Scottish Borders Council

Annual audit report to Scottish Borders Council
and the Controller of Audit
Year ended 31 March 2012

31 October 2012

Contents

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About this report

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

This report is for the benefit of Scottish Borders Council ("the Council") and is made available to Audit Scotland and the Accounts Commission (together "the beneficiaries"). It has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

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

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

We also draw your attention to the following:

- the chief financial officer of Scottish Borders Council are responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems;
- weaknesses or risks identified by us are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist; and
- communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve Scottish Borders Council management from its responsibility to address the issues raised and to maintain an adequate system of control.

Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code"). This specifies a number of objectives for our audit.

In our audit strategy, we set out our responsibilities in respect of the audit. The Council's responsibilities are set out in appendix two.

This report summarises our work for the year ended 31 March 2012.

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

Financial statements	
Draft financial statements were provided on 29 June 2012, in line with the agreed timetable. We have issued unqualified audit opinions on the 2011-12 financial statements.	Page 10
Financial statement audit risks were identified in respect of opening balances, valuation of property, plant and equipment and retirement benefits accounting; we have concluded that these have been appropriately treated in the financial statements.	Page 10
Use of resources	
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As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified the *Maintaining Scotland's roads – follow-up report* for follow-up by local auditors in 2011-12. Management's participation in the national steering group should assist in applying best practice to the Council activities.	Page 17
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Following local government elections, there have been revisions to the membership of the Council and its committees. The governance statement confirms the existence of a comprehensive framework of internal control.	Page 20
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Financial position

The Council outturn for the year against departmental budgets was an underspend of £0.29 million, resulting in a corresponding increase in useable reserves.

Financial position - reserves

The Council's general services budget was approved by members in February 2011 at £266.8 million, to be financed by income from council services, the revenue support grant, non-domestic rates and council tax.

For the year ended 31 March 2012 the Council generated an accounting surplus of £15.1 million (2010-11: £23.1 million). A number of statutory adjustments are made against this surplus to determine the underlying increase or decrease in the general fund balance. Following these statutory adjustments relating to differences between accounting and funding, the net increase on the useable fund balance was £292,000, summarised in the following table.

Statement of comprensive income and expenditure

	Useable reserves £000	Unusable reserves £000	Total £000
Surplus on the provision of services	15,084	-	15,084
Other comprehensive income and expenditure	-	(97,786)	(97,786)
Total comprehensive income and expenditure	**15,084**	**(97,786)**	**(82,702)**
Adjustment between accounting basis and funding basis	(11,741)	11,741	-
Transfers to / from other reserves	(3,051)	3,986	935
Result for the year	**292**	**(82,059)**	**(81,767)**
Reserves brought forward	19,227	88,740	(107,967)
Reserves carried forward	**19,519**	**6,681**	**26,200**

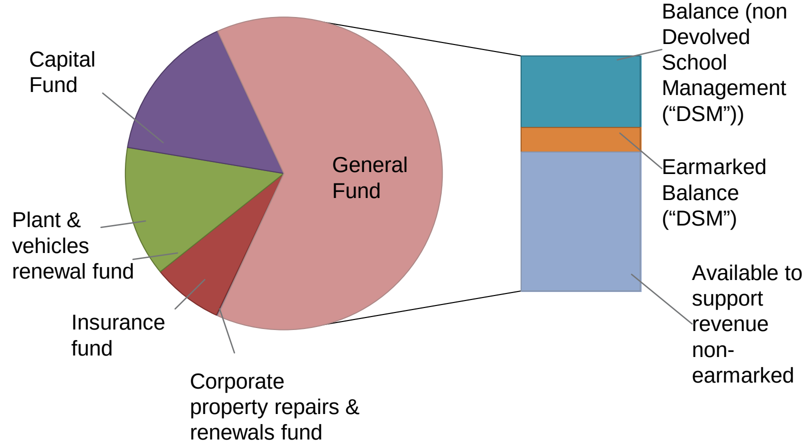
Source: Financial statements

At 31 March 2012, the Council had usable reserves of £19.5 million. These consisted of the general fund (£12.4 million), insurance fund (£1.4 million), renewals fund (£2.6 million) and the capital fund (£3.0 million) which is used to fund capital expenditure. The funds are illustrated in the diagram below.

The general fund contains separate funds which are committed for specific purposes, as identified in the diagram. The largest elements are those to support revenue expenditure. The total non-earmarked useable reserves was £7.4 million at 31 March 2012.

Based on an Audit Scotland survey of draft accounts for 2011-12, the total usable reserves carried forward as a proportion of revenue spend ratio (0.075 for the Council) is at the lower end compared to other Scottish councils and is below the median level of 0.1. This highlights the level of challenge in operating in the current economic environment and the importance of strong financial management.

Useable reserves



Financial position (continued)

General fund movement

The Council maintains a general fund reserve for three main purposes:

- a working balance to help cushion the impact of uneven cash flows;
- a contingency to cushion the impact of unexpected events or emergencies; and
- earmarked reserves to meet known or predicted liabilities.

The Council's general fund useable reserve (non-earmarked) balance is £7.4 million at the end of the current financial year. This reflects an increase of £0.4 million from the Council's approved 2011-12 financial strategy target of £6.9 million and is mostly the result of an underspend in the 2011-12 revenue budget. The general fund balance also includes £5.0 million of earmarked reserves for specific purposes which will be spent either in 2012-13 or future financial years. The table below shows the movement in the general fund in 2011-12.

General fund balances

	Non earmarked balances £000	Note
General fund balance at 31 March 2011	**6,868**	
Earmarked to support 2011-12 budget	(2,454)	Created from 2010-11 savings to support the 2011-12 budget.
Surplus on revenue budget	292	
Earmarked balance from prior year	-	
Earmarked balances to future years	-	
Contribution from provisions	1,557	The costs of the voluntary severance/early retirement scheme ("VS/ER") were met from in year revenue budgets. A provision created in the 2010-11 financial statements was therefore released during 2011-12 and resulted in an increase in reserves of £1.6 million.
Loan charges savings	565	Transfer of an underspend in loan charges in 2011-12 to reserves in order to provide a contingency for severe weather costs in future years.
Police and fire contribution	505	This money was received from the joint police and fire & rescue boards as a result of the distribution of an element of reserves held by these bodies to constituent councils.
Legal costs (SBEP claim)	(100)	
Pay savings from strike action	166	
Other	30	
General fund balance at 31 March 2012	**7,429**	

Source: Financial statements

Financial position (continued)

Performance against budget

The table below shows the variance against revised budget for each of the departments at the year end.

	Revised budget 2011-12 £000	Actual 2011-12 £000	Variance £000
Chief executive's department	1,310	1,290	(20)
Resources	19,153	19,061	(92)
Education & Lifelong Learning	94,452	94,424	(28)
Social Work	77,360	77,539	179
Environment & Infrastructure	31,680	31,280	(400)
Corporate programmes, partnerships & projects	3,726	4,160	434
Bad debt provision	-	351	351
Other	38,853	38,590	(263)
Expenditure	**266,534**	**266,695**	**161**
Council tax income	(50,160)	(50,660)	(500)
Earmarked balances to future years	2,952	2,999	47
Surplus in the year			**292**

Source: Financial monitoring reports

The underspend of £292,000 primarily represents an increase in council tax income in the year from additional new homes and improved recoverability rates. The savings identified in the table mainly represent staff turnover savings in most services. At the year end, management used part of the underspend to fund an increase in the general bad debt provision following a review of sundry debtors.

Savings were offset by a number of overspends, specifically within social work and corporate programmes, partnerships and projects ("CPPP"). The overspend in social work was partly due to changes in the provision of care for older people in the year and expected savings in energy costs not being achieved. The overspend in CPPP was a result of additional up-take of the early retirement / voluntary severance scheme, which will deliver expenditure savings in future years.

The level of the small surplus indicates that management will require to monitor ongoing performance closely to deliver future budgets.

Trading operation

SBc Contracts is the only 'significant trading operation' at the Council in terms of the Local Government (Scotland) Act 2003. In 2011-12, the net trading result of SBc Contracts was a deficit of £25,000 (2010-11: £186,000 surplus). The operations have generated a modest surplus over the three year period 2009-10 to 2011-12 of £373,000 and therefore met the statutory requirement to break-even over a three year rolling period.

In 2012-13 there are plans for SBc Contracts to be separated from routine and planned road maintenance and to become a smaller, more commercially competitive unit. Given the changed operating environment of SBc Contracts the Council should consider the financial position of the trading account as at 31 March 2013, assess against established criteria and determine whether it is still appropriate to recognise it as a significant trading operation.

Recommendation one

Financial position (continued)

Capital programme

Total capital expenditure in 2011-12 was £31.2 million, compared to a budget of £36.98 million approved in June 2011 and expenditure of £27.6 million in 2010-11.

The £5.8 million underspend against budget was mainly due to slippage or changes in programme resources. The most significant being projects which have taken longer than expected to initiate include the Galashiels interchange, the waste treatment facility, strategic business land and demolition works and various school estate projects. The largest projects are summarised below.

Although net slippage is significantly below the level reported in 2010-11 (£7.7 million), management should consider reasons for general slippage in capital projects and any implications for capital budgeting.

There was additional expenditure of £2.77 million in the year on the Borders railway project. This was fully funded by the draw down of cash already received from Transport Scotland and has no financial impact on the statement of comprehensive income and expenditure. The programme was funded from a mixture of capital grants, borrowing, contributions from earmarked reserves and developer contributions.

Largest capital projects 2011-12 (by value)

	Capital spend 2011-12 (£m)
Borders railway project	6.17
Clovenford primary school	3.65
Roads, bridges and lighting	3.06
Plant and vehicle replacement	2.61

Source: Capital monitoring reports

Capital plan

The ten year capital plan to 2021-22 has been split into a three year operational plan and an indicative strategic plan for the remaining seven years. This is in line with the recommendations from the review of capital planning and monitoring processes that was undertaken in 2009-10.

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

The principles of affordability and sustainability have been applied in developing an affordable draft capital financial plan. Management has put in place a £15 million per annum ‘ceiling’ for capital spend (excluding plant and vehicle replacement) for the seven years of the strategic plan. This has an average spend of £14.2 million per annum and reflects current assumptions of a future reduction in the general capital grant and the impact of the central “top slicing” of flood prevention funding. Prudential funding for further capital work is likely to be available, but this could not be financed through current budgets.

During the three year operational plan an additional £8.4 million has been provided to reflect the Council contribution to the costs of the south of Scotland broadband upgrade project.

Financial planning

The 2012-13 budget forecasts a breakeven position.

The Council has developed a risk based approach to project the level of useable reserves at 31 March 2013; this will require consideration in future as these risks change and new risks evolve.

Revenue budget

A three year revenue budget was approved by Council in February 2012. This used the 2011-12 budget as a base and reflected changes for known changes in income and expenditure in future years. This budget was set on the assumption that council tax will remain frozen in 2012-13. Changes to the annual budget over the next three years are detailed in the table below; this demonstrates a significant cumulative overspend by 2012-15. This three year budget may evolve following political changes in the administration as a result of the May 2012 elections.

In setting future year's revenue budgets, management concluded that net savings year on year of around 2% will require to be identified from departments to balance the budget and resource Council priorities. In line with good financial practice, savings for financial year 2012-13 were identified by the Council in November 2011 to allow early implementation.

The Council reviewed its policy on reserves during the year in order to more accurately establish an appropriate level of reserves to hold. A review of risks was undertaken by management, taking into account the ongoing economic downturn and potential for unexpected events, such as flooding. A risk register was developed to reflect the risks inherent in setting the revenue budget and this has been used in setting appropriate reserves levels for 2012-13. The risk register will be reviewed periodically and any reduction in perceived risk will result in proposals to return balances to fund service expenditure. The useable general fund balance is projected to be maintained at £6.9 million throughout 2012-13.

Management recognises the current challenging economic outlook. Budget savings required in 2013-14 and beyond are in excess of those delivered in prior years and will require strong strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring of savings identified.

Department	Final Budget 2011-12 (£000)	Changes 2012-13 (£000)	Changes 2013-14 (£000)	Changes 2014-15 (£000)	Cumulative 2012-2015 (£000)
Chief executive	1,310	58	(91)	37	4
Resources	19,153	163	469	888	1,520
Education & lifelong learning	94,452	(270)	1,783	2,402	3,915
Social Work	77,360	(1,735)	778	1,416	459
Environment & Infrastructure	31,680	(392)	984	1,635	2,227
CPP & other	42,579	(163)	(1,531)	-	(1,694)
Net expenditure	**266,534**	**(2,339)**	**2,392**	**6,378**	**6,431**
Transfer to/(from) reserves	**(941)**	**-**	**-**	**-**	**-**
Funding	**(265,593)**	**1,398**	**(200)**	**454**	**1,652**
(Surplus) / deficit	**-**	**(941)**	**2,192**	**6,832**	**8,083**

Strategic issues

A number of strategic issues are currently facing the Council. It is important the Council has procedures in place to identify and mitigate the risks and monitor the outcomes.

Welfare reform

Following the Welfare Reform Act 2012, a number of significant changes will be required in how councils deliver benefit services. The most significant change is the introduction of ‘universal credits’, which is an integrated working age benefit which will replace existing benefits, including housing benefit. Changes to current arrangements are expected to commence during 2013.

The Council has established a strategic welfare reform working group and specific project groups have been set up with mandates to consider and plan for the associated risks and to ensure the Council is prepared to respond to the changes that are required.

While responding to the introduction of universal credits, which not only impacts the nature of benefits available in the future, but also the Council’s role in the administration of these benefits, will present challenges for the Council, it is clear that action has commenced by officers to mitigate the associated risks.

Given the significance of this matter it is important that continued regular updates are provided to members and there is continued senior officer involvement in ensuring the timely implementation of transition arrangements.

Recommendation two

Partnership working

The Council and local partners have a comprehensive set of local priorities for the area based on a good understanding of the local context.

The Council and its local partners have recognised the need to improve community planning in the Scottish Borders and have recently reviewed the local community planning arrangements in order to deliver more effective governance and stronger leadership, a stronger engagement with elected and partner agency board members, and a stronger focus on performance.

The review work has been taking place in the context of the Scottish Government / CoSLA *Statement of Ambition* for community planning, which seeks to place community planning at the centre of public service reform, with a clearer emphasis on early intervention and prevention and economic growth, based on effective consultation with communities and citizens.

The review work has involved important changes to the local community planning governance arrangements in the Scottish Borders. On 30 August 2012 the Council approved a revised approach to community planning in the Scottish Borders, along with the development of the Scottish Borders single outcome agreement (“SOA”) and plans to align community planning and the Council’s corporate vision and priorities.

The Council approved plans to create a community planning strategic board. The role of the board will be to set the strategic direction for the community planning partnership (“CPP”), consistent with the Council’s and partners’ vision and priorities, and to monitor and scrutinise performance at a strategic level, using the single outcome agreement and to approve an annual public performance report. Given the changes in local community planning arrangements, the Council should ensure that it continues to work with all partners to strengthen local leadership of community planning, improve local partnership performance management, and develop and improve outcome reporting to benefit all partners.

Recommendation three

The Council and its community partners have agreed with the Accounts Commission to be part of the initial phase of community planning partnership audits. This audit will be completed later in the year and report will lead to a joint report by the Accounts Commission and Auditor General for Scotland. Any improvement plan resulting from this audit will be monitored by the community planning strategic board.

Strategic issues (continued)

Police and Fire & Rescue boards

The Police and Fire & Rescue Reform (Scotland) Act 2012 ("the Act") created a national police force and a national fire and rescue force. This replaces local authorities' current role as police authorities and fire & rescue authorities. The Act includes a framework for the delivery of local scrutiny and engagement arrangements, which all local authorities and the new services, will need to implement when the legislation is enacted from April 2013.

The Council agreed to become a local pathfinder for the development of local arrangements for the new Scottish Police and Fire and Rescue Authorities. The Scottish Borders pathfinder project will cover financial year 2012-13.

On 21 June 2012, the Council agreed to establish a Scottish Borders police, fire & rescue and safer communities board for the period running up to the establishment of the new national bodies. The main role of the board will be to scrutinise and review the Scottish Borders police, fire and rescue and safer communities plans and oversee the one year local pathfinder project. The success of this pathfinder exercise and the outcomes of pathfinders in other areas will inform a decision on the longer-term structures for scrutiny and engagement with both police and fire and rescue services. This is an area which is likely to have a significant impact on the Council. Management should ensure processes are in place to report developments to the Council throughout the process.

Audit focus areas

We have issued unqualified opinions on the financial statements for 2011-12.

Audit risks were identified in respect of opening balances, valuation of property, plant and equipment, changes to the Code and retirement benefits.

Financial statements

The Council is required to prepare financial statements in accordance with the *Code of practice on local authority accounting in the United Kingdom 2011-12* ("the Code"). the Code. The Code has been updated in 2011-12 and a number of changes required consideration by management for any impact on the reporting requirements and financial statements.

During our final financial statement audit, we confirmed that these changes had been appropriately considered and reflected in the financial statements. We identified a number of disclosure amendments which have now been correctly reflected in the audited financial statements.

We have issued unqualified opinions on the 2011-12 financial statements.

Opening balances

International Standards on Auditing (UK & Ireland) require auditors to obtain sufficient, appropriate audit evidence that opening balances do not contain misstatements that materially affect the financial statements.

We performed a number of procedures in relation to opening balances, including consultation with the Council's previous external auditors, and have concluded that opening balances are free from misstatements that would materially affect the current period's financial statements.

Valuation of property, plant and equipment – *other land and buildings*

The Code requires property, plant and equipment to be revalued on a regular basis. Management have historically obtained a valuation of properties, on a rolling basis by department, as at 1 April of the relevant financial year.

The current departmental basis of revaluation results in similar classes of asset being valued during different years, potentially resulting in assets held in on the balance sheet at a value other than fair value. In addition, a significant variation in valuation of assets at 1 April of any year to that in the financial statements at 31 March would suggest that the financial statements are misstated.

We have discussed these issues with management and are satisfied that this would not have a material impact in the current financial year, but we believe that management should review this policy going forward.

Retirement benefits

The Council accounts for the Scottish Borders Council Pension Fund in accordance with IAS 19 *Employee benefits.* The liabilities of the fund reflected on the Council balance sheet are dependant on a number of actuarial assumptions in relation to economic conditions at the year end and in the future. As part of our audit, we have considered these against our benchmark assumptions and confirm that they are within our expected ranges.

Improvement framework; best value

The Council delayed the approval of the new plan until after the May 2012 local government elections, therefore allowing it to reflect the manifestos of the new coalition administration.

Council priorities

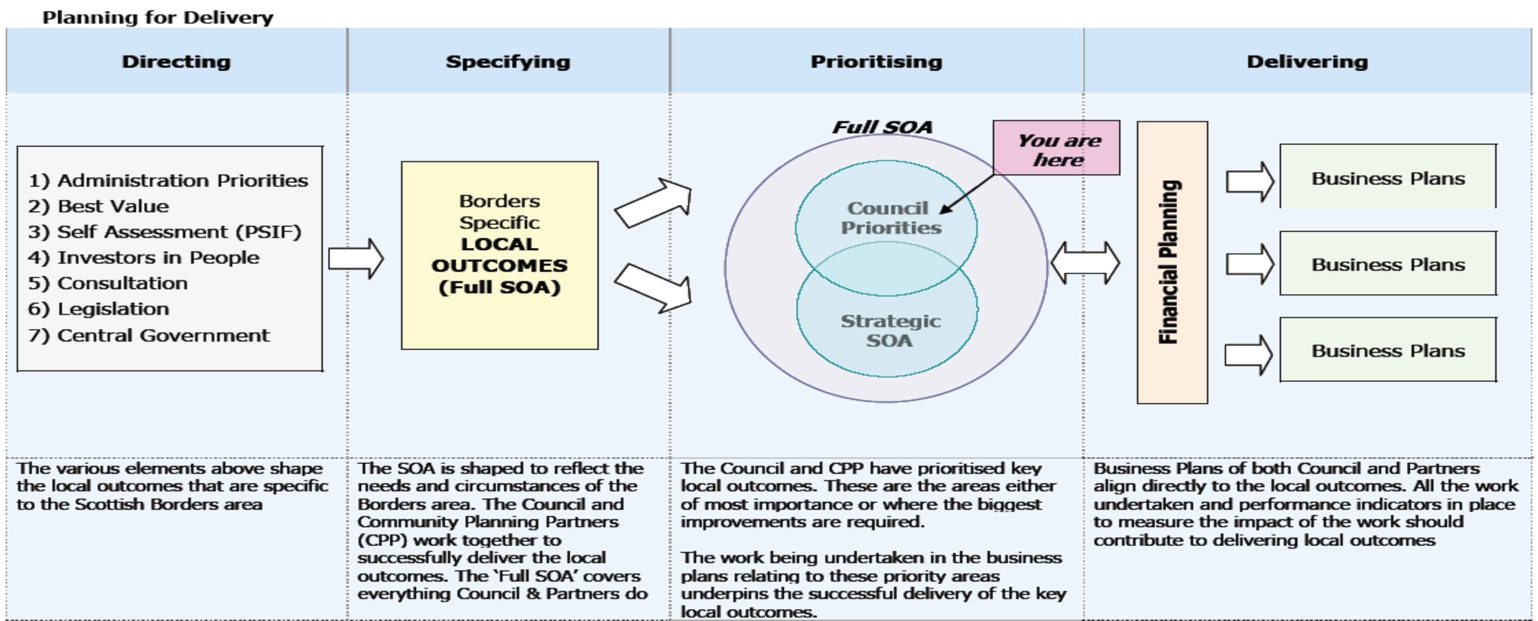
Every four years, the Council agrees "Council priorities" which sets out its key objectives and provides a framework for the development of detailed service plans by each department; the previous Council priorities covered the years 2009-11. The Council delayed the approval of the new plan until after the local government elections in May 2012, therefore allowing it to reflect the manifestos of the new coalition administration.

The Council has also agreed a Single Outcome Agreement ("SOA") with its partners and the Scottish Government. This sets out the Council's shared commitment to the delivery of an agreed set of outcomes which reflect local and national priorities.

Setting outcomes and priorities

Setting clear service outcomes and priorities is derived from a number of sources. The framework is illustrated in the diagram below.

The Council priorities will be replaced with a corporate plan and a community plan; these documents are currently in development. In developing the plans, management are aligning them to the requirements of the SOA agreed outcomes, the public sector reform agenda, as set out by the Christie Commission. In addition, the Council plan takes into account the local challenges faced by Scottish Borders.



Source: Performance and improvement framework 2010

Shared risk assessment; Best Value

Single outcome agreements ("SOAs") align public sector activity to national priorities. The Council is expected to have suitable arrangements to:

- **develop governance and accountability arrangements to support its SOA;**
- **ensure clear links between SOA outcomes and service-level outcomes, both within the Council and across its community planning partners;**
- **ensure robust performance management and reporting arrangements;**
- **report progress towards SOA outcomes to the Scottish Government; and**
- **undertake public performance reporting on progress towards SOA outcomes.**

The SOA is an agreement for Scottish Borders community planning partnership ("SBCPP") which is a partnership of organisations from the public, voluntary, private and community sectors who are working together for community planning.

The current SOA was approved by Council in September 2011 as part of the development of Best Value for the Council. The SOA acts as the Council's overarching strategic plan, incorporating the former corporate development and community plans.

This SOA is structured around four new strategic priorities:

- early Intervention and prevention;
- place and communities;
- economy and Infrastructure; and
- future model of public service delivery.

Following a comprehensive stakeholder engagement programme, the Council identified 16 national outcomes to deliver over the SOA period. Each national outcome has agreed performance indicators with set targets and timescales. All partners have commitments to using the Council's Covalent system to monitor performance towards each outcome.

Performance is monitored by the performance monitoring panel and reported each year to the Scottish Government; these reports are available on the Council website.

The Council is currently reviewing its approach to community Planning, along with the development of the SOA 3. SOA 3 will be an expression of the outcomes the Council and its partners are working towards achieving for the communities of the Scottish Borders.

Shared risk assessment

The local area network ("LAN") met during 2012 to update the shared risk assessment and three year rolling assurance and improvement plan ("AIP") for the Council. The 2012-15 AIP, reflected three of the significant risks identified in the previous AIP reduced to no significant risk identified, reflecting progress made by the Council in addressing key areas of concern while acknowledging that the impact of improvement activity remained to be demonstrated fully. The other significant risk related to asset management where an asset strategy plan is now in place, has moved to an area of uncertainty, as the impact has yet to seen.

The 2012-15 AIP assessed no areas of significant risk and ten areas of 'uncertainty'. Some areas of uncertainty had been identified in connection with changes in senior management and political uncertainty in relation to the 2012 council elections. It was noted that there was scope to strengthen self evaluation arrangements and that there were some aspects of social work and housing where further improvements were required. Overall, the evidence was that the Council was aware of risk issues and were managing these appropriately.

The AIP concluded that: "The overall scrutiny risk assessment of Scottish Borders Council for 2011-12 remains that of a low risk council which has shown a positive response to external scrutiny bodies and is making good progress in taking forward its improvement agenda".

The audit committee considered the updated 2012-13 AIP on 25 June 2012. It is expected that this will assist in service planning and supporting the development and implementation of the Council's improvement framework.

We reviewed four areas that have moved to an area of uncertainty as part of the annual audit process.

Shared risk assessment; Best Value (continued)

Under the Local Government in Scotland Act 2003 ("the 2003 Act"), auditors have a duty to be satisfied that councils have made proper arrangements to secure Best Value.

Partnership working

As noted previously, this is being updated within the development of community planning in the Scottish Borders to take account of weaknesses within the current arrangement. A community planning partnership board has been established which management intend will refocus and strengthen the Council's community planning arrangements and plans to address this issue during 2012. There is clear evidence that the Council is reviewing current monitoring arrangements, but the outcome of the changes has yet to be seen.

Asset management

The corporate property asset strategy and management plan are reviewed and updated regularly; the last published update was in May 2011. A revised update is currently being drafted. The links between the corporate property asset strategy and Council priorities are clearly documented in the strategy document. Progress against delivery on the strands within the plan is monitored and reported as part of each update.

Internal audit have reported a major risk to the corporate property asset strategy continues to be the ability of the Council to rationalise the estate, and divest itself of surplus properties in the current context of low economic activity. This may impact adversely on the level of savings achieved by a number of the strands within the plan (e.g. community services review). However, management regularly monitor this risk and associated mitigating actions and it is important that focus is continued on this area going forward.

Performance management

The Covalent system has been set up as the Council's corporate reporting tool and is used to monitor business plans and KPIs. These KPIs are focused around national outcomes (currently 16 different outcomes) which are the key outcomes that the Council drives towards. There are 688 KPIs in total which are linked to national outcomes and other outcomes that are specific to a particular department. Reports are summarised in the SOA and are used to highlight improvements / deteriorations in the measurements of KPIs which are helping to drive improvements.

The main element of performance management takes place by monitoring of service performance against agreed performance indicators. Elected member scrutiny is primarily performed by the performance monitoring panel.

There is a risk that performance is not adequately monitored and reported as a result of the change in governance arrangements. Management should ensure that scrutiny remains effective in the light of changes to the performance management process and the need for difficult decisions in the current financial climate.

Shared risk assessment; Best Value (continued)

The timing, nature and extent of Best Value work is determined as part of the shared risk assessment process.

Planning and resource alignment

An initial five year financial outlook for the new Council was considered by the budget group on 4 October 2012. The plan noted that over the five year period the Council needs to identify £31 million of savings to continue to provide current services.

In order to identify sufficient savings, a shift in focus and behaviours to longer term financial planning has been adopted by the corporate management team with departments bringing forward their '10 big ideas' to inform a corporate programme of work to meet the anticipated future gap from increasing costs over the period to 2017-18.

These big ideas will form the core of a budget to be submitted to elected members for consideration. This approach, which is a departure from the previous budget methodology, will, if necessary, enable different political groups to form their respective budgets around an initial set of officer proposals.

In our view, there is a risk over implementation of decisions regarding the required level of savings. Management should ensure that monitoring of savings is appropriate and that going forward they regularly monitor savings to ensure year on year saving targets are met and the impact on service levels are managed.

Recommendation four

Best Value

In 2009 the Council and its community planning partnership were the subject of a Best Value audit carried out by Audit Scotland. Issues identified in this report were used to inform the Assurance and Improvement Plan for scrutiny of the Council, in 2010. Following the Best Value audit, the Council aimed to develop an improvement plan to address some of the areas highlighted in the report.

In 2010 the Council signed up to the public sector improvement framework ("PSIF"). As part of the PSIF, the Council undertakes annual corporate self assessments, with a more in-depth rolling programme carried out across departments. Action plans are aligned to the SOA, built into business plans and progress is monitored through the performance improvement framework.

In order to deliver Best Value it is important that there is a link between the local outcomes in the SOA through the Council priorities agreed by the planning partnership and the Council's corporate and business plans. The diagram on page 11 of the report shows that the Council have a mechanism in place to monitor and evaluate Best Value going forward.

Recommendation five

Statutory performance indicators - framework

Our audit procedures included testing of a sample of statutory performance indicators.

We identified errors in this sample and management subsequently amended these prior to reporting.

Background	Findings
■ The statutory deadline for publication by the Council of statutory performance indicators (“SPIs”) is 30 September 2012. Since 2009-10, there has been a significant shift in approach to SPIs, with a significant reduction in the number of specific indicators that councils are required to use, while including measures designed to encourage councils to use a greater range of information as part of their mainstream performance management and reporting activities. ■ The Council is responsible for having appropriate arrangements to collect, record and publish complete and accurate data, so far as is practicable.	■ The Council submitted the SPIs for 2011-12 to Audit Scotland on 30 August 2012 in line with the agreed timetable. In addition to SPIs, there is also a suite of other performance indicators which have been developed from service plans which are, in turn, linked to an outcome in the SOA. ■ As external auditor, our responsibilities extend to understanding arrangements and systems that the Council uses to generate performance results and consequent reports. ■ Through the audit process we identified there was no independent review arrangement to agree the completeness and accuracy of data used. ■ We tested a sample of SPIs to ensure the guidance was followed and that data gathered could be agreed back to management systems and reports. We identified three errors which were corrected by management; we confirmed with the appropriate data coordinator that all the other indicators had been accurately recorded. ■ Internal audit has not carried out testing of SPIs for 2011-12 as part of its annual plan 2012-13. Lack of independent review of the completeness and accuracy has resulted in errors going undetected in the draft SPIs reported. We recommend that going forward management make arrangements to ensure a sample of SPIs are selected and tested to ensure arrangements are in place to collect the required data and the SPIs reported are complete and accurate. ***Recommendation six***
Key performance indicators results ■ Performance against the Council’s performance indicators are reported in an annual performance report, publically available and discussed by the performance monitoring panel.	■ The SOA has committed the Council and its community planning partners to improving performance and service quality, with progress against the SOA reported each year to the Scottish Government. The report covering the period to 31 March 2012 was submitted on 30 September 2012.

Local response to national studies

As part of our annual audit process, we consider the Council's arrangements in respect of performance management and response to Audit Scotland's national studies.

Audit area	Overview	Findings
Local response to national studies	Audit Scotland and the Accounts Commission periodically undertakes national studies on topics relevant to the performance of public sector bodies. To ensure that added value is secured through the role of Audit Scotland and the Accounts Commission and its appointed auditors, auditors will continue to ensure that audited bodies respond appropriately to reports from the programme of national performance audits. We have considered the Partnership's response to the national report *Scotland's public finances: responding to the challenge* and have prepared a short return to Audit Scotland which confirms that management considered the report's findings and recommendations.	We have considered the Council's response to the following national reports: ▪ Scotland's public finance's: responding to the challenge; ▪ transport for health; ▪ community health partnerships; and ▪ modernising the planning system. We have prepared short returns to Audit Scotland for each report. Our assessment concluded that reports are considered by the audit committee, or other formal working group. Other than a joint self-assessment with NHS Borders undertaken on the community health partnerships study, we noted that management has not performed a self-assessment of local arrangements against the recommendations in the reports. We raised a recommendation in our interim management which was accepted by management that self-assessments are performed and that appropriate action plans and timetables are agreed to feedback local actions.

Local response to national studies (continued)

As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified *Maintaining Scotland's roads: a follow-up report* for follow-up in 2011-12.

We carried out follow-up work to consider the Council's response to the report.

Management does not yet have in place a road asset management plan but is working closely with colleagues at a national level to ensure best practice procedures are put in place.

Maintaining Scotland's roads: a follow up

As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified the *Maintaining Scotland's road – follow-up report* for follow-up by local auditors in 2011-12. The aim of the follow-up work is to assess the progress that councils have made in driving forward road maintenance activities, managing the performance of road maintenance activities, and maximising value for money in road maintenance services. Set out below are our findings from our follow up work.

How did the council respond to *Maintaining Scotland's roads: a follow-up report* following publication?	
Was the report formally considered by the: ▪ full council? ▪ audit committee? ▪ senior management team? ▪ other committee? Please provide the date the report was considered and the key actions in any action plan developed.	The senior management team in the environment and infrastructure department formally considered the report and an appropriate response. The report has not been formally considered by members or a committee as management did not believe it was required for details to be reported to elected members at this stage. Members will receive information in respect of this report when they consider the Council's asset management plan later this year. The head of engineering and infrastructure is part of the Society of Chief Officers for Transportation in Scotland steering group for national road maintenance ("SCOTS") and has been involved in several discussions at a national level.

Does the council have appropriate plans in place to drive road management activities?	
Does the council have a comprehensive road assessment management plan in place, developed in accordance with the SCOTS 2 road asset management project?	The road assessment management plan ("RAMP") has not yet been put in place. Management is currently developing such a plan and considers that it is around 80% complete; no date has been set for finalisation. EXP Consulting has been contracted by SCOTS to help develop a framework for a national road asset management plan. The framework has been completed but adoption by local authorities has been mixed; the Council has fully adopted the framework. Management notes that the framework is open to some interpretation as it sets general principles that can be tailored to each local authority's needs.
Does the council adequately monitor progress against the road asset management plan and do monitoring results demonstrate satisfactory progress?	As the RAMP has not yet been put in place, this is not applicable.

Local response to national studies (continued)

How does the Council manage performance of its road management activities?	
Is the council using relevant performance indicators to help manage its road maintenance service? ■ To what extent have SCOTS's core performance indicators been adopted? ■ To what extent have SCOTS' secondary and statistical indicators been adopted?	The Council is committed to managing its assets through the national RAMP process, including setting expected levels of service and performance measures. The current draft version of the Council's RAMP includes such measures. Management anticipates adopting all indicators in due course. Of the 23 indicators identified as core, only 12 are currently reported. Further information / data collection is required before the Council will be able to report on all 23. The Council is currently in the process of developing the confirm asset management system which will allow further data analysis to take place in completing the other core performance indicators (statutory and secondary). With regards to the statutory and secondary performance indicators, the Council is reviewing each indicator as information is obtained to identify which are likely to provide useful insight to management. The latest SCOTS report identifies that information has been provided for 15 of 24 indicators.
In which areas is the council performing particularly well against its performance indicators? In which areas does the council need to improve its performance and what plans are in place to address this?	The Council has not carried out any detailed analysis on the core indicators in comparison with other authorities at this stage. Management is currently preparing a report to members on the progress to implementing the RAMP and on the general condition of roads assets.

Local response to national studies (continued)

What is the council doing to maximise value for money in its road maintenance service?	
What is the council doing to maximise value for money in its road maintenance service? Within the last 18 months to what extent has the council investigated the following opportunities to improve value for money in its road maintenance service: ■ comparison of costs and performance with other councils, Transport Scotland or the private sector; ■ partnership working with other councils, Transport Scotland or the private sector; ■ service reconfiguration; ■ pooling and flexible use of resources; ■ innovative practices; and ■ any other opportunities?	The Council benchmarks costs and other key indicators (e.g. tonnes of salt stored) with Edinburgh, Lothian and Fife Councils ("ELBF"). Costs compared among the councils include the rates of pay, hours of work, overtime provided and other remuneration for ground work staff. SBc Contracts undertake works (surface dressing, footpaths, etc) for other local authorities at tendered rates with reference to a supplier framework. Management believes this demonstrates that Best Value is being obtained as the works/services are being provided at a lower cost to those councils where comparison to the market has been made. Further to maximising value for money in road maintenance services, the Council has also restructuring the environment and infrastructure department so that a specific team of 13 individuals can work on the RAMP. Cyclic/routine road maintenance activities in a neighbourhood services function will now be delivered by a more streamlined SBc Contracts delivery team which will be processed through the Servitor project system. The ELBF road maintenance working group continues to discuss service provision and potential efficiencies. A common approach has been implemented across all ELBF councils, including joint tendering for a weather forecasting service. However, operational works sharing is severely hampered by procurement directives whereby the works must be tendered for externally as otherwise the councils involved could be seen to be denying the opportunity to other potential providers.
What improvements in economy or service has the council achieved as a result of these initiatives to date? If planned improvements have still to be achieved, when is this likely to happen? What other steps are being taken in response to the national review of roads maintenance?	The private sector is only utilised for specialist services. From informal discussions between management and the private sector there is an indication that, given the level of budgets available from the Council, there is a lack of interest. This suggests that tendered work performed by in-house services represents best value. The Council has been meeting on a bi-monthly basis with ELBF to discuss a shared service approach to road maintenance across the South-West of Scotland. The ELBF working group is about to commence a project to review all options identified in the NRMR final report that present opportunities for a greater degree of collaborative working within the group in the future. The options will be tested operationally and politically before being confirmed and taken forward.

Corporate governance framework and supporting arrangements

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

Our reporting throughout the year identified some weaknesses and risks arising from the strategic and financial control framework, including in respect of procurement arrangements, bank and other reconciliation and journal authorisation processes.

There were a number of changes to senior management at the Council during the year including the departure of the previous chief executive.

Political landscape	The May 2012 elections saw a change in administration, changing from a Conservative / Independent / Liberal Democratic coalition to a Independent / SNP / Liberal Democratic coalition. Prior to the elections, management facilitated a 'preparing for elected office programme' for prospective members. Following the elections there were a number of induction events held for new members relevant to the work, role and responsibilities of the Council. This included presentations by department heads. Management also requested feedback from the members to help identify the continuing induction and development needs. In its *Overview of local government in Scotland*, published in March 2012, the Accounts Commission included a checklist for new and returning elected members to use to assess their own understanding and training needs. We recommend that this checklist is utilised as part of management's review process, to inform additional training needs, but also as a basis for reviewing the effectiveness of the induction arrangements completed to date. ***Recommendation seven***
Corporate governance	Following the local government elections in May 2012, the Council approved new scheme of delegation on 30 August 2012. The Council will still operate a cabinet structure, with the new scheme of administration approved which incorporated parts of the executive/scrutiny structure which have worked well into a new, sustainable decision-making structure which is fit for the future. This has led to a review of the current decision making structure and a desire for a more inclusive committee structure which still meets the needs of the Council, its partners, and the communities it serves. A number of existing committees and subcommittees will be disbanded and the new structure will see an executive committee augmented by three service committees; education, environment & infrastructure and social work & housing. Other committees that will support the council include audit and a petitions committee. To ensure inclusivity, opposition members will form part of the membership of the main committees in the new structure, including the audit committee. These provide scrutiny and challenge to strategic decisions and performance. The new scheme of administration maintains an integrated governance framework to provide an appropriate structure for maintaining decision-making, accountability, control and behaviour.

Corporate governance framework and supporting arrangements (continued)

There were a number of changes to senior management during the year, including the chief executive and the chief financial officer.

Senior management changes	There were a number of changes to senior management at the Council during the year. This included the departures of the previous chief executive and the director of planning and economic development. The former director of resources was appointed as chief executive following a comprehensive recruitment process and a new chief finance officer joined the Council and took over the role of Section 95 officer. The previous chief executive left the Council under the voluntary severance / early retirement scheme in place. As part of our audit, we considered the process for this and concluded that this was in line with the Council's standing orders. We note that this was undertaken through the Council's emergency powers but, while the previous chief executive's departure was reported to a subsequent meeting of the full Council, no formal reference was made to the circumstances . In accordance with the terms agreed with the previous chief executive, his departure was initially referred to as "retirement". This may have created a misleading impression and, with hindsight, it may have been preferable to have agreed to describe the departure as "early retirement under the voluntary severance scheme" as used in subsequent press releases. The position of director of planning and economic development was made redundant as part of the organisational review and a new director was appointed to the Environment and Infrastructure department.
Annual governance statement	The governance statement provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. It describes a number of sources of assurance for the Council and identifies areas for improvements to be focussed on in the future. We reviewed the governance statement and requested a number of amendments to ensure compliance with guidance and our understanding of the Council. We requested a change to the annual governance statement to identify how the Council's arrangements comply with the CIPFA *statement on the role of the chief financial officer in local government* (2010) to ensure compliance with the requirements of the Code.

Corporate governance framework and supporting arrangements (continued)

We considered the draft remuneration report against relevant guidance and a number of amendments were subsequently made.

Disclosures are complete and accurate.

Remuneration report	Scottish Statutory Instrument 2011 number 64, The Local Authority Accounts (Scotland) Amendment Regulations 2011 amended the Local Authority Accounts (Scotland) Regulations 1985 added the requirement for local authority bodies to prepare a remuneration report. We considered the contents of the remuneration report and reviewed against the requirements of the regulations. Following the audit process a number of amendments were required to the remuneration report including: ■ enhancement to the presentation of the report including the reporting of exit package costs on an accruals as opposed to cash basis and the inclusion of prior year comparatives; and ■ amendments with regard to the accuracy of information related to the departure of the chief executive and other senior employees. We are satisfied that the updated remuneration report meets the Regulations' requirements. We have recommended, in our report to those charged with governance that, in future, management review all the relevant guidance and regulations which detail the requirements for local authorities to prepare a remuneration report in advance of approval of the draft financial statements. This should include a review of accuracy, with errors being amended prior to publication of the draft financial statements. The Local Government Finance Circular number 8/2011, issued by the Scottish Government, provides guidance that the remuneration report is a statement in its own right and not a note to the financial statements. While there is no statutory prescription on its placement in the financial statements, it suggests a suitable placement would be after the governance statement. Management have confirmed that they believe the current positioning of the remuneration report following the primary financial statements is appropriate. ***Recommendation eight***
Internal controls	Our reporting throughout the year has identified a number of areas of the financial control framework that could be enhanced, including in respect of reconciliations and journal authorisation processes. As the financial and operating environment in which the Council operates continues to change, with developing priorities and new and emerging financial and non-financial risks, it is increasingly important that the Council plan, supporting service plans and other developments are underpinned by effective organisation-wide controls, robust financial management processes and effective key financial controls.

Corporate governance framework and supporting arrangements (continued)

The Council has procedures and policies in place to identify instances of fraud.

Prevention and detection of fraud	The Council has policies and codes of conduct for staff and councillors including a whistle blowing policy. Management has confirmed that no significant fraud or irregularities have been identified during the year. However, the absence of a number of controls identified by us as part of the audit process, does, in our view increase the possibility of fraud, or other irregularity not being prevented or detected on a timely basis.
National fraud initiative ("NFI")	NFI helps participating bodies to identify possible cases of fraud and to detect and correct under or overpayments. NFI also helps auditors to satisfy their duties to assess bodies' arrangements for preventing, deterring and detecting fraud. The Council has an established process for investigating cases of potential fraud highlighted by the NFI and suitable arrangements are in place to ensure this work is covered.
Internal audit	As set out in our audit plan and strategy, we have evaluated the work of internal audit and concluded that we can rely, where relevant, on its work. The content of the internal audit plan is in line with our expectations. Internal audit made no priority one recommendations (high risk, material observations requiring immediate action) issued during the year that related to internal financial control. Four priority one recommendations were issued during the year that related to internal control and governance (two in 2010-11). Two related to weaknesses in project board governance and project management documentation of the environment & infrastructure restructure phase two implementation project and two related to weaknesses in network remote access security arrangements and IT security policy awareness. Internal audit reported that *"reasonable assurance can be placed upon the adequacy and effectiveness of the Scottish Borders Council's systems of internal controls and governance. Although areas for further improvement have been identified the annual review demonstrates sufficient evidence that the Council's local code of corporate governance is operating effectively and that the Council complies with that Code in all significant respects."*

Appendices

Action plan

The action plan summarises specific recommendations, together with related risks and management's responses.

Priority rating for recommendations		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 SBc Contracts		**Grade three**
In 2012-13 there are plans for SBc Contracts to be separated out from routine and planned road maintenance and will become a smaller more commercially competitive unit.	Given the changed operating environment of SBc Contracts the Council should consider the financial position of the trading account as at 31 March 2013, assess against established criteria and determine whether it is still appropriate to recognise it as a significant trading operation in future years.	Agreed. **Responsible officer:** David Robertson **Implementation date:** 31 March 2013
2 Welfare reform		**Grade three**
While responding to the introduction of universal credits, which not only impacts the nature of benefits available in the future, but also the Council's role in the administration of these benefits, will present challenges for the Council, it is clear that action has commenced by officers to mitigate the associated risks.	Given the significance of this matter it is important that continued regular updates are provided to members and there is continued senior officer involvement in ensuring the timely implementation of transition arrangements.	Agreed. **Responsible officer:** David Cressey **Implementation date:** 31 March 2013

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
3 Partnership working		**Grade three**
The Council approved plans to create a community planning strategic board . The role of the board will be to set the strategic direction for the community planning partnership, consistent with the Council's and partners' vision and priorities, and to monitor and scrutinise performance at a strategic level, using the SOA 3 and to approve an annual public performance report.	Given the changes in outcome reporting and monitoring the Council should ensure that they continue to work with all partners to develop and improve outcome reporting to benefit all partners.	Agreed. **Responsible officer:** Tracey Logan **Implementation date:** 31 March 2013
4 Savings		**Grade three**
An initial five year financial outlook for the new Council which will be submitted to the Administration's Budget Group on 27 August 2012. The plan identified that over the five year period the Council needs to identify £31 million of savings, to continue to provide current services.	There is a risk that the Council fails to identify required savings going forward which may impact the quality of Council services. Management should ensure that going forward they regularly monitor savings to ensure year on year saving targets are met and the impact on service levels is managed.	Agreed. **Responsible officer:** David Robertson **Implementation date:** 30 October 2012

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
5 Best Value		**Grade three**
The Council responded to the findings of Audit Scotland's 2009 Best Value audit through embedding relevant issues in the SOA and assurance improvement plan. We believe there is scope for further clarity in monitoring and reporting on the response to the Best Value audit.	Management should ensure that its response to and progress against issues identified in Audit Scotland's 2009 Best Value audit is clarified and reported as appropriate.	Agreed. **Responsible officer:** Tracey Logan **Implementation date:** 30 October 2012
6 Statutory performance indicators		**Grade three**
Through the audit process we identified there was no independent review in place to agree the completeness and accuracy of data used. We tested a sample of SPIs to ensure the guidance was followed and that data gathered could be agreed back to management systems and reports. We identified three errors in , we confirmed with the appropriate data coordinator that all the other indicators had been accurately recorded. Lack of independent review of the completeness and accuracy has resulted in errors going undetected in the draft SPIs reported.	We recommend that going forward management make arrangements to ensure a sample of SPIs are selected and tested to ensure arrangements are in place to collect the required data and the SPIs reported are complete and accurate.	Agreed. **Responsible officer:** Jill Stacey **Implementation date:** 31 March 2013

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
7 New member training		**Grade three**
There have been a number of changes in councillor composition as a result of the local elections in May 2012. Following the May elections there were a number of induction events relevant to the work, role and responsibilities of the Council. Management also requested feedback from the members to help identify the continuing induction and development needs of members.	It is recommended that the new and returning member checklist, included as part of the *Overview of local government in Scotland*, published in March 2012 by the Accounts Commission, is used by members as a tool to inform training needs or review the effectiveness of the Council's arrangements. .	Agreed. **Responsible officer:** Jenny Wilkinson **Implementation date:** 31 December 2012
8 Remuneration report		**Grade three**
The Council includes the remuneration report after the primary statements. While not out of line with some other local authorities, it is inconsistent with our experience of good practice in other sectors and the Scottish Government guidance.	It is recommended that the Council considers whether the existing presentation of the remuneration report demonstrates a continued commitment to transparency. Consideration should be given to including, the remuneration report, after the governance statements, as recommended by the Scottish Government.	Agreed. **Responsible officer:** David Robertson **Implementation date:** 30 June 2013

Audit Scotland code of audit practice – responsibilities of the Council

Financial statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and
- participating, when required, in data matching exercises carried out by Audit Scotland.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

Financial position

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

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