

# Public Document Pack



## AUDIT AND SCRUTINY COMMITTEE TUESDAY, 27 NOVEMBER 2018

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on TUESDAY, 27 NOVEMBER 2018 at 10.15 am

**As previously agreed, there will be a meeting of Members of the Committee at 9.30 a.m. prior to the main meeting. The main focus will be a Briefing on Governance, Assurance and Audit provided by the Chief Officer Audit & Risk.**

J. J. WILKINSON,  
Clerk to the Council,

20 November 2018

<b>BUSINESS</b>		
1.	<b>Apologies for Absence.</b>	
2.	<b>Order of Business.</b>	
3.	<b>Declarations of Interest.</b>	
<b>AUDIT BUSINESS</b>		
4.	<b>Minute</b> (Pages 3 - 6)  Minute of Meeting of the Audit and Scrutiny Committee held on 1 November 2018 to be approved and signed by the Chairman. (Copy attached).	5 mins
5.	<b>Action Tracker</b> (Pages 7 - 8)  To note progress made on the Action Tracker. (Copy attached).	5 mins
6.	<b>Risk Management in Services</b>  Presentation by Service Director Human Resources on the strategic risks facing the service and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within services. (Verbal presentation).	30 mins
7.	<b>Internal Audit Work to October 2018</b> (Pages 9 - 18)  Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and other work in progress to deliver the approved Internal Audit Annual Plan 2018/19. (Copy attached).	15 mins

8.	<b>Progress with Implementation of Internal Audit Recommendations</b> (Pages 19 - 30)  Consider a report by Chief Officer Audit & Risk on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during 2018/19 and previous years. (Copy attached).	15 mins
9.	<b>Internal Audit Mid-Term Performance Report 2018/19</b> (Pages 31 - 40)  Consider a report by Chief Officer Audit & Risk on progress Internal Audit has made during the first half of the year towards completing the Annual Plan 2018/19 and an outline of performance. (Copy attached).	15 mins
10.	<b>Treasury Management Mid-Year Report 2018/19</b> (Pages 41 - 56)  Consider mid-term report by Chief Financial Officer on the Council's Treasury Management activities undertaken during first half of financial year 2018/19 for review and scrutiny prior to Council approval. (Copy attached).	15 mins
11.	<b>Any Other Items Previously Circulated.</b>	
12.	<b>Any Other Items which the Chairman Decides are Urgent.</b>	

#### NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**
2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

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**Membership of Committee:-** Councillors S. Bell (Chairman), H. Anderson, K. Chapman, J. A. Fullarton, S. Hamilton (Vice-Chairman), N. Richards, H. Scott, E. Thornton-Nicol and S. Scott

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**SCOTTISH BORDERS COUNCIL  
AUDIT AND SCRUTINY COMMITTEE**

MINUTE of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in Council Chamber, Council Headquarters, Newtown St Boswells on Thursday 1 November 2018 at 10.00 am

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Present:- Councillors S. Bell (Chairman), H. Anderson, K. Chapman, J.A. Fullarton, S. Hamilton, N. Richards, H. Scott, S Scott, E. Thornton-Nicol

In Attendance:- Service Director Assets & Infrastructure, Network Manager, Chief Officer Economic Development, Clerk to the Council, Trainee Democratic Services Officer (E. Graham); Lead Petitioner (K. Payne), Cockburnspath & Cove Community Council (N. Simpson)

**1. WELCOME AND INTRODUCTIONS**

The Chairman welcomed those present to the meeting and introductions were made.

**2. MEMBER**

In terms of Section 5 of the Councillors' Code of Conduct, Councillor Fullarton declared himself as the local Member, but did not declare an interest and participated in the meeting.

**3. MINUTE**

There had been circulated copies of the Audit and Scrutiny Committee Minute of 24 September 2018.

**DECISION**

**APPROVED for signature by the Chairman.**

**4. COVE CAR PARK PETITION**

4.1 There had been circulated copies of an extract from the Audit and Scrutiny Committee Petitions procedure. The Chairman explained the procedure to be followed and highlighted the main points. The Chairman then welcomed Mr Kevin Payne, Lead Petitioner, who is in attendance to present a petition on Cove Car Park and who is accompanied by Mr Neil Simpson, Cockburnspath & Cove Community Council. Mr Payne commenced his presentation by explaining further the information in the supporting statement and referred to the photographs attached to the papers. The Petitions submission form had been submitted with a total of 41 signatures, from 33 properties of which 25 were permanently occupied. This is due to the increasing number of visitors to Cove and residents had raised concerns over road safety, parking and the road conditions.

*The petition requested that consideration be given to:-*

*(i) Speed Control*

*(ii) No through road signage*

*(iii) Residents' parking areas*

*(iv) Limitation on size of vehicles entering the Cove (other than service/emergency vehicles*

4.2 Mr Payne advised that there were no speed restrictions, other than 'Slow' painted on the road. Street lighting is only present on part of the road and it is single track with no pavements or grass verges. The road is the only access to Cove Harbour and is used by villagers, visitors, children and families. Traffic volumes were also a factor and a 'No

Through Road' sign would help reduce the number of vehicles entering Cove. The road is not suitable for large vehicles and there is an increasing number of tour buses and very large motorhomes coming into the village. The road ran along a cliff top and had been protected in the past from erosion. Vehicle numbers had vastly increased and this is limiting parking in the village, especially during Summer weekends. Residents were having difficulty parking near to their homes which is impacting on young families and the elderly. Emergency vehicles and refuse vehicles were also having difficulty accessing properties. The existing signage in the car park for 'No Overnight Camping' is unpoliced and not enforced; and residents who had erected their own parking signs on private properties had noticed an observable difference. There had been multiple pleas to the Council for designated residents' parking. In conclusion, the residents were asking the Council to act on a simple, low cost request to make Cove a safer place for residents and visitors and to:-

- (i) Designate ten parking spaces for residents use only;
- (ii) Introduce a 15mph speed limit into the village;
- (iii) Limit vehicle size into the village; and
- (iv) Erect a "No through road" sign.

4.3 Members then asked Mr Payne a number of questions. Mr Payne advised that the speed limit on the road is 60mph from the A1, which reduced to 30mph where there were streetlights. In Summer, tourists walked from Cockburnspath to Cove on the road, which had no grass verges, no room for pavements, and no passing places, which meant pedestrians had to move into residents' driveways to allow vehicles to pass. Councillor Fullarton explained that parking in Cove and Cockburnspath had always been an issue, particularly in the Summer, with approximately 12 houses having no private parking. In response to a question about whether consideration had been given to an asset transfer of the car park under the Community Empowerment (Scotland) Act, Mr Payne advised that some residents were against this due to the potential economic liability. While there is no space to make the car park larger, a possible location for another car park had been identified but this could prove controversial. Cove Harbour Conservation Ltd owned the harbour and generated some income from film/photoshoots, but the harbour lay around ½ a mile from the village, with no additional land available. Any revenue raising possibilities would be for the harbour and not the community.

4.4 There had been circulated copies of a briefing note by the Service Director Assets & Infrastructure responding to the Petition on Cove Car Park. The report stated that the Council is in the process of introducing an area-wide Traffic Regulation for off-street car parks in the Scottish Borders. At Cove, the intention is to restrict vehicles to under 3.5 tonnes and for the maximum stay to be 48 hours. This reduced period is in response to complaints about non-residents, particularly those in motorhomes, parking in the vicinity to the exclusion of residents. Reducing the speed limit is currently being considered but it is proposed to be 30mph in line with other villages in the Borders. There is no proposal for the Council to promote a Traffic Regulation Order (TRO) to limit the size or weight of vehicles on this route. The "No Through Road Sign" at the top of the road into Cove had been amended to read Cove (only). In addition, a "No Through Road – unsuitable for HGVs and Buses" sign is currently on order. Mr Young, the Network Manager, reported that there were constraints on what could be done and there were no plans to introduce residential parking. To reserve 10 spaces for residents would put added pressure on the remaining car parking spaces. To introduce informal parking would cause problems when residents came to sell their properties as parking rights would not be part of title. The road to Cove is the national speed limit of 60mph but would fit the criteria for a 30mph speed limit; 20mph is generally in place around schools to protect children and families. The proposed TRO would give the Council the power to deal with any complaints. The signs would show that the road is not suitable for HGVs or buses. While the Council had adopted and maintained the car park, the ownership of the ground would need to be checked, as adoption did not necessarily mean ownership. It may be possible to re-visit the layout of the car park to see if more spaces could be created, but a turning space would also need to be created for larger vehicles. The Council would undertake surveys on the usage of the car park. Members then discussed the issues of having a TRO and

signage which would not be monitored on a regular basis. Any review of speed limits would be carried out as part of a Borders wide review as it is a major exercise, carried out in conjunction with the police, and due to start in Summer 2019. There is also a discussion around residents' car parking permits; the street lighting; and whether plans were in place to look at the future impact of erosion on the road, although officers confirmed that current monitoring showed there were no structural concerns at this stage. In response to a question as to whether there could be a '20's plenty' sign on the road, the officer explained that Transport Scotland no longer permitted these signs as research had shown they were ineffective.

- 4.5 The petitioners thanked the officers for their continued help and thanked Councillors for their support. The Chairman summarised the points raised and asked officers to consider the options and to report back with practical solutions. The Chairman thanked the petitioners and officers for their attendance and the comprehensive, clear reports that were provided to the Committee.

## **DECISION**

**AGREED to refer the issues raised by the Cove Car Park petition to the Service Director Assets & Infrastructure to carry out the following work:**

- (a) Introduce the new TRO proposing a restriction on vehicle size to under 3.5 tonnes and a time limit for parking of 48 hours;**
- (b) include the Cove road in the proposed review of speed limits due to start in Summer 2019, with the aim of reducing the speed limit on the road to 30mph;**
- (c) ensure the signage "Unsuitable for HGV/buses" and "No Through Road" be erected as soon as possible;**
- (d) review the current layout of the car parking spaces to ascertain if further spaces could be made, including a turning area for large vehicles e.g. the refuse lorry;**
- (e) consider erecting a "Slow pedestrians" sign;**
- (f) seek clarification on the ownership of the car park; and**
- (g) consider options for permitted parking for residents, liaising with Mr Payne and Cove residents about any way forward.**

## **5. BROADBAND REVIEW**

- 5.1 With reference to paragraph 3 of the Minute of 3 September 2018, the Chairman welcomed Mr Bryan McGrath, the Council's Chief Officer Economic Development, who gave Members an initial presentation as part of Scrutiny's review of the progress made in delivering improved broadband services in the Scottish Borders by the Digital Scotland Superfast Broadband Programme. The Chairman referred to the review and that Scottish Borders Council had contributed significantly to the rollout of the Scottish Government's Digital Scotland Superfast Broadband (DSSB) programme, contributing £8.4m over two years to help extend the rollout as far as possible in the Scottish Borders. It is noted that two special Scrutiny meetings had been arranged for Monday 5 November and Wednesday 21 November and papers would be compiled with previous reports for the first meeting. Members of the Digital Scotland Superfast Broadband (DSSB) would be attending on 5 November to give a presentation. A glossary of acronyms would be made available to assist Members with the complex terminology.

- 5.2 Mr McGrath's presentation explained that the focus of the DSSB programme is on improving the digital infrastructure across Scotland. DSSB were working on the roll-out of fibre on a much wider basis, but still relying on the existing copper cable network to get back to people's houses and businesses. Fibre to the Cabinet (FTTC) is key to the programme with a top speed on copper cables of 80Mbps with Fibre to the Premises (FTTP) currently running up to 300Mbps. However, using the old copper cables means that the quality of the signal falls away the further a household or business is from the cabinet. If a premises is more than a mile from a cabinet it would likely not receive the full superfast broadband speed. There is complexity around fibre to the cabinet in particular within rural areas. A lot of houses and businesses were spread over considerable distances and were connected to 'exchange only' lines, a line that goes back directly to

the telephone exchange. This created a challenge on how to provide a superfast service. Solutions for these 'exchange only' lines were developed later in the programme. The practicalities in putting in the cabinets and boxes had been a massive engineering project. There is a huge requirement on the role of local authorities, the co-ordination process between contractors, roads authorities and all other local authorities. Road works were ongoing with the challenge around land ownership where boxes need to be fitted. Stickers were put on cabinets in conservation areas with challenges around the siting of the cabinets.

- 5.3 A relatively small number of connections were being provided by Fibre to the Premises (FTTP). These full-fibre connections have only started to appear in the latter part of the roll-out, and provide the fastest speeds available. Work had been carried out on overhead/underground cables and following existing phone lines in place with distances between telegraph poles being reviewed. Internal customer wiring required to be reviewed and the installation work is also different. FTTC connections can be activated easily by the householder, but if FTTP is required this involved an engineer visiting the premises. The DSSB roll-out is aiming to roll-out fibre as far as possible as it helps to future proof the network. DSSB had recognised that they would only get to 95% of premises in Scotland but Scottish Government's commitment recognised the importance of 100% in premises and the proposed R100 programme would reach this by the end of 2021. It is noted that the R100 programme is in the procurement process at the moment, with the anticipated date for the contracts being Spring/Summer 2019. In response to a question on digital data being transferred by satellite and whether this could be a solution to reach outlying properties, it is reported that this is sometimes the only option for a connection but the Government is pushing for funding for full fibre into as many premises as possible in future. It is further reported that many sub-Saharan countries did not have a legacy of copper networks and were therefore using full-fibre networks already, while other countries had put massive public funding into fibre at an earlier stage.
- 5.4 Discussions were held on the format of the future meetings and it is noted that R100 would not be considered as the review is about DSSB, which should then feed in to the R100 programme. Members were advised to scan through the papers that would be circulated and to consider the expectations of DSSB and on what had actually been achieved. There is a short discussion on the Scottish Wide Area Network (SWAN). The Council had signed up to be part of the public services network in order to get communication networks into schools, contact centres and council premises.

#### **DECISION**

##### **NOTED:**

**(a) the presentation; and**

**(b) that a special meeting of Audit and Scrutiny Committee to consider the Broadband Review would be held on Monday 5 November at 1pm in Committee Room 2 with a presentation by Scottish Government Digital Scotland Superfast Broadband (DSSB) team; and a further meeting would be held on Wednesday 21 November at 10.30am in the Council Chamber, Council Headquarters.**

***The meeting concluded at 12:45***

**SCOTTISH BORDERS COUNCIL**

**ACTION SHEET MASTER COPY**

**AUDIT and SCRUTINY COMMITTEE 2018/19**

Notes:-

1. Paragraphs Marked with a \* require full Council approval before action can be taken
2. Items for which no actions are required are not included

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	DATE EMAILED to Responsible Officer or Outcome
<b>25 June 2018</b>				
National Performance Reports by Audit Scotland	<b>(b) AGREED the proposed schedule for presentation of the National Performance Reports by Audit Scotland.</b>	Finance	Chief Financial Officer	Complete - "2016/17 audit of Dundee City Council: Report of a significant fraud" March 2018 was presented to A&SC 24 September 2018.
Progress on Implementation of Internal Audit Recommendations	<b>(b) AGREED that appropriate officers would be asked to attend the next meeting of the Committee to address one outstanding recommendation relating to Fleet Management workforce plan and two outstanding recommendations relating to Roads Management and Flood Risk and Coastal Management.</b>	Assets & Infrastructure	Service Director Assets and Infrastructure	"2016/17 audit of The City of Edinburgh Council: Report on Edinburgh Schools" April 2018 <b>scheduled for presentation to A&amp;SC 14 January 2019.</b>  Complete - Chief Officer Roads provided update on progress to A&SC on 24 September 2018.  Further update to A&SC on 27 November 2018 within Progress on Implementation of Internal Audit Recommendations.

<b>23 August 2018</b>				
Welfare Benefits Service Changes Petition	<b>AGREED:</b> (a) that the service provision for welfare benefits claimants continue to be monitored on a regular basis, including seeking the views of clients on the service being provided; (b) that consultation, including with service users, be carried out prior to any future changes to service provision; (c) that communications be developed on how the service worked and could be accessed to try to address some of the misconceptions around claiming for benefits; (d) work with Border Care Service to agree on the criteria for key performance indicators; and (e) review the requests within the petition and provide a briefing note to the Audit and Scrutiny Committee and the petitioner on what could be put in place.	Customer & Communities	Service Director Customer & Communities	
Delivery of the IT Strategy and Plan within Scottish Borders	(b) <b>AGREED</b> that Members would check the private report on the ICT Review which had been considered by Council in March 2016 and send any questions to the Chief Financial Officer and Service Director Customer and Communities in advance of another meeting of Audit and Scrutiny to consider the delivery of the Council's IT Strategy and Plan.	n/a	Members	To be added to Scrutiny Work Programme
<b>3 September 2018</b>				
Call-In: Monitoring General Fund Revenue Budget 2018/19	# (b) <b>AGREED</b> to recommend to the Executive Committee: (i) that all Elected Members be encouraged to approach the Chief Executive or member of CMT to seek further explanation or clarification for any matter contained within a financial monitoring, or any other, committee report; (ii) that a further Members briefing session be held on financial planning, monitoring and terminology, to ensure Members had an understanding of the processes involved; (ii) to request the Chief Executive and Chief Financial Officer to investigate any changes which could be made in mechanisms used for virements.	Finance	Chief Financial Officer	Complete – Executive Committee 2 October 2018 approved the recommendations of the Audit and Scrutiny Committee
<b>24 September 2018</b>				
Scrutiny Work Programme 2018/19	<b>AGREED:</b> (i) the Scrutiny Work Programme 2018/19 as detailed in the Appendix to this Minute; and (ii) to recommend approval to Council of Scrutiny Work	Democratic Services	Clerk to the Council	Complete – Council 25 October 2018 approved the Scrutiny Work Programme 2018/19



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## **INTERNAL AUDIT WORK TO OCTOBER 2018**

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### **Report by Chief Officer Audit and Risk**

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## **AUDIT AND SCRUTINY COMMITTEE**

**27 November 2018**

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### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to provide members of the Audit and Scrutiny Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements.**
- 1.2 The work Internal Audit has carried out in the period from 28 July to 26 October 2018 to deliver the Internal Audit Annual Plan 2018/19 is detailed in this report. During this period a total of 4 Final Internal Audit Reports have been issued. There was 1 recommendation made relating to 1 of the reports which has been accepted by Management for implementation.
- 1.3 An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.
- 1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

### **2 RECOMMENDATIONS**

- 2.1 I recommend that the Audit and Scrutiny Committee:**
  - a) Notes the final assurance reports issued in the period from 28 July to 26 October 2018 associated with the delivery of the approved Internal Audit Annual Plan 2018/19;**
  - b) Notes the Internal Audit consultancy and other work undertaken in this period; and**
  - c) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

### 3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2018/19 was approved by the Audit and Scrutiny Committee on 19 March 2018. As previously stated, it should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities of the Council. Any amendments will be brought to this Committee for approval.
- 3.2 Internal Audit has carried out the following work in the period from 28 July to 26 October 2018, associated with the delivery of the approved Internal Audit Annual Plan 2018/19, to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.3 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

#### Internal Audit Reports

- 3.4 Internal Audit issued final assurance reports on the following subjects:
- Selkirk Conservation Area Regeneration Scheme (CARS)
  - EU Funded Programmes: LEADER and EMFF
  - Passenger Transport
  - ICT Security
- 3.5 An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

## Current Internal Audit Assurance Work in Progress

- 3.6 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2018/19 consists of the following:

Audit Area	Audit Stage
Workforce Planning	Drafting the report
Licensing	Testing Nearly Completed
Adult Social Care Self Directed Support	Testing Nearly Completed
Financial Planning	Testing Underway
Corporate Transformation Programme	Testing Underway
Winter Service	Testing Underway
Capital Investment	Audit Assignment issued

## Internal Audit Consultancy and Other Work

- 3.7 Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- 3.7.1 Offering advice on internal controls and governance to Managers on request through engagement in a number forums as the Council continues to transform its services.
- 3.7.2 Reviewing outstanding and overdue audit recommendations to ensure their implementation by Management. Liaising with the Corporate Risk Officer on an on-going basis to ensure that risk is considered in every audit and risk reviews take account of improvements arising from audit work.
- 3.7.3 Providing intelligence via data sharing requests from Police Scotland. Liaising with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit.

## Recommendations

- 3.8 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

**High:** Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.

**Medium:** Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.

**Low:** Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.

Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

3.9 The table below summarises the number of Internal Audit recommendations made during 2018/19:

	2018/19 Number of Recs
High	0
Medium	1
Low	0
<b>Sub-total reported this period</b>	<b>1</b>
Previously reported	2
<b>Total</b>	<b>3</b>
Recommendations agreed with action plan	3
Not agreed; risk accepted	0
<b>Total</b>	<b>3</b>

## 4 IMPLICATIONS

### 4.1 Financial

There are no costs attached to any of the recommendations in this report.

### 4.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Specifically as "a contribution to the Council's corporate management of risk".
- (b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2018/19, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (c) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

### 4.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

### 4.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

### 4.5 Carbon Management

No direct carbon emissions impacts arise as a result of this report.

### 4.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

### 5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

## 5 CONSULTATION

- 5.1 The Executive/Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 5.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 5.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

### Approved by

**Jill Stacey, Chief Officer Audit and Risk** Signature .....

### Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036
Sue Holmes	Principal Internal Auditor Tel 01835 825556

**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Audit and Scrutiny Committee 24 September 2018

**Note** – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit [intaudit@scotborders.gov.uk](mailto:intaudit@scotborders.gov.uk)

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Subject: Selkirk Conservation Area Regeneration (CARs) Scheme</p> <p>No: 154/019</p> <p>Date issued: 5 October 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to provide assurance to the external funder on programme compliance to confirm that the terms and conditions under which the grant offer was made have been properly applied.</p> <p>This is our second and final assurance report on the Selkirk CARs Project. In August 2016 we published our Interim Scheme Report covering the first three financial years. This report includes the final two financial years.</p> <p>The Selkirk Conservation Area Regeneration Scheme (CARs) Partnership Project between Historic Environment Scotland (HES) and Scottish Borders Council (SBC) has come to a close. Its purpose was to undertake heritage and conservation based regeneration activities within Selkirk town centre over a five year period from 2013 to 2018. This was achieved through the award of grants to property owners for external fabric building repairs and complementary initiatives relating to upgrading the public realm, education and training opportunities. The total project budget was £1.43m, funded by HES (£865k) and SBC (£565k).</p> <p>We found that the Selkirk CARs Scheme has been managed well and run substantially in accordance with the requirements of the contract. Improvements have been implemented arising from our Interim Scheme Report including where practice has varied from the specific terms of the contract HES has been consulted.</p> <p>The audit work we performed has allowed us to provide assurance of substantial compliance with the scheme rules and the HES contract. The assurance reports, in the formats required by the funder, have been issued to satisfy the requirement for an Accountant’s Report and Abstract Annual accounts for the final two financial years of the project.</p>	0	0	0	Management has confirmed factual accuracy and accepted the findings of the audit report.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Compliance</p> <p>Subject: EU Funded Programmes 2014-2020 LEADER and European Maritime &amp; Fisheries Fund (EMFF)</p> <p>Nos: 154/020 &amp; 154/021</p> <p>Date issued: 13 November 2018</p> <p>Level of Assurance: Substantial compliance with SLA (LEADER) and Framework Agreement (EMFF)</p>	<p>The purpose of the LEADER review was to assess compliance with the requirements of the Service Level Agreement (SLA) and relevant EC Regulations for the LEADER Programme 2014-2020. The SLA requires that Internal Audit annually assess compliance by SBC with the terms of the SLA, and report on it.</p> <p>The SLA is between Scottish Ministers (Managing Authority and Paying Agency) and Scottish Borders Council (acting as Accountable Body for the Local Action Group) as a delivery partner in the SRDP (Scottish Rural Development Programme) for 2014-2020, which runs until 31 December 2022.</p> <p>This is an area of high risk owing to the potential for disallowance (financial corrections) and significant fines levied by either the EU Auditors (as a result of their conformity audits) and / or Audit Scotland (in their capacity as certifiers of the EC accounts).</p> <p>Internal Audit tested two projects and four claims to evaluate compliance with the rules, regulations and guidance based on value of claims proportionate to total Project payments to date.</p> <p>Internal Audit considers that the LEADER Programme is being managed well and our assurance opinion is that SBC substantially complies with the terms of the SLA. Largely satisfactory risk, control, and governance systems are in place. This opinion, however, only extends to the extent to which SBC complies with the terms of the SLA. It does not provide any assurance on the extent to which this compliance protects the Managing Authority or SBC (as Accountable Body) from the risk of disallowance following key or ancillary control failure findings of EU conformity or certification of accounts audits.</p> <p>We made one recommendation for LEADER Programme:</p> <ul style="list-style-type: none"> <li>Management should extend the existing skilled staff resources to enable the LEADER team to meet its compliance obligations over the next 6 months and to the end of the Programme. (Medium)</li> </ul>	0	1	0	Management has confirmed factual accuracy and accepted the findings of the audit report, and are progressing with the implementation of the recommendation.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: EU Funded Programmes 2014-2020 LEADER and European Maritime &amp; Fisheries Fund (EMFF) (cont'd)</p>	<p>The European Maritime &amp; Fisheries Fund (EMFF) is being delivered locally by the FORTH FLAG (Fisheries Local Action Group), an autonomous body which includes Fife, Tyne and Esk, and Scottish Borders, with SBC as lead partner and Secretariat responsible for efficient administration of FLAG business.</p> <p>A Framework Agreement exists between Marine Scotland (responsible for national delivery of the EMFF) and the FLAG which sets out roles and responsibilities. Marine Scotland retains financial responsibility for final verification and approval of projects, issuing award of funding letters, and administration and payment of claims.</p> <p>A FLAG Partnership Agreement &amp; Operating Protocol (Group Protocol) defines further the roles and responsibilities and details the main functions of the FLAG, one of which is to ensure projects comply with the objectives of the 3 LDSs and Business Plans and all relevant EC and National regulations.</p> <p>Animation and Administration costs relating to both programmes (EMFF and LEADER) are met through the 'lead fund', European Agricultural Fund for Rural Development (EAFRD).</p> <p>Internal Audit considers that the EMFF Programme is being managed well and our assurance is that SBC substantially complies with the terms of the Framework Agreement. This is on the basis that we have received confirmation from Marine Scotland that they are the responsible party for monitoring of Project progress against key conditions and milestones and have responsibility for ensuring compliance with claims rules.</p> <p>We made no recommendations for EMFF Programme.</p>				



Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Passenger Transport - Provision of Escorts</p> <p>No: 211/008</p> <p>Date issued: 12 November 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to consider options for the delivery of the provision of escorts which achieves value for money, and meets the Council's obligations and policies.</p> <p>The Council currently employs c100 escorts to accompany children and young people on journeys from and to their homes and places of education and support. They are employed within the Passenger Transport Service and costs are recharged to client user services. Assessments of need are undertaken within the Children and Young People's Service against a Council policy which is subject to periodic review.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>Processes for commissioning of journeys for Special and Additional Needs (SAN) clients are effective, and ensure appropriate authorisation, agreement of costs, consideration of special requirements and efficient combination within existing journeys for new requests.</li> <li>There are effective and appropriate processes for the initial assessment, and periodic review, of the needs of service users, and the agreement to provide an escort.</li> </ul> <p>The Revenue Budget Monitoring (Executive Committee 21 August 2018) stated £170k savings had been made against the ASN Transport target of £200k, with the remainder expected to be achieved. It appears that the introduction of increased scrutiny of individual commissioning decisions has identified savings opportunities by reducing the use of single occupancy taxis.</p> <p>Escorts receive general training, including administration of first aid and child protection, though there may be merit in providing the opportunity for the escorts in particular cases to familiarise themselves with the individual circumstances and needs.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial assurance. Largely satisfactory risk, control, and governance systems are in place.</p>	0	0	0	<p>Management has confirmed factual accuracy, and accepted and support the findings of the Internal Audit report.</p> <p>Management intends to undertake a review of options for the deployment and management of escorts within the Council with assistance from Internal Audit.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: ICT Governance</p> <p>Subject: ICT Security</p> <p>No: 230/006</p> <p>Date issued: 19 November 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess the adequacy of the ICT security arrangements including: physical and environmental controls; disaster recovery; third party access; operational controls (change / incident / problem management) and business applications, to ensure they are designed appropriately and that all parties are adhering and complying with them, and to assess readiness to achieve compliance with the requirements of the Public Services Network (PSN).</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• Appropriate arrangements are in place to manage the physical security of the IT asset. There are controls in place to scrutinise these arrangements and to consider remedial action when breaches and exceptions are reported.</li> <li>• An interim Disaster Recovery Plan has been developed, and is framed to reflect the current deployment of servers and prioritisation of systems recovery. The Disaster Recovery Plan will be revised to reflect the intended migration to CGI-hosted data centres.</li> <li>• Responsibilities and controls for management of third party access to systems are defined in the Security Management Plan. Exceptions are reported and managed through the monthly reports by CGI, which are shared with the Council's Corporate Management Team.</li> <li>• Responsibilities and processes for Change Control are set out in the agreement between SBC and CGI. Processes in place require assessment of the impact of changes on the security profile of the Council network.</li> </ul> <p>Internal Audit considers that the level of assurance we are able to give is substantial; largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement i.e. completion of the review of the Security Management Plan, and incorporation of lessons learned into management of PSN submissions in future years.</p>	0	0	0	<p>Management has confirmed factual accuracy, and accepted the findings of the Internal Audit report.</p> <p>Management actions are underway to implement the identified improvements and to mitigate the risks.</p>

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## **PROGRESS WITH IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS**

**Report by Chief Officer Audit & Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**27 November 2018**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **The purpose of the report is to provide an update to Members of the Audit and Scrutiny Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during 2018/19 and previous years.**
- 1.2 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 1.4 The Remit of the Audit and Scrutiny Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council.

#### **2 RECOMMENDATIONS**

- 2.1 **I recommend that the Audit and Scrutiny Committee:-**
  - (a) **Acknowledges the progress made by Management in implementing Internal Audit recommendations;**
  - (b) **Considers whether it is satisfied with the progress or whether any further action is required; and**
  - (c) **Agrees to the proposed extensions to due dates by Management for those actions that are currently Overdue.**

### 3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. At Internal Audit Final Report stage the Audit Recommendations are input to Pentana (previously Covalent), the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks and evidence improvement.
- 3.4 The Remit of the Audit and Scrutiny Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council. A summary of the status of recommendations was presented within the Internal Audit Annual Assurance Report 2017/18 presented to the Audit and Scrutiny Committee on 14 May 2018. Furthermore, an update report on Progress With Implementation Of Internal Audit Recommendations was presented to the Audit and Scrutiny Committee on 26 June 2018.
- 3.5 Internal Audit continues to perform its standard quarterly follow-up activity to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk. Internal Audit works with Management to address any actions that become overdue, and bring any matters to the attention of the Audit and Scrutiny Committee.

### 4 PROGRESS UPDATE

- 4.1 The following table highlights the current status (as at 12 November 2018) of Internal Audit recommendations from current and previous years:

<b>Year identified</b>	<b>Total</b>	<b>Implemented</b>	<b>Not Yet Due</b>	<b>Overdue on or before 31/10/18</b>
2018/19 (to Sept)	2	0	2	0
2017/18	42	18	13	11
2016/17	10	9	0	1
2015/16	21	21	0	0
2014/15	34	30	1	3

- 4.2 Further details on those Internal Audit recommendations that are Overdue on or before 31 October 2018 are shown in Appendix 1.
- 4.3 Following discussion with External Auditors, Audit Scotland, further details on the 18 Internal Audit recommendations issued in 2017/18 relating to the Business World ERP System key controls are shown in Appendix 2.

- 4.4 There are occasions when recommendations have been superseded and therefore no longer relevant when alternative solutions are required to manage the identified risks, or when it is necessary to grant extra time to complete recommendations, as reflected in the Appendices. In respect of the former, cross references have been made to the superseded / alternative actions. In respect of the latter, Lead Managers have proposed extensions to due date for those Internal Audit recommendations that are currently Overdue, for approval.

## **5 IMPLICATIONS**

### **5.1 Financial**

It is anticipated that efficiencies will arise either as a direct or indirect result of Management implementing the recommendations made by Internal Audit through improved internal controls and governance arrangements.

### **5.2 Risk and Mitigations**

- (a) Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, highlights good practice and makes recommendations.
- (b) It is anticipated that improved risk management or mitigation will arise as a direct result of Management implementing the Internal Audit recommendations which will evidence improvements in internal controls and governance arrangements. If the Internal Audit recommendations are not implemented then risks may be more likely to occur or have a greater impact if they do.

### **5.3 Equalities**

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

### **5.4 Acting Sustainably**

There are no direct economic, social or environmental issues in this report.

### **5.5 Carbon Management**

There are no direct carbon emissions impacts as a result of this report.

### **5.6 Rural Proofing**

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

### **5.7 Changes to Scheme of Administration or Scheme of Delegation**

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

## **6 CONSULTATION**

- 6.1 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 6.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

**Approved by**

**Jill Stacey**  
**Chief Officer Audit & Risk**

**Signature .....**

**Author(s)**

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036
Sue Holmes	Principal Internal Auditor Tel 01835 825556

**Background Papers:** Appropriate Internal Audit files, and Pentana system

**Previous Minute Reference:** Audit and Scrutiny Committee 14 May 2018 and 26 June 2018

**Note –** You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit [intaudit@scotborders.gov.uk](mailto:intaudit@scotborders.gov.uk)

APPENDIX 1


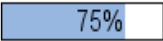


SBC Internal Audit recommendations that are Overdue either on or before 31 October 2018, excluding Business World ERP Actions



Code	Title	Priority	Status	Progress 12.11.18	Original Due Date	Due Date	Managed By	Assigned To	Update 12.11.18
<b>203/007 Roads Management (Final Report Issued 16 September 2014)</b>									
AUDIT.001	(2014 IA 203-007 Rec 1) The Council's Road Asset Management Plan should be completed to include footways, structures and traffic signals. In addition the Road Data Management Plan recommended in the SCOTS Road Asset Management Planning Ramp#2 Recommended Practices should be developed and approved.	3	Overdue	65%	31/03/15	30/09/18	Chief Officer Roads	Network Manager	The RAMP is being configured to align with the recommended practices and this is being actioned as part of the implementation of the Confirm digital asset management system. Action by July 2019 (timing linked to Confirm implementation) Due date extension requested to 31 July 2019.
AUDIT.002	(2014 IA 203-007 Rec 2) Road Maintenance Manual should be developed to enable consistency in approach, methods and records. All relevant staff should have access to the manual and training in its application provided as necessary.	2	Overdue	70%	31/03/15	31/10/18	Chief Officer Roads	Network Manager	This work is important but will be finalised before the new financial year and the implementation of the new maintenance approach from the Roads Review. Due date extension requested to 31 March 2019.
AUDIT.003	(2014 IA 203-007 Rec 4) Management should receive regular performance information in respect of road safety inspection and related repairs to enable policy compliance monitoring.	2	Overdue	75%	31/03/15	30/09/18	Chief Officer Roads	Network Manager	To be implemented fully through adoption of the Confirm system, which allows information to be produced. Due date extension requested to 31 July 2019.
<b>238/001 ICT Change Programme (Final Report Issued 16 September 2016)</b>									
AUDIT.014	2016 IA 238-001 Rec 4.2) SBC IT review the contract and its relationship with CGI and devise a Compliance Plan within the Contract Management Framework in which they identify exactly what contract monitoring and management will be done against each element within the schedules to enable them to provide their management assurance and evidence that it is comprehensive.	3	Overdue	75%	30/06/17	30/09/18	Chief Financial Officer	Interim Head of IT	Executive level quarterly monitoring across the CGI contract is in place and working well. Monthly service monitoring is in place and driving continual service improvement process. Contract change delivery is being monitored by the Client Management Team. Remaining activity to complete the full and formalised contract compliance monitoring framework for the CGI contract will be in place by the end of November 2018. Due date extension requested to 30 November 2018.













Code	Title	Priority	Status	Progress 12.11.18	Original Due Date	Due Date	Managed By	Assigned To	Update 12.11.18
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**010/014 Corporate Transformation Programme (Final Report Issued 20 June 2017)**

<b>AUDIT.022</b>	(2017 IA 010-014 Rec 5.1) Corporate Transformation Monitoring Reports (including the Annual Report) should include cumulative investment and savings, covering several years, for individual programmes and projects, to enable benefits realisation monitoring and to provide return on investment (ROI) information.	3	 Overdue		31/12/17	30/09/18	 Chief Officer HR	 Programme Managers	New monitoring and project management arrangements are being developed which aim to reflect more fully the interconnected nature of much of the transformational activity. It has been recognised that the Transformation Programme is part of a broader spectrum of change and improvement activity across the organisation which contributes to the achievement of Council priorities and the delivery of the 5-year Financial Plan. This activity includes formal programmes and projects and less formal initiatives (corporate and service-specific) all aimed at achieving service improvements and savings. In terms of ROI, this means that there are often multiple pieces of formal and informal work (investments) that contribute to the achievement of the same saving. A recent example is the Trial Pool Car Fleet project which invested in a trial fleet of 15 pool cars and showed a reduction in business mileage of around a quarter at HQ and provided one solution – along with the introduction of a new travel policy, the use of the Borders Railway and promotion of online meetings – to achieve a reduction already factored into the business travel budget allocations. ROI case studies will be included in these quarterly performance reports from February 2019. Due date extension requested to 28 February 2019.
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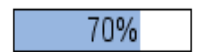


## 165/001 C&YP School Excursions (Final Report Issued 6 September 2017)

<b>AUDIT.032</b>	(2017 IA 165-001 Rec 5.1) Material Policy updates and relevant appendices should be approved, utilising the delegated powers of the Service Director Children & Young People 'Authorise and approve educational excursions', and appended to the procedures to enable easy access by Schools.	3	 Overdue	<input type="text" value="33%"/>	30/06/18	30/09/18	 Chief Officer Education	 Senior Lead Officer, E&LL	Nov/Dec – 2018 Further strategic discussions need to take place as to whether Scottish Borders makes changes to existing excursions policy or moves to 'Going Out There' national policy – this is preferred option. This change would ensure the policy was kept up to date regularly and automatically changed when required. This would tie in with other local authorities and Evolve system. April – June 2019 Training programme around clusters. Due date extension requested to 1 August 2019 for full implementation across schools.
<b>AUDIT.033</b>	(2017 IA 165-001 Rec 5.2) The importance of compliance with policy and procedures should be reaffirmed including those on authorisations, post excursion reporting, accident reporting, monitoring of compliance with the excursions procedures and processes, and assurance reporting to Management.	3	 Overdue	<input type="text" value="0%"/>	30/06/18	30/09/18	 Chief Officer Education	 Senior Lead Officer, E&LL	Dec 2018 – LNCT discussion around implementation of new system / training times and policy renewal. Also allows time to be agreed within Working time agreement for continued implementation.  April – June 2019 and Due date extension request as above.
<b>AUDIT.034</b>	(2017 IA 165-001 Rec 5.3) Clear guidance on the Disclosure requirements for non-supervisory, non-staff adults accompanying an excursion should be clarified with the support of HR and Legal services.	2	 Overdue	<input type="text" value="0%"/>	30/06/18	30/09/18	 Chief Officer Education	 Senior Lead Officer, E&LL	Discussions with Health and Safety and Legal services around risk assessments to ensure consistent approach with the new Lexi system. With the introduction of Evolve, the EV2 forms and recording of volunteers attending trips etc will need to be undertaken differently, so it would fit with the bigger picture. April – June 2019 and Due date extension request as above.
<b>AUDIT.035</b>	(2017 IA 165-001 Rec 5.4) Consideration should be given to the use of 'Evolve' software to facilitate better standardisation and centralisation of processes and provide valuable Management Information to support monitoring and assurance reporting. A cost benefit analysis should be undertaken.	3	 Overdue	<input type="text" value="0%"/>	30/06/18	30/09/18	 Chief Officer Education	 Senior Lead Officer, E&LL	Budget agreed for purchase of Evolve, discussions with procurement are required. Privacy statement to be agreed. Discussions have taken place with all schools and East Lothian and Midlothian who already have this system in place. Jan-Mar 2019 Further discussion with HTs re buy into the Evolve Plus. Scottish Borders then needs to get system set up with support from Midlothian, with the necessary procedures/arrangements in place. April – June 2019 and Due date extension request as above.

## **151/001 Industrial and Business Premises (Final Report Issued 5 January 2018)**

<b>AUDIT.041</b>	(2017 IA 151-001 Rec 5.1) When the Economic Strategy is refreshed: clearer linkages between the development of the industrial and business property estate and the requirements of the Economic Strategy should be established; the approach to increasing the supply of immediately available land and business premises should be set out; and the importance of and approach to securing external funding should be articulated.	3	 Overdue		29/06/18	31/10/18	 Executive Director	 Chief Officer Economic Development	Work has been undertaken on refreshing the Scottish Borders Economic Strategy 2023. The Economic Strategy is a Community Planning Partnership strategy and progress on the refresh was discussed at the recent Economy & Low Carbon Theme Group meeting. The CPP Group agreed that delivering a full revision of the Scottish Borders Economic Strategy is no longer appropriate because of the extensive work being undertaken in developing the new South of Scotland Enterprise Agency; the significant uncertainties around the economic impact of Brexit; and the potential benefits that a Borderlands Inclusive Growth Deal could bring. In order to provide the appropriate strategic framework, officers will focus on refreshing the Economic Strategy's Action Plan in the coming months. This will provide an updated range of programmes and projects that reflect the ambitions and priorities for economic development in the Scottish Borders. A draft version of the revised Action Plan will be presented to the Executive Committee at its meeting on 31 January 2019. Due date extension requested to 31 January 2019.
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## **076/005 Petty Cash Review and Emergency Funding (Final Report Issued 12 March 2018)**

<b>AUDIT.045</b>	(2017 IA 076-005 Rec 5.1) The Finance Business Continuity Plan should be updated to fully reflect emergency financial support in the event of a major external incident.	3	 Overdue		31/07/18	31/07/18	 Chief Financial Officer	 Financial Services Manager	The arrangements for business continuity remain fit for purpose following changes to Council systems and personnel. The Council has an extended network of imprest accounts which allow access to cash and credit cards, facilities are available via corporate Directors in the event cash needs to be accessed as short notice. The business continuity plan is being updated; however other work priorities have prevented its finalisation. Due date extension requested to 31 December 2018.
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**APPENDIX 2**

**Progress Update on Internal Audit recommendations issued in 2017/18 relating to the Business World ERP System**



Code	Title	Priority	Status	Progress 12.11.18	Original Due Date	Due Date	Managed By	Assigned To	Update 12.11.18
<b>073/001 Business World ERP System Key Internal Controls (Final Report Issued 4 May 2018)</b>									
<b>AUDIT.049</b>	2017 IA 073-001 Rec 5.1a) Processes for recording workflow should be amended such that subsequent changes to records do not overwrite workflow recorded arising from earlier changes to the same Masterfile record	2	✔ Completed	100%	31/10/18	31/10/18	👤 Chief Financial Officer	👤 Procurement and Payment Services Manager	This recommendation is outwith the control of P2P workstream and is linked to Audit.065 as it forms part of the Audit Trails ongoing work.  It has been agreed to close this recommendation.
<b>AUDIT.050</b>	(2017 IA 073-001 Rec 5.1b) The processes in place in respect of GL07 payments require urgent reconsideration such that they are sufficient to enforce the Councils' "No order, no payment" policy and financial authorisation limits in accordance with the Scheme of Delegation.	2	✔ Completed	100%	31/10/18	31/10/18	👤 Chief Financial Officer	👤 Procurement and Payment Services Manager	A substantial report has been prepared on the GL07 process, which includes the scope, rationale, scale of transactions and options for going forward. Through data analysis opportunities have been identified to do things differently for payments made to individuals for EMA, SDS, Clothing and Footwear Grants, etc, where the GL07 process is not appropriate, as it is resource intensive and may be open to error. Also invoice payments due to lack of interfaces between systems mean that changes need to be made. Recommendations have been made in this report and work has already commenced on how to take this forward by way of an action plan. Planning for this can be done but delivery/implementation cannot commence until the upgrade to Milestone 7.2 is complete. Internal Audit will continue to monitor this action plan and changes to payment methods, eg, pre-paid cards, through its BW assurance work.

Code	Title	Priority	Status	Progress 12.11.18	Original Due Date	Due Date	Managed By	Assigned To	Update 12.11.18
<b>AUDIT.051</b>	(2017 IA 073-001 Rec 5.1a) Except in special circumstances invoices should be processed through the workflow process.	2	✔ Completed	<div style="width: 100%;"><div style="background-color: #4f81bd; height: 100%;"></div></div> 100%	31/10/18	31/10/18	👤 Chief Financial Officer	👤 Procurement and Payment Services Manager	This is linked to Audit.050 above.
<b>AUDIT.052</b>	(2017) IA 073-001 Rec 5.1b Officers should be reminded of the importance of promptly receipting goods and services received.	3	✔ Completed	<div style="width: 100%;"><div style="background-color: #4f81bd; height: 100%;"></div></div> 100%	31/03/19	31/03/19	👤 Chief Financial Officer	👤 Procurement and Payment Services Manager	The general requirement for goods receipting was covered in new guidance. There has been an improvement in this area, and it is now monitored regularly through Missing Goods Receipting Notes reporting from BW ERP system.
<b>AUDIT.053</b>	(2017) IA 073-001 rec 5.1c Officers should be reminded that orders should be raised for goods and services via official Business World orders and not retrospectively in order to facilitate supplier payment.	3	✔ Completed	<div style="width: 100%;"><div style="background-color: #4f81bd; height: 100%;"></div></div> 100%	31/03/19	31/03/19	👤 Chief Financial Officer	👤 Procurement and Payment Services Manager	A 2-phased communications regarding retrospective ordering was developed which states that with some exceptions this is not an option. A template has been developed by the Procurement Team where general product codes are reviewed regularly and if it is found that these are confirmation orders (retrospective) then an email is sent to the requisitioner reminding them of the process to be followed. This is tracked and monitored on a spreadsheet.
Page 28									
<b>AUDIT.054</b>	(2017) IA 073-001 rec 5.1a Managers should ensure that invoices are raised in a more timely manner to ensure that the Council receives its income for goods and services that have been provided	3	▶ In Progress	<div style="width: 50%;"><div style="background-color: #4f81bd; height: 100%;"></div></div> 50%	31/03/19	31/03/19	👤 Financial Services Manager	👤 Credit Control Team Leader	Communications have already been issued, and there has been some improvement. Further communications will be produced to follow up on this. However, it should be noted that it is sometimes unavoidable that delays to invoicing occur, e.g. the time required to complete works to establish final charges.
<b>AUDIT.055</b>	(2017) IA 073-001 rec 5.1b Where a credit note does not detail sufficient information, then the officer authorising the credit note should request this information prior to authorisation in order to confirm that the credit note is appropriate and accurate	3	▶ In Progress	<div style="width: 75%;"><div style="background-color: #4f81bd; height: 100%;"></div></div> 75%	31/03/19	31/03/19	👤 Financial Services Manager	👤 Credit Control Team Leader	Communications to business areas have been issued and there have been some definite improvements in this area. This will be progressed with further reminders.

Code	Title	Priority	Status	Progress 12.11.18	Original Due Date	Due Date	Managed By	Assigned To	Update 12.11.18
<b>AUDIT.056</b>	(2017) IA 073-001 rec 5.1a A compliance exercise should be run to validate the existence of employees and confirm they are actively employed.	3	✔ Completed	<input type="text" value="100%"/>	31/03/19	31/03/19	👤 HR Shared Services Manager	👤 HRSS Business Partner	Forecasting reports are now issued on a monthly basis via Finance Teams to Business areas which includes information regarding employee status. To issue another report essentially providing the same information is deemed excessive.
<b>AUDIT.057</b>	(2017) IA 073-001 rec 5.1a Journals which are not presently processed through workflow should be subjected to system enforced separation of duties and authorisation controls. Ideally this would be achieved by resolving issues with the workflow that presently prevent this from happening.	3	✔ Completed	<input type="text" value="100%"/>	31/03/19	31/03/19	👤 Financial Services Manager	👤 Financial Services Manager	Currently any journals with over 300 lines will post automatically into BW ERP system with an email alert being generated daily to the members of the approval group to advise the journal has been posted. If the approver is not happy with any of the transactions that have automatically posted, instruction should be given to have the batch reversed.
<b>AUDIT.058</b> Page 29	(2017) IA 073-001 rec 5.1b Problems with the Planner module which prevent virements to the capital budget being processed within Business World should be resolved. Virements to the capital budget which have been manually recognised should be input into Business World.	3	✔ Completed	<input type="text" value="100%"/>	31/03/19	31/03/19	👤 Financial Services Manager	👤 Financial Services Manager	This issue has been resolved. 2017/18 virements will now be recognised in BW ERP system with the process fully operational for 2018/19.
<b>AUDIT.059</b>	(2017) IA 073-001 5.1c Problems preventing the correct operation of the bank reconciliation module in Business World should be resolved to permit automation of the Bank Reconciliation process.	2	🔴 Overdue	<input type="text" value="0%"/>	31/10/18	31/10/18	👤 Financial Services Manager	👤 Financial Services Manager	Still operating a manual reconciliation process and these are up to date. Once the move from ICON to Business World is complete (DCA reliant) then this will be progressed. This cannot be progressed any further at this time. No date of when this will change. Due date extension required to 31 March 2019.
<b>AUDIT.060</b>	(2017) IA 073-001 rec 5.1a Reconciliations of uploads from feeder systems should be independently and periodically reviewed by Management.	2	🔴 Overdue	<input type="text" value="0%"/>	31/10/18	31/10/18	👤 Financial Services Manager	👤 Financial Services Manager	This is ready to be implemented subject to resource availability.
<b>AUDIT.061</b>	(2017) IA 073-001 rec 5.1b All journals should be supported by appropriate documentation.	3	✔ Completed	<input type="text" value="100%"/>	31/03/19	31/03/19	👤 Financial Services Manager	👤 Financial Services Manager	Emails requesting back up documentation are sent as reminders if necessary.

Code	Title	Priority	Status	Progress 12.11.18	Original Due Date	Due Date	Managed By	Assigned To	Update 12.11.18
AUDIT.062	(2017) IA 073-001 rec 5.1c Periodic agreement should be undertaken between control account balances in the trial balance and total account balances according to the aged creditors and aged debtors reports.	2	✔ Completed	<div style="width: 100%;"><div style="width: 100%; background-color: #4f81bd; color: white;">100%</div></div>	31/10/18	31/10/18	Financial Services Manager	Financial Services Manager	As part of month end procedures for closing and opening periods the Systems Team carry out process checks to ensure that the AP and AR control accounts balance to the AP and AR ledgers / trial balance.
AUDIT.063	(2017) IA 073-001 rec 5.1d Balances on suspense accounts should be regularly reviewed, promptly cleared and independently monitored.	3	▶ In Progress	<div style="width: 50%;"><div style="width: 50%; background-color: #4f81bd; color: white;">50%</div></div>	31/03/19	31/03/19	Financial Services Manager	Financial Services Manager	As part of month end procedures for closing and opening periods the Systems Team run a BW Error Transaction report. Process to be defined to investigate and identify the cause to avoid recurrence.
AUDIT.064	(2017) IA 073-001 rec 5.1e Now that Bank Reconciliations have been brought up to date they should be produced timeously and subject to independent review by a Senior Officer.	3	✔ Completed	<div style="width: 100%;"><div style="width: 100%; background-color: #4f81bd; color: white;">100%</div></div>	31/03/19	31/03/19	Financial Services Manager	Financial Services Manager	This has been carried out monthly since April 2018 and are up to date.
AUDIT.065	(2017) IA 073-001 rec 7.1a <u>Audit Trails</u> A review of the available (or other) audit logs should be carried out to ensure that: . all transactions within Business World are listed on these logs; . configuration and formatting are easily understandable and the audit logs are straightforward to review; . they are readily available for regular review by Managers so that any unintended, inaccurate or fraudulent changes might be detected; - evidence of regular reviews are maintained.	2	● Overdue	<div style="width: 25%;"><div style="width: 25%; background-color: #4f81bd; color: white;">25%</div></div>	31/10/18	31/10/18	Chief Financial Officer	HR Shared Services Manager	Resource Audit log is in place which shows any changes made to an employee's data. This is run daily and reviewed independently within HRSS Team. Further discussion is required to establish the impact of turning on specific audit trails due to the size of the generated logs and the detrimental impact this may have on processing systems. This is linked to Audit.049 above. Due date extension requested to 31 December 2018.
AUDIT.066	(2017) IA 073-001 rec 8.1a <u>Systems Documentation</u> Comprehensive systems documentation and training materials for all modules should be produced which sets out: . how the system module operates; and . the associated processes and operational procedures. Relevant sections should be provided to staff which is appropriate to their needs. <u>Training</u> Training materials should be updated and periodically reviewed.	2	● Overdue	<div style="width: 0%;"><div style="width: 0%; background-color: #4f81bd; color: white;">0%</div></div>	31/10/18	31/10/18	Chief Financial Officer	HR Shared Services Manager	Due to the impending upgrade to Milestone 7.2 in January 2019, systems documentation will be reviewed as part of the upgrade process and training materials revisited and updated. A pilot exercise for sickness / timesheets / annual leave is due to commence mid-November with HR to test these processes. Annual leave testing to be finalised asap (mid-December) with a view to roll out for 2019 annual leave year. Due date extension requested to 31 March 2019.

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## **INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2018/19**

**Report by Chief Officer Audit & Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**27 November 2018**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to inform the Audit and Scrutiny Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2018, towards completing the Internal Audit Annual Plan 2018/19. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.**
- 1.2 The Objectives of Internal Audit are set out in its Charter: “As part of Scottish Borders Council’s system of corporate governance, Internal Audit’s purpose is to support the Council in its activities designed to achieve its declared objectives.” Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.
- 1.3 The Internal Audit Annual Plan 2018/19 that was approved by the Audit and Scrutiny Committee on 19 March 2018 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer, as the Council’s Chief Audit Executive (CAE), to provide the annual Internal Audit opinion regarding the adequacy and effectiveness of internal control within the Council. Internal Audit assurance services and annual opinions are also provided to the Board of SB Cares, the Scottish Borders Pension Fund Board and Committee, and the Scottish Borders Health and Social Care Integration Joint Board to meet their obligations.
- 1.4 The Appendix 1 to this report provides details of the half-yearly progress by Internal Audit with the delivery of its programme of work. Internal Audit has made good progress in the first half of the year, despite extraordinary staff sickness absence during that period, and is currently on target to complete its Annual Plan 2018/19 subject to full staff attendance in the second half of the year.
- 1.5 The report also summarises the statutory obligations for Internal Audit and the requirements of the Public Sector Internal Audit Standards (PSIAS) with which the SBC Internal Audit function conforms.

#### **2 RECOMMENDATION**

- 2.1 I recommend that the Audit and Scrutiny Committee approves the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2018/19, and confirms that it is satisfied with the Performance of the Internal Audit service.**

### 3 BACKGROUND

- 3.1 The Objectives of Internal Audit are set out in its Charter: "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- As a contribution to the Council's corporate management of risk.
  - As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
  - In support of the Council's vision, values and priorities.
  - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
  - As a contribution towards ensuring that financial statements and other published information are accurate and reliable."
- 3.2 Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.
- 3.3 The Internal Audit Annual Plan 2018/19 that was approved by the Audit and Scrutiny Committee on 19 March 2018 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer, as the Council's Chief Audit Executive (CAE), to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 3.4 Internal Audit assurance services are also provided during the year to the Council's adult social care ALEO (SB Cares), the Scottish Borders Pension Fund, and the Scottish Borders Health and Social Care Integration Joint Board, and annual opinions are provided to their respective Management and Board/Committee to meet their obligations.

### 4 HALF YEAR RESULTS AGAINST INTERNAL AUDIT PLAN 2018/19

- 4.1 The Internal Audit programme of work takes account of the availability of auditor resources and consultation with Management to reflect the timing of some of Council's strategic development programmes. The following table summarises the Internal Audit activity for the 6 months to 30 September 2018:

	Plan days Apr-Sep 2018/19	Actual days Apr-Sep 2018/19	Plan Report Nos. Apr-Sep 2018/19	Actual Report Nos. Apr-Sep 2018/19
<b>Corporate Governance</b>	95	97	2	2
<b>Financial Governance</b>	60	39	0	0
<b>IT Governance</b>	40	31	1	0
<b>Internal Controls</b>	25	26	2	0
<b>Asset Management</b>	27	28	1	0
<b>Legislative and other Compliance</b>	40	30	3	1
<b>Consultancy and Advice</b>	48	42		
<b>Other</b>	35	34		
<b>Non Council</b>	62	63		
<b>Total</b>	<b>432</b>	<b>390</b>	<b>9</b>	<b>3</b>



- 4.2 The Actual Days and Report Numbers reflect the reduced output arising from extraordinary staff sickness absence during the first half of the year. The work Internal Audit has carried out in the first half of the year equates to Productive Days Achieved as a percentage of Productive Days as per the Audit Plan of 90% (CIPFA Directors of Finance PI for Internal Audit services) and 34% completion of planned audit reports.
- 4.3 The most significant variations of Actual below Plan are as follows:
- Financial Governance: testing on Payroll, Sales to Cash, and Procure to Pay processes and key controls within Business World ERP system reflects progress with rectification plan; reports scheduled 4<sup>th</sup> Quarter.
  - IT Governance: ICT Security work delayed slightly due to staff sickness absence – Report scheduled 3<sup>rd</sup> Quarter.
  - Internal Controls: Licensing work and Adult Social Care Services (Self Directed Support) work delayed slightly due to staff sickness absence and knock-on effect – 2 Reports scheduled 3<sup>rd</sup> Quarter, slightly offset by Schools pre-planning and research which has been accelerated to ensure productivity levels are retained to use resources effectively.
  - Asset Management: Passenger Transport work delayed slightly due to staff sickness absence – Report scheduled 3<sup>rd</sup> Quarter.
  - Legislative and Other Compliance: LEADER and European Maritime Fisheries Fund (EMFF) work delayed slightly due to knock-on effect of staff sickness absence – 2 Reports scheduled 3<sup>rd</sup> Quarter.
- 4.4 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with the delivery of its programme of work to deliver the approved Internal Audit Annual Plan 2018/19 (those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, those scheduled for the second half of the year are not shaded, and those audit reports that have not been delivered as planned are marked \*).
- 4.6 The continuous audit approach enables Internal Auditors to provide added value advice on internal controls and governance and 'critical friend' consultancy services as the Council continues to transform its service delivery, for example, the Digital Transformation Programme, ICT Contract with CGI, Business World ERP Project, and Information Governance Group with Assurance Reports scheduled for the end of the year. The continuous audit approach is applied to non-SBC Internal Audit work for the Scottish Borders Council Pension Fund, the Scottish Borders Health and Social Care Integration Joint Board, and SB Cares.

## **5 COMPLETING THE PLAN FOR 2018/19**

- 5.1 The Internal Audit staff resources taking account of the shared Internal Audit services arrangement with Midlothian Council comprises the Chief Officer Audit & Risk (50%), one Principal Internal Auditor, two Senior Internal Auditors, and two Internal Auditors. Internal Audit team members will continue to work in a collaborative way with the Corporate Risk Officer and the Corporate Fraud and Compliance Officer within the Audit and Risk service to provide assurance and compliance services.
- 5.2 The Internal Audit programme of work for the six months from October 2018 to March 2019 to complete the delayed work and incorporate the remaining planned audit work, based on staffing levels within this period, presently indicates the Internal Audit Annual Plan 2018/19 can be delivered in full. There is no change proposed to the audit plan that would require approval by the Audit and Scrutiny Committee.

- 5.3 The following table summarises the Internal Audit planned work in the second half of the year to 31 March 2019:

	Plan days Oct-Mar 2018/19	Plan Report Nos. Oct-Mar 2018/19
<b>Corporate Governance</b>	70	4
<b>Financial Governance</b>	115	7
<b>IT Governance</b>	25	1+1
<b>Internal Controls</b>	80	3+2
<b>Asset Management</b>	48	3+1
<b>Legislative and other Compliance</b>	0	0+2
<b>Consultancy and Advice</b>	22	
<b>Other</b>	40	
<b>Non Council</b>	23	3
<b>Total</b>	<b>423</b>	<b>21+6</b>

- 5.4 The Internal Audit work completed and work in progress will continue to be reported to the Corporate Management Team and to the Audit and Scrutiny Committee. This report will include an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management.
- 5.5 Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will continue to be communicated to the Corporate Management Team and the Audit and Scrutiny Committee within the Internal Audit Annual Assurance Report which will also provide an opinion on the levels of assurance based on audit findings over the year.

## **6 THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014**

- 6.1 The Local Authority Accounts (Scotland) Regulations 2014 which came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector (PSIAS)*. The standards require internal audit to have suitable operational independence from the authority.
- 6.2 The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices i.e. PSIAS.

## **7 PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) AND QUALITY ASSURANCE & IMPROVEMENT PLAN (QAIP)**

- 7.1 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
- Definition of Internal Auditing;
  - Code of Ethics;
  - Attribute Standards (responsibility, independence, proficiency, quality);
  - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).

- 7.2 The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.
- 7.3 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. This EQA was carried out by Renfrewshire Council in October 2015 and the results reported to the Audit and Risk Committee in November 2015. The schedule for the second cycle of EQAs, with other participating Scottish Councils as peer reviewers, is being prepared and the CAE has indicated that Scottish Borders Council will take part.
- 7.4 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2018/19. The results and any associated improvement actions will continue to be reported to Corporate Management and the Audit and Scrutiny Committee within the Internal Audit Annual Assurance Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

## **8 IMPLICATIONS**

### **8.1 Financial**

- (a) There are staff resources available to achieve the Internal Audit Annual Plan 2018/19 and to meet the key objective of delivering an effective Internal Audit function to provide independent and objective assurance on internal controls and governance, and to highlight good practice and recommend improvements.
- (b) Budget monitoring of the Audit and Risk service (Internal Audit, Risk Management and Counter Fraud) is discussed by the Chief Officer Audit & Risk on a quarterly basis with Finance staff to address any budgetary pressures and to manage service delivery within budget.

### **8.2 Risk and Mitigations**

- (a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Specifically as "a contribution to the Council's corporate management of risk".
- (b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2018/19, to capture potential areas of risk and uncertainty more fully, key stakeholders were consulted and risk registers were considered, to ensure the Plan was formulated on a risk-based approach.
- (c) If Internal Audit staffing levels fall below that assumed for the remaining six-month period, there is the risk that the annual plan will not be achieved. That in turn increases the risk of reduced assurance available to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council. This has been mitigated by way of workforce planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary.

### 8.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

### 8.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report.

### 8.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

### 8.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

### 8.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or the Scheme of Delegation are required as a result of this report.

## 9 CONSULTATION

9.1 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

9.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

### Approved by

**Jill Stacey, Chief Officer Audit & Risk**      **Signature .....**

### Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel. 01835 825036
Sue Holmes	Principal Internal Auditor Tel 01835 825556

**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Audit and Scrutiny Committee 19 March 2018

**Note** – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit [intaudit@scotborders.gov.uk](mailto:intaudit@scotborders.gov.uk)

AUDIT	2018/19 (Days)	COMMENTARY	STATUS
<b>Corporate Governance</b>			
Corporate Governance	40	Continuous audit approach on compliance with the Local Code of Corporate Governance, progress on improvement action plans and support to Audit and Scrutiny Committee. Annual evaluation against Local Code of Corporate Governance covering the corporate whole and individual Service Directorates. Engagement in the review of the associated code of governance documents e.g. Scheme of Delegation, Scheme of Administration, Procedural Standing Orders, Financial Regulations, and Codes of Conduct for Councillors and for Employees.	Ongoing follow-up on implementation of actions on Areas of Improvement set out in the Annual Governance Statement 2017/18; Annual evaluation of compliance with and effectiveness of the Council's Local Code of Corporate Governance scheduled 4th Qtr.
Information Governance	25	Continual Audit approach performing 'critical friend' role through the review of the Information Governance framework including roles and responsibilities for the different data controllers (including Assessor ERO), policy development and implementation, and assess compliance with the General Data Protection Regulations (GDPR) which come into force May 2018. Provide annual assurance to the Senior Information Risk Owner (SIRO).	Ongoing as part of assurance role on the Information Governance Group and the Information Management Team. Assurance Report scheduled 4th Qtr.
Performance Management	35	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services, specifically to ensure accuracy of data submitted for Local Government Benchmarking Framework, Corporate Priorities Pls and Assessors performance monitoring and reporting.	Final Report on Local Government Benchmarking Framework (LGBF) issued 14 September 2018; Corporate Priorities audit work scheduled 4th Qtr.
Corporate Transformation	40	Continual Audit approach performing 'critical friend' role through input to the Corporate Transformation Programme to influence the governance and accountability arrangements, including processes for benefit (financial and other) identification, tracking and realisation (return on investment and value for money), and evaluation of outcomes and lessons learned. A series of Gateway Reviews will be carried out to provide assurance that the Transformation Programme remains on a sound footing.	Ongoing as part of other associated audit work relating to change. Assurance Report scheduled 4th Qtr.
Workforce Planning	15	Review of approach to workforce development in alignment with business and financial planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives.	Assurance work underway though slight delay compared to schedule in programme of work - Report 3rd Qtr.
Resilience Planning	10	Review the approach to emergency and business continuity planning, including risk assessments, early warning systems, resilient communities initiative, post incident reviews and lessons learned.	Final report issued 16 July 2018
	165		

AUDIT	2018/19 (Days)	COMMENTARY	STATUS
<b>Financial Governance</b>			
Financial Policy Framework	20	Continual Audit approach to assess the Financial Policy Framework established as part of Business World implementation, review progress with update of Financial Regulations and associated policies, procedures and guidelines, including Following the Public Pound code of practice in support of securing best value, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant policies, procedures and guidelines.	Chief Officer Audit & Risk meets regularly with Chief Financial Officer. Specific review of Petty Cash and School Funds procedures and practices in association with Schools audits - Report 3rd Qtr.
Financial Planning	25	The systems and procedures for preparing, monitoring and controlling the budget including efficiency savings are robust to provide the foundation for sound internal financial control, to deliver the financial strategy, and to ensure plans and priorities match available resources including the roles and responsibilities of budget holders.	Scheduled 3rd Qtr.
Payroll	25	Business World assurance work on Payroll processes; compliance testing of controls at Service level.	Some initial substantive testing carried out in 1st Qtr. Integrated audit of these processes and key controls within Business World ERP system scheduled 4th Qtr including further substantive testing, subject to completion of Business World ERP system milestone upgrade which is scheduled for January 2019.
Sales to Cash	25	Business World assurance work on Sales to Cash processes. Review of income management controls in place throughout the Council to set fees and charges for services, raise invoices promptly, and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable.	
Procurement to Payment	25	Business World assurance work on Procure to Pay. Review of purchase to payment processes at Service level including authorisation to test compliance.	
Record to Report	25	Assurance work on Record to Report processes to determine if expected improved internal financial controls via the Business World ERP system are being achieved. Key controls work relating to core General Ledger and Management Reporting.	Connected to Assurance work on Financial Planning scheduled 3rd Qtr.
Revenues (Council Tax and NDR)	30	Assess the application and key controls regarding Council Tax and NDR exemptions and discounts, including review periods; policies; discretionary relief and disabled persons relief. Evaluate fraud prevention controls and detection processes in liaison with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered.	Scheduled 4th Qtr
	175		

AUDIT	2018/19 (Days)	COMMENTARY	STATUS
<b>ICT Governance</b>			
ICT Contract Management	25	Review of client relationship and contract management with CGI contract to assess compliance with Service Delivery and terms and conditions to ensure that the ICT Strategy and business requirements are met.	Follow-up ongoing; Assurance Report scheduled 4th Qtr.
ICT Security *	40	Assess the adequacy of the ICT security arrangements including: physical and environmental controls; disaster recovery; third party access; operational controls (change / incident / problem management) and business applications, to ensure they are designed appropriately and that all parties are adhering and complying with them. Review of Public Services Network (PSN) compliance and Cyber Essentials requirements.	Assurance work underway though slight delay compared to schedule in programme of work - Report 3rd Qtr.
	65		

AUDIT	2018/19 (Days)	COMMENTARY	STATUS
<b>Internal Controls</b>			
Schools	30	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments (sample of 3 High Schools and 3 Primary Schools), to complement the assurance received from Education Scotland arising from their inspection programme of schools, including evaluation of the systems in place to set and monitor budgets devolved to head teachers to ensure adherence to DSM standards and practices.	Scheduled 3rd Qtr; sample of schools selected for visits are Earlston, Eyemouth and Kelso High Schools and Melrose, Greenlaw and Eddleston Primary Schools.
Winter Service	30	Review and appraise the economy, efficiency and effectiveness with which resources are deployed to deliver the Winter Service to ensure that operational practices are being carried out as planned and objectives and goals are met.	Scheduled 3rd Qtr.
Licensing *	10	Review of New Licensing Policy Statement (requirement of law reviewed every 5 years), due to be in place by November 2018 to check that the Council is following best practice through its policies and procedures.	Assurance work underway though slight delay compared to schedule in programme of work - Report 3rd Qtr.
Adult Social Care Services *	15	Review of internal financial controls and governance arrangements regarding Self Directed Support to ensure national policy objectives are being met and public funds are safeguarded.	Assurance work underway though slight delay compared to schedule in programme of work - Report 3rd Qtr.
Protective Services	20	Review the change in business practices and ways of working following the restructure within Environmental Health and Trading Standards to ensure that regulatory obligations are met and risks are appropriately managed.	Scheduled 3rd Qtr.
	105		

AUDIT	2018/19 (Days)	COMMENTARY	STATUS
<b>Asset Management</b>			
Asset Registers	20	Review of systems, processes and controls that are in place to ensure complete and accurate records of all Property, Fleet, and IT assets that underpin Asset Management Plans to deliver Council's strategies, plans and priorities, including the data migration and transition to utilising Business World Asset Register. Review of stock management controls relating to inventory turnover, and prevention and detection of fraud.	Scheduled 4th Qtr.
Capital Investment	15	Continual audit approach to assess progress with implementation of identified improvement actions to ensure compliance with established good practice by Accounts Commission - strategic asset management plans; governance of capital investment; capital planning; review, scrutiny and challenge; capital financial budget monitoring; delivery of the capital programme and capital plan projects, including transformation achieved through the Corporate Landlord Model.	Follow-up ongoing; Assurance Report scheduled 4th Qtr.
Private Sector Landlord Registration	20	Assess the end to end procedures and practices for PSL to ensure that statutory obligations are met and risks are appropriately managed.	Scheduled 3rd Qtr.
Passenger Transport *	20	Analyse and assess current processes for Passenger Transport to identify the approach which represents best value. Review procurement practices for compliance and consider options for improvement.	Assurance work underway though slight delay compared to schedule in programme of work - Report 3rd Qtr.
	75		

AUDIT	2018/19 (Days)	COMMENTARY	STATUS
<b>Legislative &amp; Other Compliance</b>			
Selkirk Conservation Area Regeneration Scheme (CARS)	10	Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.	Final Report issued 5 October 2018.
LEADER *	15	Annual audit of EU grant-funded LEADER programme required by the Service Level Agreement (SLA) between Scottish Ministers (Managing Authority and the Paying Agency (RPID)) and Scottish Borders Council (Lead Partner for Scottish Borders Local Action Group (LAG)) to assess compliance by SBC with the terms of the SLA.	EU Funded Programmes 2014-2020 LEADER and EMFF Final Report scheduled to be issued 3rd Qtr. Audit Assurance Report will be issued to Scottish Government to comply with Audit terms in SLA.
European Maritime Fisheries Fund (EMFF) *	15	Annual audit of EU grant-funded EMFF programme under the terms of the SLA and legislative compliance including an assessment of compliance with the requirements of the SLA and the relevant EC Regulations.	
	40		

AUDIT	2018/19 (Days)	COMMENTARY	STATUS
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<b>Consultancy</b>			
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Advice	20	Provision of ad-hoc Internal Audit advice and assistance on internal controls, risk management and governance in response to requests.	Ongoing
Corporate Transformation Project Boards / Teams	50	Provision of Internal Audit consultancy activities to support Management in delivering innovation and transformational change and continue to add value to the Council by influencing and offering ways to enhance the governance and internal control environment. In its 'critical friend' role provide: internal challenge and quality assurance on a sample of projects involving major change and systems implementation; contribute to the development of a contract management framework for the Council; provide independent challenge of the evidence to support improvement arising from the Children & Young People and Joint Older People Service inspections; and perform an independent and objective assessment of the evidence to support self-evaluation and improvement in support of Best Value.	Ongoing - during first 6 months various members of the Internal Audit team in 'critical friend' role engaged in various Project Boards / Teams or other Forums (for example): Business World ERP Project Board; Digital Customer Steering Group; Contract Management Working Group; Joint Older Peoples Services; Public Protection; Corporate Planning Group - Best Value Audit.
	70		

AUDIT	2018/19 (Days)	COMMENTARY	STATUS
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<b>Other</b>			
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Contingency	15	Carry out investigations and other reactive work to ensure high risk issues and concerns identified by Management during the year are appropriately addressed.	On request and in agreement by Chief Officer Audit & Risk.
Follow-Up	20	Carry out Follow-Up activity to monitor progress with implementation of Audit recommendations and ensure that Management Actions have been timeously and effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement in internal control and governance.	Ongoing; Report on Progress with implementation of Audit Recommendations for presentation to CMT then Audit and Scrutiny Committee on 27 November 2018.
Counter Fraud	40	Provide intelligence via data sharing requests from Police Scotland, and submission of data sets and case management of data matches arising from the Audit Scotland-led National Fraud Initiative (NFI) exercise in liaison with the Corporate Fraud & Compliance Officer as part of the wider assurance framework on counter fraud and crime controls.	Ongoing; Input to assurance on controls report presented to Audit and Scrutiny Committee 24 September 2018 relating to Audit Scotland national performance report on 2016/17 audit of Dundee City Council: Report of a significant fraud.
	75		

<b>SBC Total</b>	<b>770</b>
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AUDIT	2018/19 (Days)	COMMENTARY	STATUS
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<b>Non SBC</b>			
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SB Cares	35	To be determined and agreed with SB Cares Board and Management for review of the adequacy of the arrangements for risk management, governance and control of SB Cares.	SB Cares Internal Audit Annual Plan 2018/19 approved by SB Cares Board on 23 April 2018 following consultation with SB Cares Management Team. Audit work ongoing. Internal Audit annual assurance report will be presented to SB Cares Management and Board.
Scottish Borders Pension Fund	5	To be determined and agreed with Pension Fund Committee and Management for review of governance of pension fund and provision of annual governance statement.	Attendance at Pension Fund Committee and Board; Assurance Audit work over the systems and controls in place at Scottish Borders Council which covers the same systems for the Pension Fund and input to Annual Governance Statement scheduled in 4th Quarter. Internal Audit annual assurance report will be presented to Pension Fund Committee and Board.
Scottish Borders Health and Social Care Integration Joint Board	45	To be determined and agreed by the Scottish Borders Health and Social Care Integration Joint Board for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources.	Scottish Borders Health and Social Care Integration Joint Board (IJB) Internal Audit Annual Plan 2018/19 approved by IJB Audit Committee on 19 March 2018. In respect of joint services, assurances will be sought as appropriate from partner internal audit service providers (e.g. NHS Borders - PwC; SBC - SBC IA). Audit work ongoing. Internal Audit annual assurance report will be presented to IJB Audit Committee.
	85		

<b>Overall Total</b>	<b>855</b>
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## **TREASURY MANAGEMENT MID-YEAR REPORT 2018/19**

**Report by Chief Financial Officer**

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### **AUDIT AND SCRUTINY COMMITTEE**

**27 November 2018**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **This report presents the mid-year report of treasury management activities for 2018/19, in line with the requirements of the CIPFA Code of Practice, including Prudential and Treasury Management Indicators, and seeks comments from Audit and Scrutiny Committee prior to consideration of the report by Council.**
- 1.2 The report is required as part of the Council's treasury management control regime. It provides a mid-year report on the Council's treasury activity during the six month period to 30 September 2018 and demonstrates that Treasury activity in the first six months of 2018/19 has been undertaken in full compliance with the approved Treasury Strategy and Policy for the year.
- 1.3 Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators, and proposes revised estimates of these indicators in light of the 2017/18 out-turn and experience in 2018/19 to date for Council approval.

#### **2 STATUS**

- 2.1 This report is being presented prior to the September Financial Monitoring being approved by the Executive Committee, currently scheduled for 27 November 2018. Any changes required as a result of this meeting will be reflected in the final version of this report being submitted to Council on 20 December 2018.

#### **3 RECOMMENDATIONS**

- 3.1 **It is recommended that the Audit and Scrutiny Committee:**
  - (a) **Notes that treasury management activity in the six months to 30 September 2018 was carried out in compliance with the approved Treasury Management Strategy and Policy**
  - (b) **Agrees to the presentation of the Treasury Management Mid-Year Report 2018/19, as contained in Appendix 1, to Council for approval of the revised indicators.**

## **4 BACKGROUND**

- 4.1 The Council approved the Annual Treasury Management Strategy (the Strategy) for 2018/19 at the Council on 20 February 2018. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 4.2 As set out in the annual Treasury Strategy, the Audit and Scrutiny Committee has a role to scrutinise the Mid Year Report before submission to Council for final approval.

## **5 TREASURY MANAGEMENT MID-YEAR REPORT 2018/19**

- 5.1 The Treasury Management Mid-Year Report for 2018/19 (the Mid-Year Report) is contained in Appendix 1. All of the 2018/19 target indicators reported upon are based on the indicators agreed as part of the Strategy approved by Council on 20 February 2018.
- 5.2 The Mid-Year Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
  - (a) An economic update for the first six months of 2018/19
  - (b) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
  - (c) The Council's capital expenditure (prudential indicators)
  - (d) A review of the Council's investment portfolio for 2018/19
  - (e) A review of the Council's borrowing strategy for 2018/19
  - (f) A review of compliance with Treasury and Prudential Limits for 2018/19
- 5.3 The Mid-Year Report at Annex A contains revised Prudential and Treasury Management Indicators for consideration prior to Council approval.
- 5.4 The Mid-Year Report indicates that the Council's Treasury Management activities are being managed and monitored within the agreed boundaries and indicators approved by the Council.

## **6 IMPLICATIONS**

### **6.1 Financial**

There are no further financial implications relating to this report. The outcomes from the Council's treasury management activities are explained in detail within Appendix 1.

### **6.2 Risk and Mitigations**

This report is an account of the outcomes delivered at the six month stage from the tightly risk controlled work that the Council's Treasury staff. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

### **6.3 Equalities**

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

### **6.4 Acting Sustainably**

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

**6.5 Carbon Management**

There are no direct carbon emissions impacts as a result of this report.

**6.6 Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

**6.7 Changes to Scheme of Administration or Scheme of Delegation**

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

**7 CONSULTATION**

7.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR and the Clerk to the Council are currently being consulted and any comments received on the report will be reported at the Audit and Scrutiny Committee meeting.

**Approved by**

**David Robertson**  
**Chief Financial Officer**

**Signature .....**

**Author(s)**

Name	Designation and Contact Number
Kirsty Robb	Pensions & Investment Manager, 01835 825249

**Background Papers:**

**Previous Minute Reference:**

Scottish Borders Council, 20 February 2018

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Pensions & Investment Team can also give information on other language translations as well as providing additional copies.

Contact us at: Pensions & Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA Tel: 01835 825016 Fax 01835 825166.  
email: t&cteam@scotborders.gov.uk

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## **SCOTTISH BORDERS COUNCIL**

### **TREASURY MANAGEMENT MID-YEAR REPORT 2018/19**

## 1. BACKGROUND

### a) Treasury management is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

### b) The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing security and adequate liquidity, before considering optimising investment return.

### c) The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, where favourable conditions exist, any debt previously drawn may be restructured to meet Council risk or cost objectives.

### d) **Annex A** contains a summary of the updated Prudential and Treasury Management Indicators for 2018/19 as highlighted throughout this report.

## 2 ECONOMIC POSITION

### 2.1 ECONOMIC UPDATE *(from Link Asset Services)*

**UK.** The first half of 2018/19 has seen UK **economic growth** post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase **Bank Rate** on 2<sup>nd</sup> August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England’s August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of **inflationary pressures**, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the **labour market**, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings

grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

**USA.** President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

**EUROZONE.** Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

**CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

**JAPAN** - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

## 2.2 ECONOMIC OUTLOOK

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank rate and shorter term PWLB rates are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.



- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

## 2.3 INTEREST RATE FORECAST

- a) Table 1 summarises the latest interest rate forecast from the Council's treasury adviser, Capita Asset Services.

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

**Source: Link Asset Services – October 2018.**

- b) The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. Link Asset Services do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Link Asset Services also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

## 3 TREASURY MANAGEMENT POLICY STATEMENT - UPDATE

- a) The Treasury Management Policy Statement (the Statement) was approved by Council in April 2010. There have been no policy changes to the Statement. The details in this report update the position in light of updated economic position and budgetary changes.
- b) Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by Council on 20 February 2018. There were no policy changes to the Statement. The details in this report update provides an update on Treasury Management activities, including Prudential and Treasury Management Indicators.

## 4 COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2018/19

4.1 This part of the report is structured to update:

- The Council's capital expenditure plan.
- How these plans are being financed.
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow, and
- Compliance with the limits in place for borrowing activity.

### 4.2 CAPITAL EXPENDITURE (Prudential Indicator (PI-1))

a) The original capital plan for 2018/19 was approved on 20 February 2018. **Table 2** shows the current budgets for capital expenditure compared to the original estimates used in the Treasury Management Strategy report for 2018/19.

<b>Table 2</b>	<b>2018/19 Original Budget</b>	<b>2018/19 Current Approved Budget <sup>1</sup></b>	<b>Variance Original to Current Approved</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Assets & Infrastructure	27.4	31.4	4.0
Other Corporate Services	0.6	2.8	2.2
Children & Young People	7.1	13.2	6.1
Culture & Sport	1.8	2.1	0.3
Economic Development	6.4	4.9	(1.5)
Social Care Infrastructure	0.3	0.3	0
Emergency & unplanned scheme	0.3	0.2	(0.1)
<b>Total Capital Expenditure (PI-1)</b>	<b>43.9</b>	<b>54.9</b>	<b>11.0</b>

#### <sup>1</sup> Executive Committee 20 November 2018

b) The current approved budget for 2018/19 is higher than the original budget due to adverse timing movements from February 2018 to 31 March 2018 in areas of the capital plan and additional grant received. Detailed explanations of the movements within the planned expenditure have been reported in the ongoing monitoring reports, the last of which was to the Executive Committee on 20 November 2018. The key drivers for the 2018/19 changes in Table 2 are:

- Assets & Infrastructure – Waste Management. Total additions to budget amount to £4.5m. Off set by adverse movement in 2018/19 to the Land and Property Infrastructure projects total £1m
- Other Corporate Services budget - increased by £2.2m due the timing movements in the 2017/18 plan in ICT Transformation.
- Children & Young People – increase of £6.1m due to budget movement from 2017/18 and additional funding received for Early Learning and Childcare.
- Economic Development – Additional budget as a timing movement between financial years for Hawick regeneration and Central Borders Business Park.

### 4.3 FINANCING OF THE CAPITAL PROGRAMME

- a) **Table 3** on the following page draws together the main funding elements of the capital expenditure plans (see 4.2 above), comparing the original components of the funding strategy to those of the latest approved budget for the 2018/19 capital programme.

<b>Table 3</b>	<b>2018/19 Original Budget  £m</b>	<b>2018/19 Current Approved Budget <sup>1</sup>  £m</b>	<b>Variance - Original to Current Approved £m</b>
Capital Expenditure (PI-1)	43.9	54.9	11.0
Other Relevant Expenditure	0.4	0.4	-
<b>Total Expenditure</b>	<b>44.3</b>	<b>55.3</b>	<b>11.0</b>
<i>Financed by:</i>			
Capital receipts	(2.3)	(2.3)	-
Capital from Revenue (CFR)	-	(0.4)	(0.4)
Developer Contributions	(0.7)	(0.2)	0.5
Govt. General Capital Grant	(14.4)	(14.4)	-
Govt. Specific Capital Grant	(4.0)	(9.7)	(5.7)
Other Grants & Contributions	(3.7)	(5.2)	(1.5)
Replacement Funds	(2.0)	(2.8)	(0.8)
<b>Total Financing</b>	<b>(27.1)</b>	<b>(35.0)</b>	<b>(7.9)</b>
<b>Net Financing Need for the Year</b>	<b>17.2</b>	<b>20.3</b>	<b>3.1</b>

#### <sup>1</sup> Executive Committee 20 November 2018

- b) The increase in overall financing need is primarily driven by the additional projected capital expenditure as detailed in table 2, above. The impact on net financing need by this increase in expenditure of £11.0m in total, has been negated somewhat by a material increase in Scottish Government Specific Grants of £5.7m, principally relating to the Hawick Regeneration (carried forward from 2017/18) and Early Learning and Childcare projects. Additional increases in other funding streams as detailed above has also increased total funding, thereby resulting in an increase to the net financing need of £3.1m.

### 4.4 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT INDICATORS

#### CAPITAL FINANCING REQUIREMENT (CFR) (PI-2)

- i) **Table 4** below shows the CFR, which is the underlying need to incur external borrowing for a capital purpose.
- ii) The CFR has been re-calculated in light of the changes to the capital plan and the fixed asset and reserve valuations in the Council's accounts for the year ending 31 March 2018. The revaluation of the School estate and the movement in the capital program has resulted a variance of £15.2m in the CFR.

<b>Table 4</b>	<b>2018/19 Original estimate £m</b>	<b>2018/19 Revised estimate £m</b>	<b>Variance £m</b>
<b>CFR * (PI-2)</b>	<b>322.1</b>	<b>306.9</b>	<b>15.2</b>

*The CFR for this calculation includes current capital expenditure assumptions to 30 September 2018*

**ACTUAL EXTERNAL DEBT (PI-5)**

- iii) Projected external debt for 2018/19 is shown in **Table 5** below and is estimated to remain within the operational boundary.
- iv) **Table 5** also compares the current projected external borrowing estimate with the estimate in the Annual Strategy. In cash terms, the borrowing figure is higher than originally projected in line with the increased net financing need as detailed above. A variance in cash levels held at the year-end compared to those projected also impact on the variance below.
- v) Due to the cashflow of the capital program no additional borrowing has been incurred during 2018/19, however it is anticipated borrowing of £10m will be required during the remainder of the year.

<b>Table 5</b>	<b>2018/19 Original estimate  £m</b>	<b>2018/19 Current Approved Budget £m</b>	<b>Variance  £m</b>
Borrowing	215.7	208.7	(7.0)
Other long-term liabilities	70.7	68.0	(2.7)-
<b>Total External Debt (PI-5)</b>	<b>286.4</b>	<b>276.7</b>	<b>(9.7)</b>

**(UNDER)/OVER BORROWING AGAINST CFR (PI-6)**

- vi) A key control over treasury activity is a prudential indicator to ensure that, over the medium term, borrowing will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years.
- vii) **Table 6** compares the prudential indicator for (under)/over borrowing against CFR versus the updated estimate for the year end and shows that the Council's actual debt levels are well within its capital financing requirement. This is primarily driven by the tactical measures which use the Council's surplus cash-flows to finance capital expenditure minimising the need enter into additional debt financing arrangements.

<b>Table 6</b>	<b>2018/19 Original estimate  £m</b>	<b>2018/19 Current Approved Budget £m</b>	<b>Variance  £m</b>
<b>Gross External Debt</b>	<b>286.4</b>	<b>276.7</b>	<b>(9.7)</b>
CFR *	356.7	328.6	28.1
<b>(Under)/Over Borrowing against CFR (PI-6)</b>	<b>(70.3)</b>	<b>(51.9)</b>	<b>18.4</b>

*\* The CFR for this calculation includes the current and two future years projected capital expenditure.*

- viii) No difficulties are envisaged for the current or future years in complying with this prudential indicator.

### AUTHORISED LIMIT AND OPERATIONAL BOUNDARY (PI-7 and PI-8)

- ix) Two further prudential indicators control the overall level of borrowing. These are:
- (i) The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and the expected maximum borrowing need for the Council. It needs to be set and revised by Members. The Authorised Limit is the statutory limit determined under the Local Government in Scotland Act 2003.
  - (ii) The **Operational Boundary** which shows the expected operational debt position for the period.
- x) **Table 7** below shows revised estimates for the debt indicators for the 2018/19 financial year and compares them with the original estimates shown in the 2018/19 Treasury Management Strategy Report.

<b>Table 7</b>	<b>2018/19 Original estimate £m</b>	<b>2018/19 Revised estimate £m</b>	<b>Variance £m</b>
<b>Gross External Debt (PI-5)</b>	<b>286.4</b>	<b>276.7</b>	<b>9.7</b>
<b>Authorised Limit</b> inc. Long Term Liabilities(PI-8a)	<b>372.6</b>	<b>372.1</b>	<b>0.5</b>
<i>Variance to External Debt Estimate</i>	<i>86.2</i>	<i>95.4</i>	<i>(9.2)</i>
<b>Operational Boundary</b> inc. Long Term Liabilities (PI-7a)	<b>308.2</b>	<b>309.1</b>	<b>0.9</b>
<i>Variance to External Debt Estimate</i>	<i>21.8</i>	<i>32.4</i>	<i>(8.8)</i>

#### 4.5 DEBT RESCHEDULING

Debt rescheduling opportunities continue to have been limited in the current economic climate. No debt rescheduling was undertaken during the first six months of 2017/18. The position will continue to be monitored on an ongoing basis, but current interest rate forecasts coupled with the corresponding restructuring penalty costs indicate it is unlikely that any debt rescheduling will be undertaken during the remainder of the year.

### INVESTMENT ACTIVITY

#### 5.1 INVESTMENTS

- a) In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis and its impact on banks, prompts a low risk strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.
- b) The Council held £17.9m of balances in interest bearing accounts as at 30 September 2018 (£7.6m at 31 March 2018). As a result of current market uncertainties, the Council has been prioritising the security of deposits by investing surplus balances with money market funds and the UK Government's Debt Management Office (DMO).

- c) The increase in the level of balances invested from March to September, highlighted above are due to timing differences between additional borrowing undertaken and corresponding capital expenditure, detailed in section 4.4 above.
- d) The Council, due to the cashflow position and the requirement to manage the Pension Fund cash as well as the Council's, continues to explore opportunities to invest surplus balances in the short term.

## 5.2 INVESTMENT COUNTERPARTY CRITERIA

- a) The current investment counterparty criterion, approved in the Treasury Management Strategy, represents a prudent approach to risk and the Council's concerns about security of investments. These prudent limits mean there are limited investment options when operating the cash-flow on a short term management basis.
- b) Considering security, liquidity and yield of investment, priority is given to security. Daily updates and reports are received from Capita Asset Services that allow officers to assess the continued credit worthiness of investment counter parties. At the end of September, the Council's bank, The Bank of Scotland had its credit rating upgraded one step by Moody's (one of the three main credit ratings agencies). This is a positive step, given the banks short and long term outlook downgrades by all three agencies in July 2016.
- c) All investments undertaken are on a short term, highly liquid basis, allowing access to invested funds at 1 days notice.
- d) Interest rates are also monitored on a daily basis to ensure the best return is obtained. Target for internal return on cash investment is to be above the 7 Day LIBID rate. The return for six months to 30 September 2018 has averaged 0.49%, compared against an average seven day LIBID rate of 0.43%.

## LOAN CHARGES

- a) The **Loan Charges** Revenue Budget estimate contained in the Council's Financial Plans approved on 20 February 2018 was £20.185m. It is expected that charges for 2018/19 will be lower than the budgeted figure, in line with the actual and projected borrowing requirements for the year.

## ANNEX A

Indicator Reference	Indicator	Page Ref.	2018/19 Original estimate	2018/19 Revised estimate
<b>PRUDENTIAL INDICATORS</b>				
<b>Capital Expenditure Indicator</b>				
PI-1	Capital Expenditure Limits (£m)	5	43.9	54.9
PI-2	Capital Financing Requirement (£m) (CFR)	7	322.1	316.4
<b>Affordability Indicator</b>				
PI-3	Ratio of Financing Costs to Net Revenue (inc PPP repayment costs)	N/A	9.5%	9.0%
PI-4	Incremental (Saving)/ Cost Impact of Capital Investment Decisions on Council	N/A	£0.00	£0.00

	Tax			
<b>External Debt Indicators</b>				
PI-5	External Debt (£m)	8	286.4	276.7
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	9	308.2	309.1
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	N/A	237.5	241.1
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	9	372.7	372.1
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	N/A	302.0	304.1
<b>Indicators of Prudence</b>				
PI-6	(Under)/Over Net Borrowing against the CFR (£m)	8	(70.3)	(51.8)
<b>TREASURY INDICATORS</b>				
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)		308.2	309.1
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)		107.9	108.2
TI-3	Maturity Structure of Fixed Interest Rate Borrowing		<b>Lower</b>	
	Under 12 months		0%	
	12 months to 2 years		0%	
	2 years to 5 years		0%	
	5 years to 10 years		0%	
	10 years and above		20%	
TI-4	Maximum Principal Sum invested greater than 364 days	12	20%	20%

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