shift of resources towards the delivery of the council's budget priorities. A number of efficiencies, other savings and budget cuts were also built into the budget.
77. While a balanced budget was prepared for the 2007/08 financial year, the council's revenue financial strategy 2007-10 records that there are gaps between estimated resources available and budgets required for 2008/09 and 2009/10 of £4.7 million and £7.4 million respectively



Equal pay

78. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06.
79. Estimated costs of £4.6 million were recognised in the 2005/06 financial statements for the one-off cost of dealing with the equal pay legislation. A number of payments have been made during the year together with a further assessment of the level of funding required resulting in a revised provision level of £2.2 million as at 31 March 2007. The council has determined that it is unlikely that the outstanding claims will be met before April 2008.

Single status

80. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
81. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.
82. As noted previously above, the allocation of jobs to new profiles is now substantially complete and development of the pay and grading structure and the terms and conditions package are well advanced. The council aims to begin implementation in April 2008.
83. Until the final single status package is implemented the initial and continuing costs to the council cannot be reliably estimated. This represents some financial risk to the council. Evidence from other councils is that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. The council is exposed to further risk from new equal pay claims from groups with whom settlements have not previously been negotiated. In implementing the agreement, the council needs to maximise the value for money from its investment in staff.

Action plan ref 6



Efficient government

84. As part of the continuing drive to improve the efficient use of resources committed to delivering public services, the Scottish Government expect public sector organisations to apply the principles of the efficient government initiative in their day-to-day operations with an aspiration to achieve recurring efficiency gains of £1.5 billion by 2007/08. In the case of councils, efficiency savings have been incorporated into the annual financial settlement provided to councils by the Executive. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.
85. During 2006, councils across Scotland recognised that as part of their partnership arrangement with the Scottish Government, they had a responsibility to report efficiencies on the Government's five key operational themes as set out in "Building a Better Scotland" (Procurement, Absence Management, Asset Management, Shared Services and Streamlining Bureaucracy) on a consistent basis. As a result, the Improvement Service was commissioned to devise a set of standard measures which would allow councils to publish unaudited efficiency statements on a common basis. Guidance was issued to all councils in May 2007 to assist in the preparation of standardised efficiency statements to be published for the first time in 2006/07.
86. The framework document was produced to assist councils in preparing efficiency statements for 2006/07. It was recommended that the Efficiency Statement should be published no later than 31 August 2007. At the point of writing the council has not yet published its Efficiency statement for 2006/07.
87. An internal Efficient Government report (July 2007) highlights total efficiency savings of some £5.7 million were achieved by the council in 2006/07 against budgeted efficiencies of £6.3 million. However, the council acknowledges that in order to continue to make further efficiency savings, transformational changes to the way it operates will be required. This is the underlying rationale behind the overarching business transformation programme.

Action plan ref 2

88. The Best Value audit recognised the progress made through the council's involvement in a variety of efficient government initiatives including its Customer First Programme and an EGF Pathfinder pilot project on council tax collection. However, it also highlighted the need for the council to develop systems for measuring and monitoring efficiency savings and to ensure that all opportunities to achieve efficiencies are taken.



Asset management

89. Scottish councils control land, property and equipment valued at around £22 billion. Capital assets are the second highest cost incurred by local authorities after staffing. Prior to 2004, the legislation that controlled capital investment by local government did not contribute towards good asset management. Part 7 of the Local Government in Scotland 2003 Act introduced the Prudential Code which gave local authorities freedom to invest as long as their capital spending plans are affordable, prudent and sustainable. The code is a fundamental component of an authority's financial governance and management which requires authorities to have regard to option appraisal, strategic planning and asset management planning.
90. The Scottish Government's Efficient Government Initiative identified asset management as one of five key areas for achieving efficiency improvements. Proper asset management is a vital part of being an efficient organisation including arrangements to ensure there are:
- strategies to reduce maintenance costs
 - proactive asset disposal policies
 - long-term capital planning and budgeting
 - robust asset management monitoring information.
91. Our 2006/07 Audit Risk Analysis and Plan recorded that the council had approved a Corporate Property Asset Strategy and Management Plan in October 2006 setting out a number of challenging work streams and targets and that the council needed to work toward delivering a cohesive approach to asset management through the implementation of this strategy. To support this process the council has
- formed a corporate property function, the Property & Facilities Management Division, to manage property as a corporate resource
 - appointed a dedicated service manager
 - acquired an asset management information system to underpin management processes.
92. The council aims to be able to undertake a systematic review of its property portfolios to develop detailed service led strategies for upgrading the estate, reducing the amount of property occupied, and identifying further disposal opportunities to raise capital receipts for reinvestment in the estate and reducing the maintenance liability. Discussions are ongoing with NHS Borders to investigate efficiencies achievable from sharing accommodation.



93. The council had been working towards development of a Corporate Asset Management Plan (AMP) by July 2007 although this timescale has slipped. The corporate AMP will not include infrastructure assets as these will form part of the national highways AMP due to be completed in 2009/10 which will cover all Scottish councils.

94. Given the current development stage of both the corporate and national highways AMP, there are no indications, as yet, of any potential savings generated or increased costs likely to be incurred.

Action plan ref 8



Governance

Introduction

95. In this section we comment on key aspects of the council's governance arrangements during 2006/07. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2006/07

96. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council had systems in place that operated well within a sound control environment.

Audit Committee

97. Effective scrutiny is central to good governance, with a significant role for Councillors to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. Scottish Borders Council's Audit Committee is effective and complies with CIPFA's good practice principles for audit committees.
98. The Committee is comprised of five members of the council and two external members to bring a range of business experience and challenge. The Committee considers the council's procedures and systems of internal control and the matters arising from the reports of both internal and external auditors. The Committee has also played a significant role in taking forward the council's Risk Management Strategy.
99. The May 2007 elections had only a minor impact on the membership of the Committee. This should ensure that the council continues to benefit from the experience of returning members.

Internal Audit

100. CIPFA's Audit Panel published a revised Code of Practice for Internal Audit in December 2006. In general, the code was brought in line with existing good practice and current professional standards. We carried out an annual review of the council's internal audit arrangements and found that the function complies with the Code of practice.



101. Our review identified that the work undertaken by internal audit was satisfactory. We noted the introduction of the 'Galileo' audit software tool that has been used for all internal audits during financial year 2006/07 to address the previously identified issues relating to file documentation. However we also noted that, on occasion, there was a lack of clarity in the types of audit testing being undertaken, for example control or substantive testing. An agreed Internal Audit improvement action to be implemented with immediate effect should positively impact on the level of reliance we may place on Internal Audit in subsequent years.

Risk Management

102. The council has made significant progress in delivering a coherent and effective approach to risk management. It has a well considered Risk Management Strategy and has been pursuing an action plan that has delivered comprehensive Risk Registers and associated risk mitigation action plans at Corporate, Strategic and Operational levels. All projects and programmes in which the council is engaged are required to maintain risk registers and the project or programme boards are required to deal with risk issues arising, including the impact upon the council's Business Continuity Plans.

103. The council has agreed a review cycle and a methodology for linking risk management outcomes with Business Plans and budgets and this was implemented with effect from 1 April 2007. The 'Covalent' system will be used to store the registers, monitor action plan delivery and ensure regular risk reviews are undertaken.

104. The Risk Management Strategy was first introduced in 2004 and a review of the strategy is now underway to ensure that it remains fit for purpose and continues to serve the council's needs. The council continues to reinforce the need for risk awareness through training. The course design for advanced manager training has recently been completed and sessions in risk management were included in the induction sessions for new members following the May 2007 elections; a member workshop is being planned to broaden their appreciation of risk issues.

Systems of internal control

105. In her annual report for 2006/07 the Chief Internal Auditor provided her opinion that, based on the internal audit work undertaken during the year, the council's internal control and corporate governance arrangements were operating satisfactorily. She drew attention to the reduction in the quantity of Priority 1 rated recommendations relating to internal control and governance in comparison to previous years (from 11 to 1) and highlighted that awareness and good practice in terms of good corporate governance can be demonstrated including compliance with the Local Code of Corporate Governance. Areas for improvement in 2007/08 include; the need to :

- further develop consultation and engagement arrangements with stakeholders



- ensure that services are being delivered by trained and experience people with clear remits during a period of transforming services
- fully develop the process to provide the Annual assurance Statement on Governance
- review and update the Local Code of Corporate Governance.

106. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We concluded that only one system, the Accounts Receivable system, would not provide us with the necessary level of audit assurance and increased our year end work in that area. The work undertaken in assessing the degree of assurance we could gain from the key financial systems identified some control weaknesses which will be highlighted for management's attention in the Corporate Governance report which is being finalised and will be submitted shortly.

Prevention and detection of fraud and irregularities

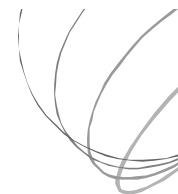
107. At the corporate level, the council has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption strategy, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.

NFI in Scotland

108. In 2006/07 the council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£27 million up to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

109. The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the council's involvement in NFI 2006/07 during the course of our audit.

110. We note that positive action has been taken by the council. A structured approach has been taken to the follow up of reported matches with the focus on high quality matches. Reports have been cleared steadily throughout the year with action being taken where necessary. The low level of savings



identified to date of is considerably reduced on those of previous years. It should be noted that a reduction in savings is not necessarily reflective of a weak approach to follow up of identified matches. Where, as in the case of Scottish Borders Council, a reduction is accompanied by a systematic approach to follow-up it is more likely to be reflective of the council's level of counter fraud activity.

Governance outlook

Impact of the 2007 elections

111. Following the May 2007 elections, the former administration of Scottish Borders Council has been replaced by a Scottish Conservative/Liberal Democrat/Independent coalition. The council's cabinet style of management led by an Executive supported by scrutiny panels has been found to be effective for previous coalition administrations and there are no indications that the new administration is seeking to alter these arrangements. These arrangements should however be kept under review to ensure that they remain the most appropriate to support the new system of multi-member wards and the council's area committees.

Financial statements

Introduction

112. In this section we summarise key outcomes from our audit of the council's financial statements for 2006/07. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues. We audit the financial statements and give an opinion on:

- whether they present fairly the financial position of the council and its expenditure and income for the year
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

113. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the council to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.



Overall conclusion

114. We have given an **unqualified** opinion on the financial statements of Scottish Borders Council for 2006/07.

115. The council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the council and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Statutory objection

116. A statutory objection under section 101(2) of the Local Government (Scotland) Act 1973 was made in respect of the council's financial statements. We have considered this objection, reviewed the grounds on which it was made and have reached the view that it does not impact on our opinion on the financial statements.

Accounting practice

117. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). The 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:

- replacement of the consolidated revenue account with a traditional income and expenditure account
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses.
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to single entity statement of accounts.



118. The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources generated and consumed within that period in accordance with UK GAAP. This differs from the accounting basis used when setting the council tax for the year. The key differences are:

- capital investment is accounted for as it is financed rather than when the assets are used; and,
- retirement benefits are charged as amounts become payable to pension funds rather than recognising the future benefits earned.

119. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP. No significant adjustments were required to be made to the figures included in the un-audited accounts provided for public inspection. .

Group accounts

120. Modified arrangements for the preparation of group accounts were mandatory for the first time in 2005/06. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. The council prepared group accounts in accordance with the new requirements following a review to determine its interest in subsidiaries, associated entities and joint ventures.

121. The group accounts include the 2006/07 results of Borders Sport and Leisure Trust, Jedburgh Leisure Facilities Trust, Lothian and Borders Police Board and Lothian and Borders Fire and Rescue Board based on un-audited accounts. The auditors of these bodies have confirmed that there are no planned changes to the draft accounts. We have also been assured by the Director of Corporate Resources that the council is not aware of any matters which would significantly affect the council's group accounts.

122. The council also has an obligation to meet a proportion of the pension expenditure of the joint boards and committees of which it is a constituent member. The main commitments are to the Lothian and Borders Police and Fire and Rescue Boards. These bodies had an excess of pension liabilities over assets at 31 March 2007, and the relevant proportion of these liabilities will be paid by the council as they come due.

Public Private Partnership

123. In October 2006, the council provided a view on the accounting treatment of the 3 High Schools project, for the construction of two new schools and the building/refurbishment of a third. We have



considered the council's proposed accounting treatment and have concluded that the council's final judgement on the proposed accounting treatment as off balance sheet is reasonable.

124. In addition to reviewing the accounting treatment, we are required to consider the council's assessment of the value for money provided by a project, taking account of both whole of life and quality. We will undertake that aspect of our work in the forthcoming audit year.

Legality

125. We have requested written confirmation from the Director of Corporate Resources that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Director of Corporate Resources has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the council's Management Team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.

126. Local authorities with registered charitable bodies (i.e. registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. Clearly, given the large number of such funds this is an onerous task for local authorities and discussions are ongoing between the CIPFA Directors of Finance Section and the Office of the Scottish Charities Regulator to reach an acceptable solution.

127. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

128. Overall the council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has responded positively to audit issues and to changing accounting rules. Challenges ahead include a number of changes that have been made to the 2007 SORP.

129. The 2007 SORP has been extended to include financial instruments with requirements based on Financial Reporting Standards 25 and 26. Application of these standards to local authorities may require the premiums on loans that have been re-scheduled to be charged to revenue in full in the year they are incurred rather than being written off over the period of the replacement loan. Such a change could have significant implications on council tax levels and Directors of Finance have been



discussing with the Scottish Government how this risk can be avoided through the issue of regulations.

130. Further changes included within the 2007 SORP include the introduction of a revaluation reserve and a requirement for a note to the group accounts to enhance disclosure in respect of charitable funds.

Action plan ref 9

131. Central government and NHS bodies are to move from a UK GAAP based system of accounting to one based on International Financial Reporting Standards (IFRS) with effect from 2008/09. The government has announced its intention to publish Whole of Government accounts on this basis from 2008/09. It has therefore been recognised that there is need for discussions with CIPFA/ LASAAC about the introduction of IFRS based accounts for local government. Current IFRS only address PFI in the private sector. The existing GAAP based accounting in the public sector is significantly different from that indicated in the IFRS. The Treasury will be considering the appropriate form of accounting for the public sector side of PFI transactions over the summer and expect to bring proposals to the Financial Reporting Advisory Board (FRAB) in the autumn. If IFRS 12 principles were applied in the public sector it would have a significant impact and may mean that PFI/PPP assets will require to be brought onto public sector balance sheets. Further guidance on this issue is expected from CIPFA/LASAAC in December.



Final Remarks

132. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.
133. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issue and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
134. A mechanism should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2007/08 audit.
135. The co-operation and assistance given to us by Scottish Borders Council members and staff is gratefully acknowledged.



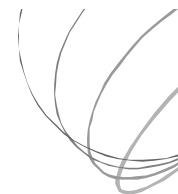
Appendix A: Action Plan

Key Risk Areas and Planned Management Action

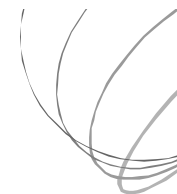
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	13	<p>Performance Targets</p> <p>The council needs to review its performance targets to ensure they reflect the objectives of the new corporate plan and CIP.</p> <p><i>Risk: a failure to specify relevant and SMART performance targets may impact adversely on the council's performance and impede the achievement of its core objectives.</i></p>	<p>Performance targets will be reviewed as part of the development of the new Corporate Plan.</p> <p>In addition, the Council Improvement Plan includes a key action to 'Refine and develop Key Performance Indicators (KPIs)' by 30 April 2008</p>	<p>Head of Business Improvement Unit</p> <p>Head of Business Improvement Unit</p>	<p>February 2008</p> <p>April 2008</p>
2	28 & 87	<p>Measuring and Monitoring Efficiency Savings</p> <p>The council needs to develop a systematic process for identifying scope for efficiency savings and measuring and monitoring their achievement.</p> <p><i>Risk: proposed efficiency savings may not be achieved exposing the council to financial risk and impeding the process of change.</i></p>	<p>The Council Improvement Plan includes a key action to 'Develop and implement a methodology for identifying, quantifying, monitoring and releasing efficiency savings by 31 March 2008</p>	<p>Head of Business Improvement Unit</p>	<p>March 2008</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	30	<p>Corporate Governance Improvements</p> <p>The best value audit highlighted the scope to clarify the roles and remits of current scrutiny committees and improve the role of area committees. The move to multi-member wards has increased the need for such a review.</p> <p><i>Risk: the current committee structure and roles may not be the most effective for the needs of the Council.</i></p>	<p>The Council Improvement Plan includes a key action to 'Clarify the roles and responsibilities of the Scrutiny Panel, Performance Monitoring Panel and Audit Committee' by 2 November 2007</p>	<p>Chief Executive</p>	<p>November 2007</p>
4	31	<p>Corporate Governance Improvements</p> <p>The chief executive's Statement on Corporate Governance makes specific reference to areas where Corporate Governance could be improved</p> <p><i>Risk: a failure to properly respond to identified weaknesses in corporate governance arrangements could expose the council to financial risk and lead to a failure to deliver Best Value and continuous improvement.</i></p>	<p>These areas that would further enhance the control environment and support sound governance have been included as key actions in the Council Improvement Plan which was approved by Council on 23 August 2007.</p>	<p>Officers as per Council Improvement Plan</p>	<p>As per Council Improvement Plan timescale</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	32	<p>Risk Management</p> <p>The council should continue to monitor the implementation of the risk management process and the review of the Risk management Strategy to ensure that all relevant risks have been identified and assessed.</p> <p><i>Risk: a failure to identify and manage risk may leave the Council exposed to financial loss or performance failure.</i></p>	<p>The process is complete and is in monitoring mode. Monitoring procedure is established via Covalent and no further action is intended at this stage.</p> <p>Sub Group of Corporate Risk Management Group has been set up to review the Strategy and will report in due Course.</p>	Head of Financial Administration	<p>Ongoing</p> <p>March 2008</p>
6	38 & 83	<p>Single status</p> <p>The council has yet to complete implementation of the new single status agreement.</p> <p><i>Risk: further delays in the implementation of the single status agreement may have a detrimental impact on the progress of the Business transformation and Council Improvement Plans and expose the council to the risk of industrial action by staff.</i></p>	The Council is seeking to agree a package with Trade Unions with a view to implementing Single Status.	Head of HR	April 2008



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	72	<p>Project management</p> <p>The council has experienced slippage in capital projects in recent years. More effort is needed to ensure that effective project management arrangements are in place to ensure slippage is minimised.</p> <p><i>Risk: slippage in capital projects could adversely impact on the progress of the Business Transformation and Council Improvement Plans.</i></p>	<p>The Council has identified some weaknesses in the way projects have been managed, and slippage is one of several factors that have caused some difficulties recently. However, in some cases slippage is attributable to external factors over which the council has little or no control.</p> <p>Nevertheless, a review of the organisations approach to Project Management was agreed by the Corporate Mgmt Team in August 2007 and is currently underway, due to report with recommendations in January 2008</p>	Director of Technical Services	<p>Report by January 2008</p> <p>Implementation will depend on recommendations</p>
8	94	<p>Asset management</p> <p>More needs to be done to ensure that the council has in place a robust asset management framework that will drive the efficient use of assets, and assist in delivering Best Value and continuous improvement.</p> <p><i>Risk: the council may fail to benefit from cost saving efficiencies and may suffer performance failures through inefficient or ineffective use of its asset base.</i></p>	<p>A systematic review of the Council's property portfolios to develop detailed service-led strategies for upgrading the estate, reducing the amount of property occupied, identifying further disposal opportunities to raise capital receipts for reinvestment in the estate and reducing the maintenance liability. This would be coupled with the exploration of new ways of working with other partners such as NHS Borders to achieve economies of scale and reduced running costs</p>	Head of Property and Facilities Management	March 2008



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9.	130	<p>Financial Reporting</p> <p>Changes have been made to the 2007 SORP which may impact on the presentation of the 2007/08 annual financial statements.</p> <p><i>Risk: in the event of insufficient preparation, the 2007/08 financial statements may not comply with accounting requirements.</i></p>	Relevant training and preparation will be undertaken.	Head of Corporate Finance	March 2008

