

# Public Document Pack



## AUDIT AND SCRUTINY COMMITTEE MONDAY, 9 MARCH 2020

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held in the COUNCIL CHAMBERS. COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 9 MARCH 2020 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 primary focus of the Informal Session will be to carry out the annual self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance to enable preparation of the Committee's Annual Report 2019/20.**

J. J. WILKINSON,  
Clerk to the Council,

2 March 2020

<b>BUSINESS</b>		
1.	<b>Apologies for Absence.</b>	
2.	<b>Order of Business.</b>	
3.	<b>Declarations of Interest.</b>	
<b>AUDIT &amp; SCRUTINY BUSINESS</b>		
4.	<b>Minute.</b> (Pages 3 - 10)  Minute of Meeting of the Audit and Scrutiny Committee held on 10 February 2020 to be approved and signed by the Chairman. (Copy attached.)	5 mins
5.	<b>Action Tracker</b> (Pages 11 - 12)  To note progress made on the Action Tracker. (Copy attached).	5 mins
<b>AUDIT BUSINESS</b>		
6.	<b>Risk Management in Services</b>  Presentation by Chief Social Work & Public Protection Officer on the strategic risks facing the Services 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 February 2020</b> (Pages 13 - 26)  Consider a report by Chief Officer Audit & Risk on findings from recent work	15 mins

	carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and Internal Audit work currently in progress. (Copy attached).	
8.	<b>Scotland's City Region and Growth Deals</b> (Pages 27 - 76)  Consider report by the Accounts Commission published in January 2020 which provides an overview of the City Region and Growth Deals that have enabled economic development projects across Scotland, largely comprising infrastructure improvement, that have increased collaboration between councils and their partners. Supplement 'Scrutiny Tool for Councillors'. (Copies attached).	15 mins
9.	<b>Internal Audit Charter</b> (Pages 77 - 84)  Consider a report by Chief Officer Audit & Risk on the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role and to enable the Chief Audit Executive to prepare statutory annual Internal Audit opinions on the adequacy of internal controls, governance, and risk management. (Copy attached).	10 mins
10.	<b>Internal Audit Strategy &amp; Annual Plan 2020/21</b> (Pages 85 - 96)  Consider a report by Chief Officer Audit & Risk on proposed strategic direction to deliver Internal Audit assurance and support services to the Council, the Pension Fund, and the Health and Social Care Integration Joint Board, and on proposed Internal Audit annual plan 2020/21 to enable preparation of the statutory annual Internal Audit opinions on the adequacy of internal controls, governance, and risk management. (Copies attached).	20 mins
11.	<b>Any Other Audit Items Previously Circulated.</b>	
12.	<b>Any Other Audit 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, S. Scott, Mr M. Middlemiss and Ms H. Barnett

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**SCOTTISH BORDERS COUNCIL  
AUDIT AND SCRUTINY COMMITTEE**

MINUTE of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in the Council Chamber, Council Headquarters, Newtown St Boswells on Monday, 10 February 2020 at 10.15 am

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Present:- Councillors S. Bell (Chairman), H. Anderson, J. A Fullarton, S. Hamilton, N. Richards, H. Scott, Thornton-Nicol, and for Audit Business Mr M Middlemiss.

Apologies:- Councillors K. Chapman, S. Scott; Ms H. Barnett

In Attendance:- Executive Director Finance and Regulatory, Chief Officer Audit and Risk, Clerk to the Council, Democratic Services Officer (F. Henderson); Ms G. Woolman, Mr G Samson and Mr S Cowan (Audit Scotland).

**1.0 ORDER OF BUSINESS**

The Chairman varied the order of business as shown on the agenda and the Minute reflects the order in which the items were considered at the meeting.

**2.0 MINUTE**

There had been circulated copies of the Minute of the Meeting held on 25 November 2019.

**DECISION**

**APPROVED for signature by the Chairman.**

**3. ACTION TRACKER**

3.1 There had been circulated copies of the Action Tracker for the Audit and Scrutiny Committee. It was noted that in terms of the Treasury Management Mid-Year Report 2019/20 on the review of the Corporate Capital Strategy and its delivery process this would be presented to the Executive Committee on 11 February 2020. It was agreed that in terms of the request that the corporate management determine an escalation process to address those internal Audit recommendations not completed within the agreed timescale, Ms Stacey would report back to Corporate Management Team. Ms Stacey advised that following today's meeting any items marked as completed would be removed from the action tracker.

**DECISION**

**NOTED the Action Tracker.**

**AUDIT BUSINESS**

**4.0 RISK MANAGEMENT IN SERVICES**

4.1 The Executive Director Finance and Regulatory, Mr David Robertson, was in attendance to brief the Committee on the strategic risks facing the various sections within Finance and Regulatory Services and to explain the internal controls and governance in place to manage and mitigate those risks. Mr Robertson explained the areas of service he managed, namely: Financial Services, Legal and Protective Services, ICT Client Services; Commercial & Commissioned services, and Pension, Investment and Treasury.

Risk Registers for each of the services were developed through Financial, People and Business Planning processes and were owned by Service Managers within that service. Risks were regularly reviewed by the Services Management Team and when necessary, were escalated to Corporate Management Team (CMT).

- 4.2 Mr Robertson referred to the key overarching issues facing Finance and Regulatory Services namely ongoing financial pressures, recruitment and retention, new legislation, customer demand and expectations, IT reliance, and changes to service delivery models. Mr Robertson then went on to give a brief overview of the risks within each service. With regard to IT Infrastructure, a red risk had been identified as ongoing delays with a number of ICT infrastructure projects which were fundamental to the Council's Transformation programme. Focus on the Peebles High School fire had diverted resources away from transformation activity to enable disaster recovery. The delivery of the Transformation programme would be reviewed with CGI and projects which delivered the most benefit would be prioritised. In terms of IT Data and System Security, there were ongoing discussions with CGI about PSN accreditation renewal with the Cabinet Office as the Council's status was under review. There was a likelihood that the risk would increase from 2 to 4. In terms of Budgetary control, a red risk was identified in respect of the ongoing issue in the current financial year with management of the SBC budget and non-delivery of financial plan savings. There was dialogue with budget managers, reporting to CMT and identifying compensating actions elsewhere in order to balance overspends in H&SC. In terms of Government Funding, the LG Finance Settlement published on 6 February 2020 allowed the Council to set the budget for 20/21. In 19/20 an enhanced reconciliation had been provided by COSLA to track specific funding streams from Settlement to Settlement. The uncertainty with regard to the overall quantum of the LGFS and potential Council Tax flexibility remained a risk. There had been no changes in respect of Pension Fund instability, Legislative Compliance and Elected Members. Mr Robertson explained that management of risk was an integral part of the Council's Financial Strategy and included regular monitoring of both corporate and operational risks within Services. Mr Robertson responded to Members' questions on flu injections for staff, the extensive IT programme, the use of process mapping, the relationship between SBC, NHS and the IJB, and the Pension Fund. The Chairman thanked Mr Robertson for his presentation and advised that the Social Work Department would present next.

## **DECISION**

**NOTED the presentation on risk management in Finance and Regulatory Services**

### **5.0 SCOTTISH BORDERS EXTERNAL AUDIT PLAN FOR 2019/20**

- 5.1 There had been circulated copies of a report by Audit Scotland for the year ended 31 March 2020 providing an overview of the planned scope and timing of the external audit of Scottish Borders Council which would be carried out in accordance with the International Standards on Auditing Code of Audit Practice and other relevant guidance. The Plan identified Audit Scotland's work to provide an opinion on the financial statements and related matters and met the wider scope requirements of public sector audit, including the audit of Best Value. The wider scope of public audit contributed to conclusions on financial management, financial sustainability, governance and transparency and value for money. Ms Woolman, Audit Scotland, explained that a number of risks to the Council had been identified and that these had been categorised into either financial or wider dimension risks along with the planned audit work for each and were detailed in the report. Ms Woolman went on to summarise the 2019/20 audit outputs, materiality values and referred to the financial statements timetable which took account of submission requirements and planned Audit and Scrutiny Committee dates. Ms Woolman advised that the review of Internal Audit had concluded that the Internal Audit function operated in accordance with the Public Sector Internal Audit Standards and had sound documentation standards and reporting procedures in place. Ms Woolman highlighted that their planned work for Scottish Borders Council this year would focus on the Council's progress towards implementing the recommendations made in the 2018/19 BVAR, the Council's arrangements for demonstrating Best Value in Sustainability and Equalities and Fairness.



The results of this would be reported in the Annual Audit Report. The Chairman thanked Ms Woolman for the input from, and advice given, by Audit Scotland.

## **DECISION**

**NOTED the report.**

### **6.0 SCOTTISH BORDERS PENSION FUND EXTERNAL AUDIT PLAN FOR 2019/20**

6.1 There had been circulated copies of a report by Audit Scotland providing an overview of the planned scope and timing of the external audit of Scottish Borders Pension Fund which would be carried out in accordance with the International Standards on Auditing Code of Audit Practice and other relevant guidance. The Plan identified Audit Scotland's work to provide an opinion on the financial statements and related matters and met the wider scope requirements of public sector audit. The wider scope of public audit contributed to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability. Ms Woolman of Audit Scotland explained that a number of risks to the Scottish Borders Pension Fund had been identified and that these had been categorised into either financial or wider dimension risks along with the planned audit work for each and were detailed in the report. Ms Woolman went on to summarise the 2019/20 audit outputs and advised that the Audit Scotland fee for 2019/20 in relation to the Scottish Borders Pension Fund was £21,040. In determining the fee, the risk exposure of the Fund, the planned management assurance in place and the level of reliance taken from the work of internal audit, had been taken into account. The audit approach assumed receipt of the unaudited annual accounts, with a complete set of working papers received on 29 June 2020. Materiality values and a financial statements timetable were detailed in the report, which took account of Audit and Scrutiny Committee dates. Mr Robertson responded to questions relating to the Pension Fund. The Chairman thanked Ms Woolman for the input from and advice given on behalf of Audit Scotland.

## **DECISION**

**NOTED the report.**

### **7.0 TREASURY MANAGEMENT STRATEGY 2020/21**

7.1 With reference to paragraph 5 of the Minute of 14 February 2019, there had been circulated copies of a report by the Executive Director, Finance and Regulatory, presenting the proposed Treasury Management Strategy for 2020/21, enabling the Committee to undertake their scrutiny role in relation to the Treasury Management activities of the Council, prior to Council approval. The Treasury Management Strategy was the framework which ensured that the Council operated within prudent, affordable limits in compliance with the CIPFA Code. The Strategy for 2020/21 to be submitted to Council on 26 February 2020 was included at Appendix 1 to the report. The Strategy reflected the impact of the Administration's draft Financial Plans for 2020/21 onwards on the prudential and treasury indicators for the Council. Mr Robertson explained that due to a delay in the notification of the grant from Scottish Government there had been a delay in the drafting of the updated 10-year Capital Plan applicable from financial year 2020/21. This had impacted on the drafting of the Treasury Strategy. Mr Robertson highlighted the significant changes from the 2019/20 Strategy being the increase in the Capital Financing Requirement (CFR) during the budget period due to the Council's understanding of the revised financing arrangements that would apply to the development of a Galashiels Academy and a new Hawick High school. The CFR also included provision for the reconfiguration and upgrade of Peebles High School and additional investment required in the care estate. Also impacting on the CFR movement, was the anticipated capital borrowing implications associated with the re-phasing of projects and block programmes within the 10-year capital plan and timing movements from 2019/20 into 2020/21 and future years, as well as movements in the scheduled debt amortisation projections for the year; and an increase in the Authorised Limit from 2020/21 onwards which was associated with the increase in external borrowing resulting from the capital plan. During discussion, Mr Robertson responded to Members requested clarification on a number of

points contained in the Appendix regarding Council Tax increase, internal Council resources, and the LGFS.

#### **DECISION**

**AGREED the report for presentation to Council for approval.**

#### **8.0 LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2018/19**

8.1 There had been circulated copies of a report published in December 2019 by the Accounts Commission which provided an outline of the overall financial health of Local Government and the significant challenges for local government finance that pervade. The key messages in terms of Councils were that in 2018/19 Scottish Council revenue income totalled £17.7 billion, an increase from 2017/18 (£17.3billion). Scottish Government revenue funding remained the most significant source of income and this increased by 1.1 per cent in cash terms in 2018/19, a 0.7 per cent decrease in real terms. Since 2013/14, Scottish Government funding to councils had reduced by 7.6 per cent in real terms. In 2018/19, the funding gap was three per cent of total budget. Councils planned to manage this primarily through savings, though a shortfall in savings achieved meant that more of the funding gap was met from reserves than planned. Councils were increasingly drawing on their revenue reserves. The net draw on revenue reserves in 2018/19 was £45 million. In total 23 councils had reduced their general fund reserves over the last three years. Capital expenditure increased by £62 million (2.3%) to £2.75 billion, with more spent on housing and less on education. All Councils had medium-term financial planning covering three years or more. Long-term financial planning had not improved since last year and more progress was needed. Councils had made preparations for EU withdrawal but there were many potential implications that could not be anticipated in financial planning.

8.2 In terms of Integration Joint Boards (IJBs) a majority of IJBs struggled to achieve break-even in 2018/19, either recording a deficit or relying on additional funding from partners and around a third of the IJBs failed to agree a budget with their partners for the start of the 2019/20 financial year. Medium-term financial planning was improving but no IJB had a financial plan which extended for more than five years, so a focus on developing longer-term financial planning was required by IJBs. Over a third of IJB Senior Staff had changed during 2018/19. During discussion, Members requested clarification on a number of points contained in the Appendix and these were answered by officers.

#### **DECISION**

**AGREED to RECOMMEND that the Chief Executive, in conjunction with the NHS Chief Executive and IJB Chief Officer, undertakes a review of the arrangements for the IJB carrying forward a surplus/deficit.**

#### **9.0 INTERNAL AUDIT WORK TO JANUARY 2020**

9.1 There had been circulated copies of a report by the Chief Officer Audit and Risk which provided 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. The work Internal Audit had carried out during the period 2 November 2019 to 31 January 2020 was detailed in the report. During the period, a total of four Final Internal Audit reports had been issued, with nine recommendations made. 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, was detailed in Appendix 1 to the report.

#### **DECISION**

**(a) NOTED:-**

- (i) **The final assurance reported issued in the period from 2 November 2019 – 31 January 2020 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; and**
  - (ii) **The Internal Audit Assurance work in progress and Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter.**
- (b) **AGREED to acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit Work.**

## **SCRUTINY BUSINESS**

### **10.0 SCRUTINY WORK PROGRAMME**

10.1 With reference to paragraph 2 of the Minute of 22 August 2019, there had been circulated copies of a report by the Service Director Customer and Communities which presented an update on subjects for Scrutiny review and information as part of the future Scrutiny work programme, to be approved by Council. There were 13 subjects which were due to be taken forward and these were detailed in the appendix to the report. In addition, at the Council meeting held on 19 December 2019, Members agreed that the Audit and Scrutiny Committee would undertake regular monitoring of the implementation of the Best Value Action Plan which had been drafted in response to the findings of the Best Value assurance audit of the Council and this work would be undertaken separately from the Scrutiny Work Programme. With the publication of the information from the Local Government Benchmarking Framework 2018/19 at the end of January 2020, the Chairman had also suggested that the Audit & Scrutiny Committee carry out a follow-up scrutiny of the Council's performance after 6 months of those areas where performance had slipped. However, there were quarterly performance reports provided to the Executive Committee which over a year would cover these indicators. The format of these performance reports was evolving but the Q3 performance report being presented to the Executive Committee on 11 February identified which were LGBF indicators and on what frequency they were being reported.

10.2 Given the number of subjects for review, it was unlikely that the Audit & Scrutiny Committee would have time over the coming year to deal with every subject. It was therefore suggested that these should be placed in priority order. When identifying that list, Members also bore in mind the Services which were being covered so that there was an even spread. Councillor Hamilton suggested that with regard to the Grass Cutting regime information, this should also include the effectiveness of any biodiversity measures and this was unanimously accepted.

### **DECISION**

- \* (a) **AGREED TO RECOMMEND to COUNCIL the subjects to be included in the Scrutiny Work Programme, as detailed in the Appendix to this Minute, with the subjects to be dealt with in 2020/21 prioritised as follows:-**
  - (i) **Child Poverty**
  - (ii) **Common Ridings and Festivals In-kind support;**
  - (iii) **Police Community Action Teams**
  - (iv) **Recycling and Waste Policy**
  - (v) **Public transport and communities; and**
  - (vi) **Balance between 20mph speed limits and street architecture.**

- (b) AGREED that the first update to the Audit & Scrutiny Committee on progress with the implementation of the Best Value Action Plan would be brought to the meeting on Thursday 4 June 2020.**

*The meeting concluded at 12.45 p.m.*

## PROPOSED SCRUTINY WORK PROGRAMME

	<b>SUBJECT</b>	<b>SCOPE &amp; APPROACH</b>	<b>LEAD OFFICER</b>
1.	<b>Child Poverty</b>	<p><b>Scope:</b> An evaluation of the actions the Council is taking to tackle Child Poverty including Pupil Equity Fund, free school meals, etc.</p> <p><b>Approach:</b> Initial Scrutiny hearing to determine best methodology and reporting</p>	Stuart Easingwood, Interim Service Director Children & Young People
2.	<b>Common Ridings and Festivals In-kind support</b>	<p><b>Scope:</b> Review the in-kind support provided to Common Ridings and Festivals by SBC services. <i>(Note: funding of Common Ridings and Festivals is part of the current review of the Community Fund)</i></p> <p><b>Approach:</b> Initial Scrutiny hearing to determine best methodology and reporting</p>	Martin Joyce, Service Director Assets & Infrastructure
3.	<b>Police Community Action Teams</b>	<p><b>Scope:</b> Receive information on the current arrangements for the Police Community Action Teams – governance, management, community engagement.</p> <p><b>Approach:</b> Scrutiny information briefing</p>	Stuart Easingwood, Chief Social Work & Public Protection Officer
4.	<b>Recycling and Waste Policy</b>	<p><b>Scope:</b> An evaluation of the effectiveness of the Recycling and Waste Policy</p> <p><b>Approach:</b> Scrutiny hearing</p>	Martin Joyce, Service Director Assets & Infrastructure
5.	<b>Public transport and communities</b>	<p><b>Scope:</b> An evaluation of the current situation and future plans</p> <p><b>Approach:</b> Initial Scrutiny hearing to determine best methodology and reporting</p>	Rob Dickson, Executive Director
6.	<b>Balance between 20mph speed limits and street architecture</b>	<p><b>Scope:</b> An evaluation of the current situation and future plans</p> <p><b>Approach:</b> Scrutiny hearing</p>	Martin Joyce, Service Director Assets & Infrastructure
7.	<b>Income Management Policy</b>	<b>Scope:</b> Review the Income Management Policy established in 2012 and benchmark current charges against other areas of Scotland.	David Robertson, Executive Director (Finance & Regulatory)

	<b>SUBJECT</b>	<b>SCOPE &amp; APPROACH</b>	<b>LEAD OFFICER</b>
		<b>Approach:</b> Initial Scrutiny hearing to determine best methodology and reporting	
8.	<b>Grass Cutting Regime &amp; Biodiversity</b>	<b>Scope:</b> Receive information on the existing grass cutting regime and the effectiveness of biodiversity plans.	Martin Joyce, Service Director Assets & Infrastructure
		<b>Approach:</b> Scrutiny information briefing	
9.	<b>Responsible Dog Ownership Policy</b>	<b>Scope:</b> Review the implementation of the policy and establish its level of success	David Robertson, Executive Director (Finance & Regulatory)
		<b>Approach:</b> Scrutiny hearing	
10.	<b>Rural Proofing Policy</b>	<b>Scope:</b> Review of the effectiveness of the current Rural Proofing Policy.	Rob Dickson, Executive Director
		<b>Approach:</b> Scrutiny hearing	
11.	<b>Council resources on Roads, including white lining</b>	<b>Scope:</b> A review of the effectiveness of the application of Council resources to the roads network to provide a benchmark for future years for the national Roads Condition Index.	Martin Joyce, Service Director Assets & Infrastructure
		<b>Approach:</b> Scrutiny hearing	
12.	<b>Following the Public Pound – grant evaluations</b>	<b>Scope:</b> An evaluation of the process for grant monitoring and evaluation	Jenni Craig, Service Director Customer & Communities
		<b>Approach:</b> Scrutiny hearing	
13.	<b>Management and Maintenance of Public Halls</b>	<b>Scope:</b> An evaluation of the community contribution to the management and maintenance of public halls, including those managed by Live Borders.	Rob Dickson, Executive Director
		<b>Approach:</b> Scrutiny hearing	
14.	<b>Welfare Fund</b>	<b>Scope:</b> An evaluation of how SBC manages applications alongside other funds	Jenni Craig, Service Director Customer & Communities
		<b>Approach:</b> Scrutiny hearing	

**SCOTTISH BORDERS COUNCIL**

**ACTION SHEET MASTER COPY**

**AUDIT & SCRUTINY COMMITTEE 2019/20**

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

<b>TITLE</b>	<b>DECISION REQUIRING ACTION</b>	<b>DIRECTORATE/ SECTION</b>	<b>RESPONSIBLE OFFICER</b>	<b>STATUS</b>
<b>25 November 2019</b>				
Treasury Management Mid-Year Report 2019/20	<b>Noted that there would be a report to Council in January 2020 on the review of the Corporate Capital Strategy and its delivery process.</b>	Finance	David Robertson - Chief Financial Officer	Report on agenda for Executive Committee 11 February 2020
Progress with Implementation of Internal Audit Recommendations	<b>Requested that the Corporate Management Team determine an escalation process to address those Internal Audit recommendations not completed within the agreed timescale.</b>	CMT	David Robertson - Chief Financial Officer	Chief Officer A&R to prepare a report to CMT within next cycle of Follow-Up.
<b>10 February 2020</b>				
Local Government in Scotland - Financial Overview 2018/19	<b>Agreed to recommend that the Chief Executive, in conjunction with the NHS Chief Executive and IJB Chief Officer, undertakes a review of the arrangements for the IJB carrying forward a surplus/deficit.</b>	Chief Executive	Tracey Logan	
Scrutiny Work Programme	<b>*Agreed to recommend to Council the subjects to be included in the Work Programme as detailed in the Appendix to the Minute</b>	Democratic Services	Jenny Wilkinson	
Scrutiny Work Programme	<b>Agreed that the first update to A&amp;S on progress with the implementation of the Best Value Action Plan be brought to meeting on Thursday 4 June</b>	Transformation & Performance	Jason McDonald	

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**INTERNAL AUDIT WORK TO FEBRUARY 2020**


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**Report by Chief Officer Audit and Risk**


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**AUDIT AND SCRUTINY COMMITTEE**
**9 March 2020**


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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 1 to 29 February 2020 associated with the delivery of the approved Internal Audit Annual Plan 2019/20 is detailed in this report. During this period a total of 7 Final Internal Audit Reports have been issued. There were 5 recommendations made associated with 2 of the reports.
- 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 1 to 29 February 2020 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; and**
  - b) Notes the Internal Audit Assurance work in progress and Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter.**
  - 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 2019/20 was approved by the Audit and Scrutiny Committee on 11 March 2019. Internal Audit has carried out the following work in the period from 1 to 29 February 2020 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council’s risk management, internal control and governance.
- 3.2 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

- 3.3 Internal Audit issued final assurance reports on the following subjects:
- Property Asset Management
  - Corporate Transformation Programme: Fit for 2024
  - Paths Asset Management
  - Homelessness
  - Roads Asset Management Follow-Up
  - ICT Security
  - Information Governance
- 3.4 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

- 3.5 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2019/20 consists of the following:

Audit Area	Audit Stage
Contracting and Procurement	Drafting the report
SB Contracts	Drafting the report
BW ERP System Key Internal Controls	Testing underway
Corporate Governance	Annual evaluation underway

## Internal Audit Consultancy and Other Work

- 3.6 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:
- Provide 'critical friend' internal challenge and quality assurance through engagement in meetings of programmes and projects involving major change (Fit for 2024, Information Governance Group, Digital Customer Steering Group, Capital Programme Board – Corporate Landlord) and attendance at the SEEMIS Education system project group, and Mosaic system project group and financial workshops. During this year to date there have been no meetings of the Contract Management Steering Group to oversee the implementation of the new CM Framework.
  - Learning and development during the research stage of new audit areas for all Internal Audit team members and through attendance at SLACIAG Chief Auditors Group meeting (Chief Officer Audit & Risk) and CIIA Practitioners Forum (Principal Internal Auditor).
  - Planning and carrying out the annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) to assess conformance with the Definition of Internal Auditing and Standards and the application of the Code of Ethics.

## Recommendations

- 3.7 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 attention of senior management.

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

- 3.8 The table below summarises the number of Internal Audit recommendations made during 2019/20:

	2019/20 Number of Recs
High	0
Medium	4
Low	1
<b>Sub-total reported this period</b>	<b>5</b>
Previously reported	21
<b>Total</b>	<b>26</b>
Recommendations agreed with action plan	26
Not agreed; risk accepted	0
<b>Total</b>	<b>26</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) During the development of the Internal Audit Annual Plan 2019/20 and at the start of each audit engagement, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (b) If audit recommendations are not implemented, there is a greater risk of loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate effective management of risks through improved internal controls and governance.

### 4.3 Equalities

There are no direct equalities and diversities as a result of 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.

### 4.7 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, Executive Director Finance & Regulatory, Chief Legal Officer (and Monitoring Officer), Service Director HR, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been taken into account.

**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 10 February 2020

**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**

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Property Asset Management</p> <p>No: 009/012</p> <p>Date issued: 18 February 2020 Draft; 25 February 2020 Final</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to gain assurance that the Council has a structured Property Management Framework and an associated property maintenance programme for its buildings, other property and facilities to ensure they are fit for purpose, and has accurate records to demonstrate efficient and effective use.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• A Property Management Framework has been prepared which complies with procurement standards and its deployment gives assurance that the Council will achieve best value and meets its obligation under procurement legislation.</li> <li>• The Service has a policy which requires conditions surveys of all assets managed by the Service to be undertaken within a five year cycle. The results are recorded in Technology Forge and are used to inform the allocation of the revenue and capital budget.</li> <li>• There is evidence of an effective process for monitoring of revenue and capital spend against agreed budgets.</li> <li>• There is evidence that there is appropriate measuring and reporting against agreed performance indicators.</li> </ul> <p>Internal Audit are able to provide 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.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Corporate Transformation Programme Fit for 2024</p> <p>No: 010/017</p> <p>Date issued: 11 February 2020 Draft; 27 February 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to review the new governance and accountability arrangements of the Fit for 2024 corporate transformation programme structure, 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.</p> <p>Recognising a need to increase its pace of change and be more innovative, the Council began its challenging Fit for 2024 corporate transformation programme in February 2019. This is intended to be a five-year rolling programme that will improve how the Council is managed and save a further £18 million. Fit for 2024 savings along with other proposals are set out within the Revenue Financial Plan 2019/20 - 2023/24 totalling £30M.</p> <p>Appropriate governance arrangements are in place. There is a Fit for 2024 Board, that has members from CMT and strategic support personnel from Finance, HR and Communications, which meets every fortnight and is accountable to CMT to oversee the strategic planning and delivery of the Fit for 2024 transformation programme. Dedicated change and support resources have been deployed to Fit for 2024. Risks and mitigations are discussed at Fit for 2024 Board meetings and included in Fit for 2024 Reports to Council though there is not yet an overall Fit for 2024 transformation programme risk register so the Board is not able to evidence that risk management is being applied at both programme and individual project level.</p> <p>Transforming how the Council works will take time. In recognition of this, within the Fit for 2024 Update to the Council in June 2019 it was indicated that the profile of delivery of transformation savings would be 20% in the first 18 months of the 5-years with the 80% balance to be delivered by more conventional budget reduction initiatives and these proportions would be reversed towards the end of the life of the programme.</p>	0	2	1	Management have accepted the factual accuracy of the report and its findings, and agreed to the implementation of the audit recommendations by way of completing an Action Plan with responsible owner and timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Corporate Transformation Programme Fit for 2024 (Cont'd)	<p>Programme and project management arrangements have been developed which reflect more fully the interconnected nature of transformational activity; Finance, HR and IT Business Partners and Business Support work together. Staff and partner engagement sessions have taken place or are underway in alignment with the phases of the Service Reviews. There was focus on what implementation plans and assumptions there are within Fit for 2024 for Years 2-5 as part of the budget process.</p> <p>Processes are in place to ensure that progress with delivery of projects within the Fit for 2024 programme and realisation of benefits is appropriately monitored and reported, including evidence of appropriate scrutiny and oversight by Senior Management and Elected Members.</p> <p>Internal Audit are able to provide 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.</p> <p>The following three recommendations that are designed to assist with the efficient and effective delivery of the Fit for 2024 transformation programme were made:</p> <ul style="list-style-type: none"> <li>• Establish an overall Fit for 2024 transformation programme risk register, review this regularly at Fit for 2024 Board meetings, and use it to populate Fit for 2024 reports to Council. (Medium)</li> <li>• Ensure that dependencies on resource capacity or technology solutions or others are identified and evaluated as part of the Implementation Plans prior to each year commencing to provide assurance that the Fit for 2024 programme can be delivered in future years. (Medium)</li> <li>• Ensure that the business benefits other than financial savings are being identified through the plans and tracked through the monitoring mechanisms. (Low)</li> </ul>				



Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Paths Asset Management</p> <p>No: 152/004</p> <p>Date issued: 21 February 2020 Draft; 2 March 2020 Final</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to assess that risks are identified and effectively mitigated relating to Asset Management issues on managed paths.</p> <p>The total path network in the Scottish Borders amounts to 3,621km including core paths, rights of way, and promoted or managed paths. The Countryside Access Team carries out inspections of the path network in accordance with legislation and management responsibilities and the Paths Asset Management Plan.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• Ranger reports on the condition of paths and issues are updated on an on-going basis within CAMS (Countryside Access Management System);</li> <li>• There is an inspections regime in operation to help identify and reduce the number of potential risks and accidents;</li> <li>• Budget monitoring is undertaken in line with corporate procedures; and</li> <li>• Management information is reported on the conditions of paths and furniture.</li> </ul> <p>Internal Audit are able to provide Comprehensive assurance. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Homelessness</p> <p>No: 172/010</p> <p>Date issued: 21 February 2020 Draft; 25 February 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the progress with the self-evaluation exercise of the Homelessness Service to fulfil its statutory obligations, and the annual assurance process to the Scottish Housing Regulator.</p> <p>The Homelessness Services Team have commenced a self-evaluation process in order to ensure they have a sustainable team that is fit for future requirements to allow them to fulfil their statutory obligations providing housing support and temporary accommodation for those persons who present as homeless within the Scottish Borders.</p> <p>From the evaluation exercise an Action Plan is in development where actions will be prioritised, have an action owner and timescale for delivery. It is planned to use the Pentana Performance System to monitor progress with the implementation of improvement actions.</p> <p>In 2018/19 the Scottish Housing Regulator requested that an Annual Assurance Report be provided. This was completed as an additional report to the Council's Annual Governance Statement. For 2019/20, and in future years, this has now been incorporated into the Service Director Customer and Communities' Assurance Statement on Internal Control and Governance, fulfilling the responsibilities to comply with the regulatory requirements as laid out in Chapter 3 of the Scottish Housing Regulator's Regulatory Framework. This will be reported to the Audit and Scrutiny Committee alongside the Council's Annual Governance Statement as part of the Council's annual assurance process.</p> <p>Internal Audit are able to provide 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.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings, stating "Although there is a self-evaluation process underway there are also separate but complementary actions already identified which will run in parallel with the review e.g. consolidation of case and statistical work into the Northgate computer system and process reengineering linked to the Jadu and Northgate systems".</p> <p>Progress re this will be assessed as part of Internal Audit's follow up work for 2020/21.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Roads Asset Management Follow-Up</p> <p>No: 203/009</p> <p>Date issued: 17 February 2020 Draft; 25 February 2020 Final</p> <p>Level of Assurance: n/a as follow-up audit</p>	<p>The purpose of the review was to focus on the progress by Management with the implementation of the outstanding three Internal Audit 2014 recommendations relating to reviewing the Roads Asset Management Plan (RAMP), creating standard operating procedures, and developing performance information on inspections and repairs.</p> <p>The current approved Roads Asset Management Plan (RAMP) covering the period 2013-2018, based upon the SCOTS RAMP guidance, includes some information on footways, structures and traffic signals. The required further development will be undertaken as part of a review of the RAMP in association with the introduction of the upgrade to the CONFIRM reporting system.</p> <p>The major upgrade to the CONFIRM reporting system is due to move into the design, testing and implementation stage involving, but not limited to:</p> <ul style="list-style-type: none"> <li>• Mapping of the road network</li> <li>• Inspection routes and regimes</li> <li>• Systems documentation, development and training</li> </ul> <p>Following the implementation of the upgrade, Management will be able to receive regular performance information in respect of road safety inspections and related repairs to enable policy compliance monitoring.</p> <p>In view of the above, the outstanding three recommendations have been closed. Internal Audit will continue to monitor progress of the implementation of the CONFIRM system upgrade as part of a further review on Roads Asset Management within our Internal Audit Annual Plan 2020/21.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings.

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: 230/007</p> <p>Date issued: 21 February 2020 Draft; 27 February 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review 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. Review of Public Services Network (PSN) compliance and Cyber Essentials requirements.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• A security management plan exists which covers the scope described in the contract between SBC and CGI.</li> <li>• There is evidence that third party access is appropriately managed and controlled.</li> <li>• There is evidence that the process to apply software patches is appropriately controlled.</li> </ul> <p>Whilst a Business Continuity and Disaster Recovery Policy and an IT Disaster Recovery Plan exist, review and testing of the plan had been limited due to the imminence of the transfer to a new Data Centre. It is thought that the move to the new data centre will allow a more granular approach to the Disaster Recovery Plan and how it is tested. The current plan describes only the current arrangements where a backup server is maintained at Hawick. We understand that the Data Centre Migration is under way at the time of writing this report.</p> <p>The PSN submission was made on the 12 December 2019. There was evidence that lessons learnt from the submission made in the previous year had been addressed. The Cabinet Office raised a few queries, to which CGI responded, and the certification application was re-submitted. The PSN accreditation from the Cabinet Office is awaited.</p>	0	2	0	Management have accepted the factual accuracy of the report and its findings, and agreed to the implementation of the audit recommendations by way of completing an Action Plan with responsible owners and timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: ICT Security (cont'd)	<p>We examined the process for staff leaving the employment of SBC to gain assurance that IT records are updated timeously. We found evidence that IT are not always notified of staff leaving in good time to effect the deletion of their records. There is a risk that IT accounts remain open for staff who have left, and that avoidable costs are incurred in subscription licences for staff who have left. The risk of inappropriate use of IT accounts by former employees is heightened if a "Use your own device" policy is introduced. The risk of incurring avoidable costs is heightened when the roll out of Office 365 is complete, as the basis of charging for licensing costs differs from that previously in place.</p> <p>There is a related risk that staff may be overpaid if HR records are not updated in good time. We will examine and comment on this matter in our report 073-003 BW System Key Internal Controls, which is due to be completed in March 2020.</p> <p>Internal Audit are able to provide 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.</p> <p>The following Internal Audit recommendations were made that are designed to mitigate the risks of inappropriate use of IT accounts by former employees and incurring avoidable costs in subscription licences:</p> <ul style="list-style-type: none"> <li>• Guidance should be issued to Service Managers explaining the importance of leaver's forms being completed timeously. (Medium)</li> <li>• A report should be run detailing User Accounts which have been inactive for a significant number of days. This should be reviewed, explanations sought and appropriate action taken. (Medium)</li> </ul>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Information Governance</p> <p>No: 236/013</p> <p>Date issued: 18 February 2020 Draft; 28 February 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to examine the Information Governance Framework including roles and responsibilities, review policy development and implementation, assess compliance with legislation, and provide annual assurance to the Senior Information Risk Owner and Data Protection Officer.</p> <p>The Information Governance Group (IGG) continued to meet quarterly throughout the year with formal agendas and minutes scheduled around the 4 themes below, and risks are reviewed.</p> <p><b>Information Governance:</b> there has been good progress with improvement actions, which are monitored through a Tracker; the Information Asset Register is up to date.</p> <p><b>Records Management:</b> The updated Records Management Plan was submitted to the Keeper of Scotland's Records (the Keeper) in January 2020.</p> <p><b>Information Security and Information Sharing:</b> The PSN accreditation is awaited from the Cabinet Office. The Information Management team completed a review of compliance with the respective data sharing agreements and terms and conditions.</p> <p><b>Data Protection and Information Access:</b> Subject Access Requests (SARs) and Freedom of Information requests (FOIs) still pose a significant burden to the Information Management team's resources; the process for managing FOI and SAR enquiries is being reviewed with a view to make it more efficient.</p> <p>Internal Audit are able to provide 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, specifically to ensure that the mandatory training completion rate is achieved and to improve attendance at IGG meetings of staff from Services with the lowest completion rates.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>The intention is to present the Final Internal Audit Report on Information Governance Group to the next meeting of the Information Governance Group in April 2020.</p>

# Scotland's City Region and Growth Deals



ACCOUNTS COMMISSION 

AUDITOR GENERAL 

Prepared by Audit Scotland  
January 2020

## The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: [www.audit-scotland.gov.uk/about-us/accounts-commission](http://www.audit-scotland.gov.uk/about-us/accounts-commission) 


## Auditor General for Scotland

The Auditor General's role is to:

- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

The Auditor General is independent and reports to the Scottish Parliament on the performance of:

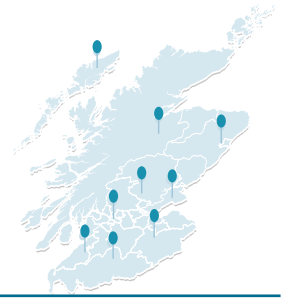
- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Environment Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

You can find out more about the work of the Auditor General on our website: [www.audit-scotland.gov.uk/about-us/auditor-general](http://www.audit-scotland.gov.uk/about-us/auditor-general) 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.



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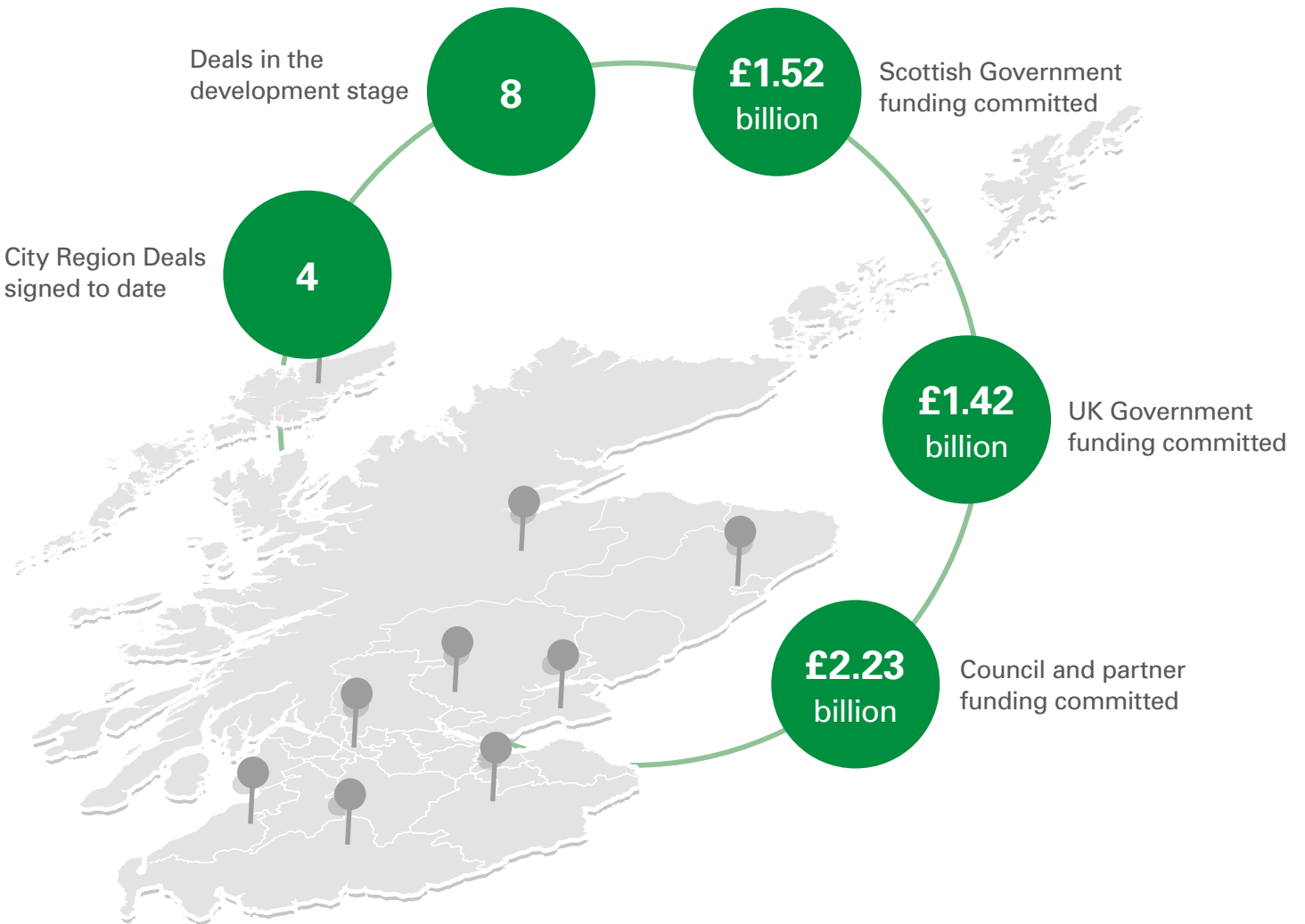
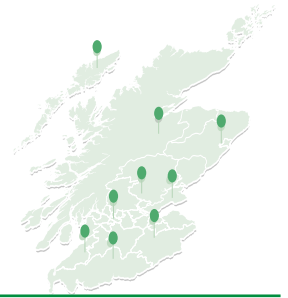
## Audit team

The core audit team consisted of: Graeme Greenhill, Sally Thompson, Derek Hoy and Garry Quigley, with support from other colleagues and under the direction of Gordon Smail.

## Links

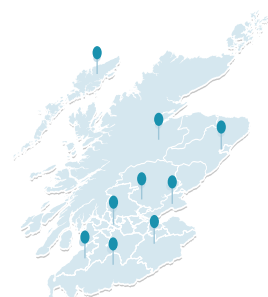
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# Key facts



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# Summary



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## Key messages

- 1** £5.2 billion has been committed so far to supporting economic development in all parts of Scotland through City Region and Growth Deals. This money comes from the UK and Scottish governments, councils and their partner organisations. Four deals have been signed to date and eight are in development.
  - 2** Deals bring additional long-term funding for regional economic development. They have enabled economic development projects that may otherwise not have gone ahead. Deals have also been a catalyst for increased collaboration between councils and their partners.
  - 3** Deals have been developed against an evolving policy backdrop. All individual deals include output measures, such as new jobs created. But, five years after signing the first deal, the Scottish Government has not set out how it will measure their long-term success, how it will know if deals are value for money, or how deals will contribute to the outcomes in the National Performance Framework. This means opportunities for the deals to take account of the national outcomes may have already been missed, although there is still scope to make sure existing and future deals contribute to national outcomes.
  - 4** Each deal is made up of a number of projects, largely comprising infrastructure improvements. It is not clear why some projects are selected and approved for funding and others are not. Local communities have also had very little involvement in the deal process. These factors limit transparency and the ability to hold public bodies to account for their deal spending.
  - 5** Governance and scrutiny arrangements are in place at national and deal level. Accountability and scrutiny arrangements are still evolving and it remains untested how accountability will work in practice. There is also a risk around the capacity of councils and their partners to deliver deal projects against a challenging backdrop for the public sector.
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## Recommendations

### The Scottish Government should:

- set clear aims and objectives for the overall deals programme, including how it will help to deliver inclusive growth
- explain in medium- and long-term financial plans how it will fund deals from its budget and how this relates to ongoing financial support for local government
- develop arrangements for measuring the impact of the overall deals programme, in particular how it has taken account of outcomes set out in the National Performance Framework and whether it has achieved value for money
- clarify for partners how they should plan for and then measure and report on the impact of individual deals, including their delivery of inclusive growth. This is especially urgent for shorter-term deals that are already in the delivery stage.

### Councils should:

- work with partners to agree clear and commonly understood lines of accountability, and how information on the progress of deals is reported to elected members and council partners
- ensure deals are aligned with an agreed regional economic strategy, with input from a wide range of partners, and can demonstrate how they will help deliver national and local priorities for economic development
- regularly review their governance, monitoring and risk management arrangements to ensure they are clear and operating effectively, and consider the ways that internal audit can provide assurance on this
- regularly monitor the risk of partner funding not materialising as agreed and be aware of their own financial implications if that risk is realised
- ensure a wide range of partners and stakeholders, including local businesses, voluntary organisations, communities and community planning partners, are involved in the deal development and agreement process and as the deal progresses
- consider how they will measure the full long-term impact of the deal and whether it has achieved value for money. This should include consideration of arrangements for collecting and analysing data on different groups in their communities to allow the impact of deals on minority and disadvantaged groups to be evaluated
- look at how deals affect their longer-term financial plans, capital programmes and borrowing strategies

- ensure that enough staff, money, expertise and skills are available to develop and deliver deals including sufficient project management capacity and expertise.

### The Scottish Government and councils should:

- consider how best to make more information publicly available as to the reasons behind key decisions on funding and project selection for signed deals and those still in development, to promote understanding and support effective scrutiny
  - improve arrangements for sharing knowledge and learning across deals in the interest of improving the deal process
  - regularly review the governance and accountability arrangements for deals to ensure they are clear and operate effectively.
- 

## Background

**1.** The UK Government introduced City Deals in England in 2011, working with city councils and other councils within city regions. Under these deals, national government agreed to give additional funding and powers to cities and their regions to allow them to play a leading role in promoting the growth of city region economies.

**2.** In August 2014, the UK Government and the Scottish Government jointly announced the first City Region Deal in Scotland for the Glasgow City Region. Under the deal, the eight councils in the Glasgow City Region agreed to work together to manage an infrastructure investment programme. This featured an initial list of projects, at a total cost of £1 billion over 20 years, to promote the growth of the local economy. Since then, all areas of Scotland have signed, or are working towards signing, either a City Region Deal or, for regions that do not have a city, a Growth Deal. In this report, we refer to them all as 'deals'.

**3.** All deals are different and are intended to be based on local circumstances and priorities. In Scotland, all signed deals are agreements between the UK Government, the Scottish Government, councils and sometimes other partners, such as local business representatives, and universities. They are long-term programmes, with funding committed for 10-20 years.


## About this audit

**4.** This report provides an early assessment of deals in Scotland. It looks at the introduction of deals and is divided into three parts:

- In [Part 1 \(page 9\)](#) we consider why the Scottish Government adopted the deal approach to economic growth and how it fits with its wider economic policy.
- In [Part 2 \(page 18\)](#) we examine how deals are made and give an early assessment of the management, governance and accountability structures at national and local level.

- In [Part 3 \(page 28\)](#) we look at progress to date, risks and plans to measure the impact of deals.

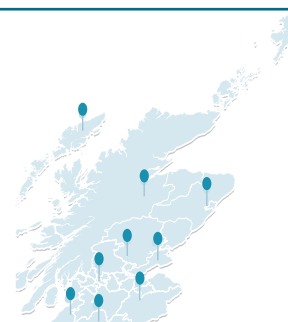
Deals in Scotland run over periods of up to 20 years and are at an early stage, with most projects still being developed. We therefore did not consider whether deals are achieving what they have been set up to deliver, or the progress or impact of the individual projects that make up the deals. Deal partners continue to work to agree new deals. This audit provides the most up-to-date information at the time of publishing. We will continue to monitor the development of deals with a view to further audit work in the future.

**5. Appendix 1 (page 37)** outlines the methodology we used for this audit and **Appendix 2 (page 38)** lists members of our advisory group. We collected most of the evidence for this audit in early 2019, and the report reflects the nature of deals at that time. Some deals are still being negotiated and new deals are expected to be signed soon. This audit contains recommendations for the Scottish Government and councils. Councils are a main partner in developing deals and have a key role in delivery. We have developed a series of questions that councillors may find helpful when scrutinising their deal ([Appendix 3, page 39](#)). This is also available as a separate [supplement](#) .

**6.** The UK Government provides significant funding for deals in Scotland. Audit Scotland has no remit to audit the UK Government and, while we describe its role, we have not made any audit judgements on its performance or recommendations for improvement.

# Part 1

## The introduction of deals in Scotland



### Key messages

- 1** The UK and Scottish governments are committed to signing deals for all parts of Scotland. So far, the UK and Scottish governments, councils and partner organisations have committed £3.7 billion to the four signed deals. A further £1.475 billion has also been committed so far for deals in development. Both the UK and Scottish governments' funding is additional funding for regional economic growth.
- 2** The Scottish Government's decision to adopt deals was in line with its existing policy on cities and economic growth. At the time, no clear objectives were set for the deals programme and it was not clear how they were expected to contribute to existing economic development policy. Deals have been agreed against an evolving policy backdrop. The Scottish Government is now clearer on how it wants deals to work and how they fit with its economic policy.
- 3** Councils and their regional partners initiate deals and decide the geographical area covered by their deal. As national policy has developed, so have individual deals. Later deals have been better informed by regional economic strategies and have more partner input than earlier deals.

### The UK and Scottish governments are committed to deals for all parts of Scotland

**7.** Deals are signed agreements between the UK Government, the Scottish Government, councils and sometimes other partners, for example, businesses and universities. Government agencies, such as Scottish Enterprise and Skills Development Scotland, can also support and help deliver deals. Councils and other local partners approach the UK and Scottish governments with proposals to help economic growth in their area. National governments then agree to fund a deal in principle. After a period of negotiation, all those involved commit to funding several projects over a period of 10-20 years. This is set out in a heads of terms agreement. Following approval of more detailed business cases covering individual projects, partners formally sign off the deal.

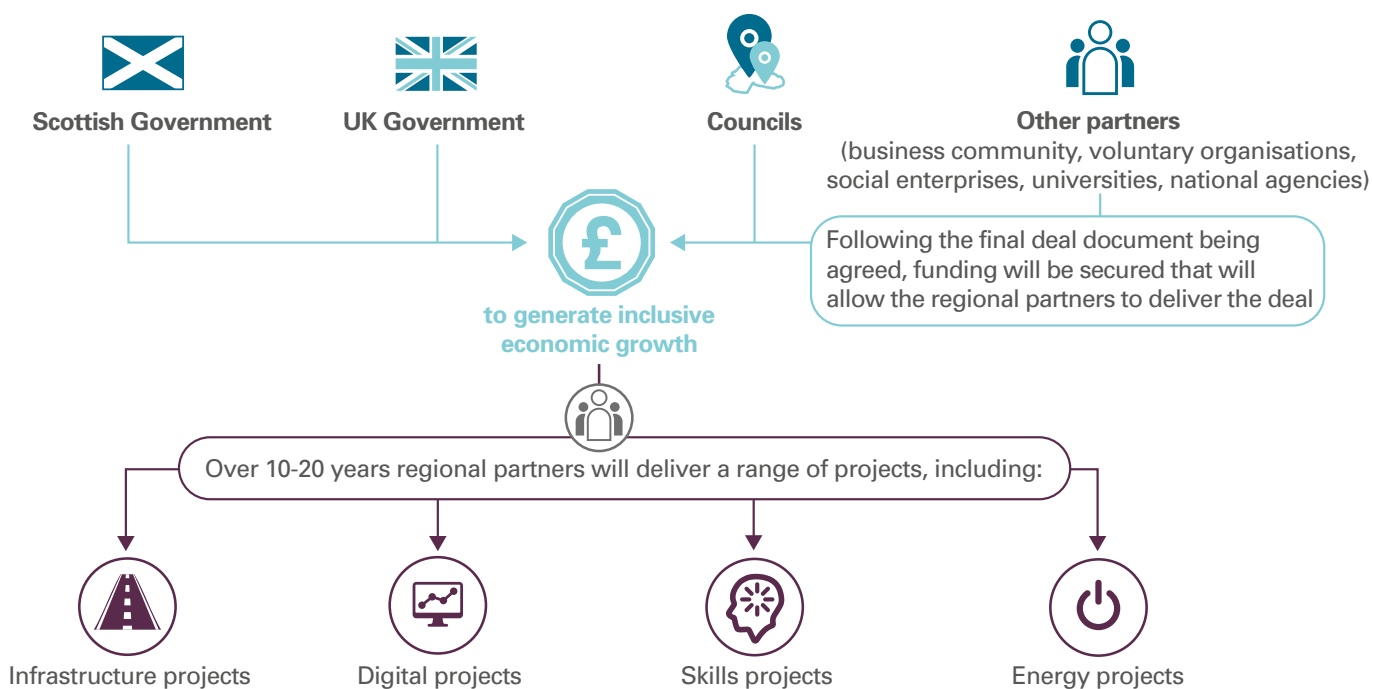
**8.** The types of projects included in deals include transport infrastructure projects, innovative technology projects and employability and skills projects. Councils and local partners are then responsible for delivering these projects. All deals are different in terms of the partners and types of projects they include, but the approaches to setting up a deal are similar ([Exhibit 1, page 10](#)).

## Exhibit 1

### What are deals?

Deals involve a range of projects and funding from several partners.

Deals are three-way agreements between the UK Government, the Scottish Government and regional partners. Regional partners, that is councils and sometimes other organisations, develop proposals that aim to secure funding from both governments.



Source: Audit Scotland

**9.** The UK and Scottish governments have committed to funding deals in all parts of Scotland. To date, four deals have been signed (Glasgow City Region, Aberdeen, Inverness and Highland, and Edinburgh and South East Scotland) involving 17 councils. [Appendix 4 \(page 41\)](#) provides more detail on each of these deals. Other deals are at various stages of development:

- Heads of terms have been signed for four deals (Stirling and Clackmannanshire, Tay Cities, Ayrshire and Borderlands) involving a further 11 Scottish councils.<sup>1</sup>
- The UK and Scottish governments have committed funding for the Moray Growth Deal and the Argyll and Bute Growth Deal, both single council deals.
- The UK and Scottish governments have made a commitment to agree two further deals for Falkirk and the Islands.

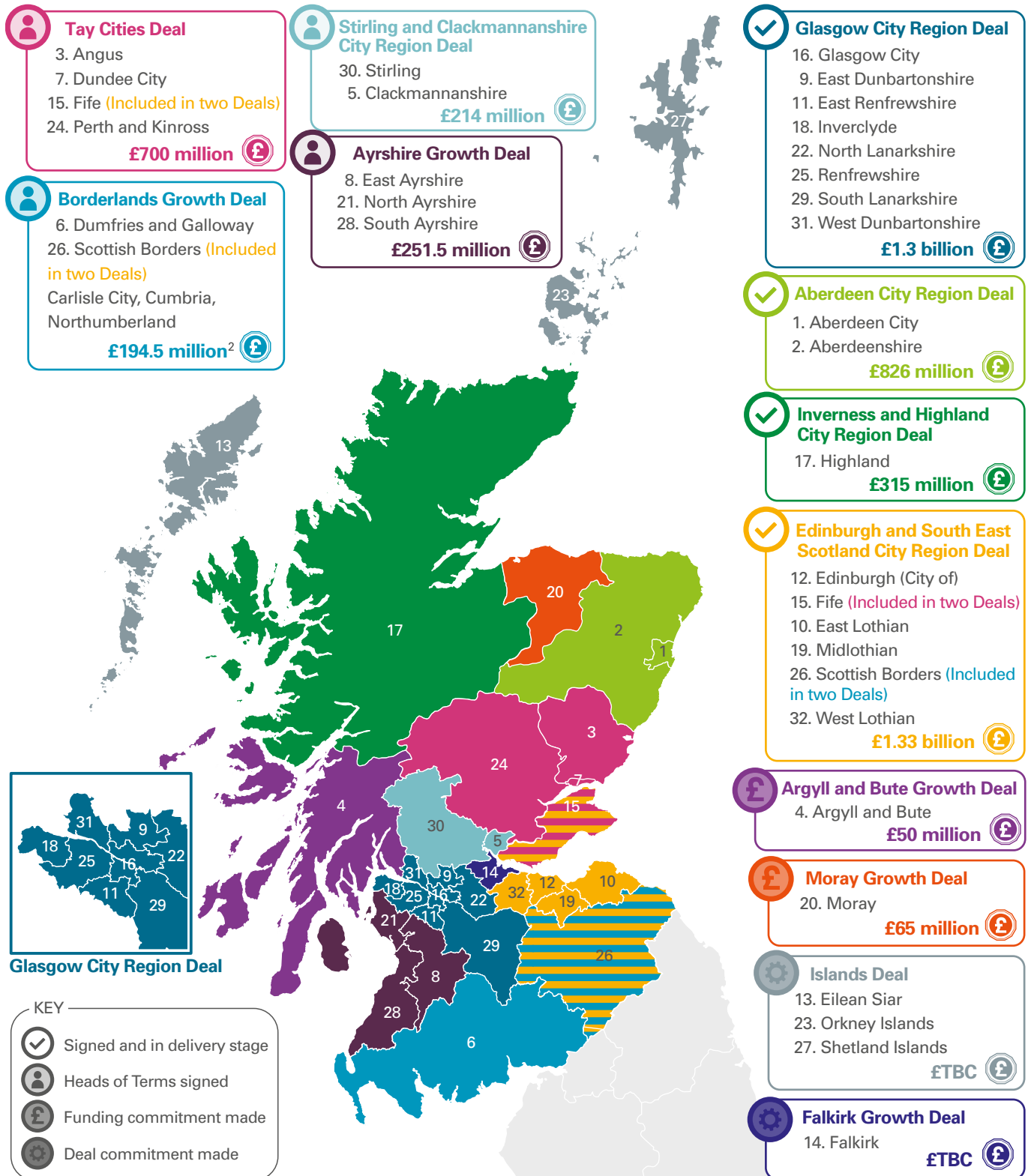
Should all these deals go ahead, all Scottish councils will be involved in a deal ([Exhibit 2, page 11](#)).



## Exhibit 2

### Map showing deal boundaries, the stages the deals are at and the funding for each deal

Deals in Scotland are at different stages of development.



Notes:

1. Most deal funding is capital funding.

2. This includes £44.5 million funding from the five councils (two in Scotland and three in England). As the deal is at an early stage and projects are still being developed a final breakdown of this funding by Scottish and English councils is not yet known.

Source: Audit Scotland

### £5.2 billion has been committed to deals to date

**10.** The UK and Scottish governments have between them committed £2.1 billion over 20 years to the four signed deals. Of that, the UK Government has committed £1 billion and the Scottish Government £1.1 billion. The Scottish Government is committed to at least matching UK Government funding. Councils have committed around £600 million and other regional partners, such as businesses and universities, have committed just over £1 billion. This brings the total funding for the signed deals to £3.7 billion ([Exhibit 3](#)).

## Exhibit 3

### Total funding for the four signed deals

There is wide variation in councils' and other partners' contributions to deals.

Deal	Total funding committed £m	UK Government £m %	Scottish Government £m %	Councils £m %	Other partners £m %
<b>Glasgow City Region Deal</b>	1,226.7	523.7 43%	520.0 42%	153.9 13%	29.2 2%
<b>Aberdeen City Region Deal</b>	826.2	125.0 15%	125.0 15%	20.0 2%	556.2 67%
<b>Inverness and Highland City Region Deal</b>	315.1	53.1 17%	135.0 43%	119.7 38%	7.3 2%
<b>Edinburgh and South East Scotland City Region Deal</b>	1,330.1	300.0 22.5%	300.0 22.5%	303.2 23%	426.9 32%
<b>Total</b>	<b>3,698.1</b>	<b>1,001.8</b> <b>27%</b>	<b>1,080.0</b> <b>29%</b>	<b>596.8</b> <b>16%</b>	<b>1019.6</b> <b>28%</b>

Note: We have rounded figures to one decimal place, as a result, percentages do not always add up to 100 due to rounding and the council total is slightly higher than the actual figure of £596,706.

Source: Audit Scotland, 2020 (based on latest annual reports)

**11.** The UK Government has committed £363 million and the Scottish Government has committed £383 million to the four deals currently at the heads of terms stage. Councils and partners have committed £614 million to these deals. A further £115 million has also been committed by the UK and Scottish governments for the Moray, and Argyll and Bute Growth Deals. This brings the total funding committed to date to £5.2 billion. UK and Scottish government funding for the remaining deals proposed has not yet been finalised.


**12.** The Scottish Government has also committed to providing additional money for regional economies alongside some of the signed deals:

- £254 million has been committed for the Aberdeen City Region for rail, road, digital infrastructure and housing projects.
- £5 million for Stirling and Clackmannanshire for a business park at Kildean and infrastructure work in Callander.

- £50 million for Tay Cities, with £40 million committed to the Cross Tay Link Road and £10 million committed to an industrial investment programme.

**13.** This money is not provided as part of the deals in these regions but has generally been announced at the same time as the deals or heads of terms have been signed. This additional funding has been made where the UK Government has not matched the Scottish Government's funding commitment, but the Scottish Government has decided to still provide its full commitment for that region.

### Deal documents clearly set out agreed funding arrangements

**14.** Deal documents clearly set out the agreed funding arrangements over the period of the deals. Funding provided through government grants is generally paid to deals quarterly in arrears. For the four deals signed to date, government funding is ring-fenced, meaning that it can only be spent on deal-related projects. The UK Government's funding for deals is additional to the **block grant**  provided to the Scottish Government. The Scottish Government's funding represents additional money for regional economic development. The funding currently sits within the transport, infrastructure and connectivity portfolio of the Scottish Government's budget and is not part of the local government settlement. Publishing detailed longer-term financial plans, for example as part of the Scottish Government's Medium-Term Financial Strategy, would provide more clarity on where funding for deals comes from and how they will be funded in future years.

**15.** All funding is subject to deals meeting the Scottish Government's grant conditions and governance and reporting requirements. The Glasgow deal must also pass an independent review, called a gateway review, every five years before the UK and Scottish governments will commit to the next five-year block of funding.

### Deals have been agreed against an evolving policy backdrop

**16.** The UK Government introduced City Deals in its 2011 White Paper, *Unlocking Growth in Cities*, as part of its policy to devolve powers to local regions. The UK Government identified cities as the 'engines of growth' that allow businesses to compete nationally and globally.<sup>2</sup> The first wave of deals was signed in England in 2012, when deals were agreed for the eight largest cities outside London. A further 20 deals were announced in a second wave in 2014.

**17.** Councils in the Glasgow City Region initiated the introduction of deals in Scotland. Council leaders in the Glasgow region discussed the possibility of a deal with the UK Government. The UK Government then asked the Scottish Government if it wanted to partner it in such a deal. These discussions took place in a highly charged political environment in the period leading up to the 2014 Scottish independence referendum. In August 2014, the Scottish Government agreed to match the UK Government's funding of £500 million.<sup>3</sup> At that time, the Scottish Government had not published any plans to introduce deals in Scotland.

**18.** The concept of deals was in line with the Scottish Government's 2011 cities strategy, *Agenda for Cities*.<sup>4</sup> This strategy does not refer specifically to a deal-making approach to economic development, but promotes partnership working between councils, the Scottish Government, national agencies, universities and businesses. It also refers to city regions as the engines of economic growth. Nevertheless, at the time the Glasgow deal was signed, Scottish Government policy did not outline clearly what deals were expected to achieve, how they were expected to help economic development or how they fitted with existing economic development policy.



**The block grant** is funding issued to the devolved administrations, in this case the Scottish Government, by HM Treasury. Once the block grant has been determined, the devolved administrations have the freedom to make their own spending decisions in areas of devolved responsibilities.


**19.** After the Glasgow deal was agreed, other parts of Scotland began to investigate the possibility of deals. The Scottish Government continued to work with the UK Government and local areas to agree deals while it also worked towards including deals in its wider economic policy. The Scottish Government's 2015 Economic Strategy lists the national priorities for economic development in Scotland and introduced the aim of achieving inclusive growth. The 2016 *Scotland's Agenda for Cities* refresh, and the 2017 *Enterprise and Skills Review* make the role of deals in contributing to economic development policy clearer. This policy development took place over three years and in that time the Scottish Government committed significant funding to deals ([Exhibit 4, page 15](#)).

### **National policy around deals has evolved, but the reasons for changes to policy have not always been clearly articulated**

**20.** In 2017, the Cabinet Secretary for the Economy, Jobs and Fair Work made a commitment that the Scottish Government would ensure that every area and every community in Scotland would benefit from a deal. This is a significant shift from both the original UK model and the Scottish Government's initial focus of deals for cities. The Scottish Government says this decision was the fairest and most logical approach to developing deals, although evidence for this was not clearly articulated. In its *Enterprise and Skills Review, Phase 2 Report*, the Scottish Government outlines its commitment to establishing regional economic partnerships in all parts of Scotland to drive inclusive growth. These partnerships are building on deal governance arrangements. In England, the UK Government has also progressed from their original model and has introduced local growth deals and devolution deals. In 2016, the National Audit Office concluded that the UK Government had not outlined objectives for growth deals.<sup>5</sup>

**21.** In England, City Deals can sit alongside devolution deals, where councils are given more powers in areas such as housing, transport and health. In most cases, this was linked to the election of new mayors for city regions. The transfer of powers and decision-making to a regional level was a key factor in the UK Government's decision to adopt a deal-making approach in England. There has been no similar transfer of powers to local regions in Scotland. The Scottish Government and the Convention of Scottish Local Authorities (COSLA) are jointly working on the Local Governance Review which is focused on devolving more power to the local level.

### **Later deals are more in line with national policy, better informed by regional economic strategies and have more input from partners**

**22.** Councils and regional partners decide what geographical area a deal will cover. Boundaries of deals are generally in line with the boundaries of the councils, but the approach is not the same in each region. For example, some deals involve single councils, others involve two or more councils, and some councils (Fife and Scottish Borders) are involved in two deals. The Scottish Government's *Agenda for Cities Refresh* states that deals should be based on **functional economic geography** . Neither the UK nor the Scottish Government carried out any analysis of Scotland's economic geography to determine which area should be covered by each deal before the deals were agreed. They have not set out the areas deals should cover, but they have occasionally encouraged some councils to work together.



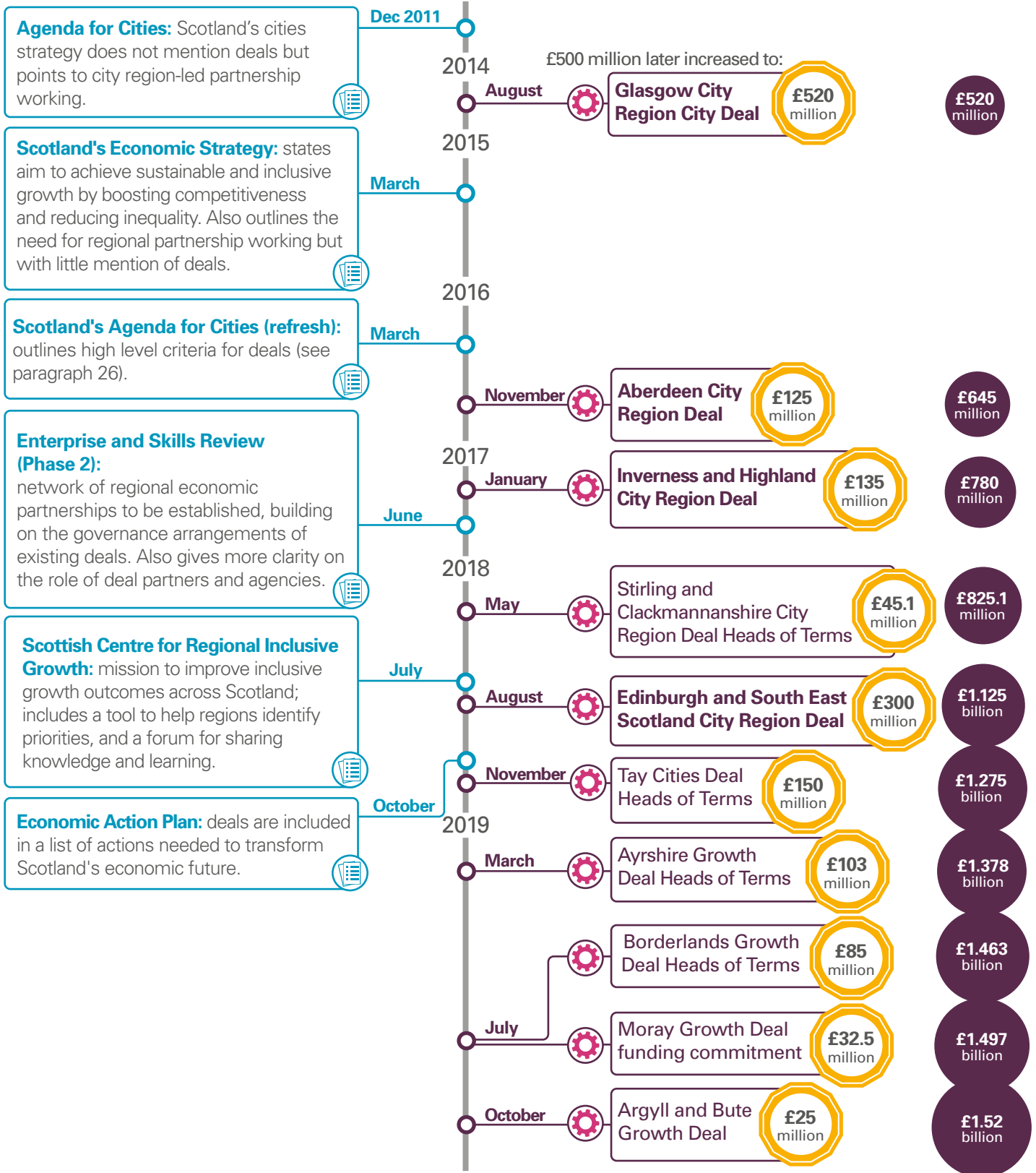
#### **Functional economic geography**

A term which attempts to capture the geographical area where local economies operate. This term looks beyond the standard administrative boundaries to assess relevant local economic factors such as commuting journeys, housing market areas, location of significant employers, etc.

### Exhibit 4

#### Timeline of Scottish Government policies on economic growth and money committed to deals

The Scottish Government has committed significant sums of money to deals while still developing relevant policies.



**KEY** Policy development Scottish Government funding Cumulative Scottish Government funding to date Deal announcement

Note: signed deals are in bold

Notes:  
 1. Funding commitments for the Islands Deal and Falkirk Growth Deal have not yet been announced.  
 2. Funding figures do not include additional funding to regions alongside deals, as highlighted in paragraph 12.

**23.** In 2019, the Scottish Futures Trust commissioned research into regional economies. It found that labour markets, supply chains and business networks all have their own geography. This, combined with a lack of available data, makes it difficult to identify clear fixed boundaries for a regional economy.<sup>6</sup>

**24.** As national policy has developed, so have individual deals. The Glasgow deal was signed in 2014, before any of the documents outlining what was expected from deals were published. The Aberdeen deal and the Inverness and Highland deal were signed in late 2016 and early 2017 respectively, after *Scotland's Agenda for Cities* was published and before the *Enterprise and Skills Review* was published. Because these deals were agreed as policy was being developed, they did not fully meet the Scottish Government's own expectations for deals. For example, the Scottish Government introduced inclusive growth as the focus for deals after it had signed the Glasgow deal and once the Aberdeen and Inverness deals were too far advanced to change significantly. Opportunities to maximise the impact of deals on government priorities may have been missed.

**25.** Later deals are more in line with national policy. They are increasingly influenced by regional economic strategies and the views of a wider range of people and organisations. For example, the Tay Cities Regional Economic Strategy and deal proposal were developed after the *Enterprise and Skills Review* was published. This has helped the deal focus on national, as well as local, priorities and helped ensure input from a wide range of partners. The Tay Cities deal is only at the heads of terms stage, but it shows how the approach to developing deals has evolved over the last five years ([Case study 1, page 17](#)).

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## Recommendations

There is a need to clarify what the overall programme of city deals is expected to achieve, how individual deals will take account of national and local economic development priorities, and to provide more information on the funding of deals. Accordingly:

### The Scottish Government should:

- set clear aims and objectives for the overall deals programme, including how it will help to deliver inclusive growth
- demonstrate, for deals in the development stage, how they are expected to take account of national priorities for economic development
- explain in medium- and long-term financial plans how it will fund deals from its budget and how this relates to ongoing financial support for local government.

### Councils should:

- ensure deals are aligned with an agreed regional economic strategy, with input from a wide range of partners, and can demonstrate how they will help deliver national and local priorities for economic development
- when developing deals, seek to learn from others who have already secured deal funding.




## Case study 1

### The development of the Tay Cities deal



The Tay Cities deal, although only at the heads of terms stage, shows how deals have evolved since 2014:

- A regional economic strategy was developed first and used to inform the deal proposal. The strategy considered the economic issues identified in the Community Plans and **Local Outcomes Improvement Plans (LOIPs)**  for the region.
- The objectives in the Tay Cities Regional Economic Strategy are based on the key priorities in Scotland's Economic Strategy.
- Inclusive growth is at the heart of the deal and there is a clear understanding of what inclusive growth means for the Tay Cities Region.
- It identifies the Tay Cities Region as a functional economic geography, with most people who live in the area also working in the area.
- Agencies such as Scottish Enterprise and Skills Development Scotland played a greater role in developing the deal, as set out in the *Enterprise and Skills Review*.
- More effort was made to engage with stakeholders when identifying projects, including through an open invitation for project ideas.
- A commitment to work with community planning partners to ensure the deal ties in with LOIPs and that local priorities are considered.

Source: Audit Scotland

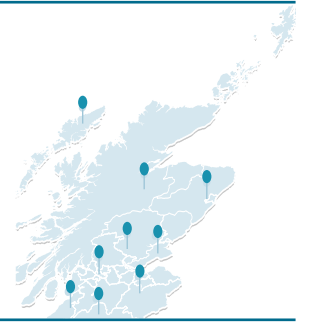


#### Local Outcomes Improvement Plans (LOIPs)

Local Outcomes Improvement Plans are how Community Planning Partnerships attempt to deliver improved outcomes for local communities. They should be based on the needs of communities and contribute towards local priorities, as well as the National Performance Framework developed by the Scottish Government.

# Part 2

## Making, managing and monitoring a deal



### Key messages

- 1** The reasons behind key decisions about funding and the selection of projects are not publicly available. While complete transparency cannot be expected in complex and commercially sensitive negotiations, the current lack of publicly available information on how funding packages are determined and projects are selected limits scrutiny and accountability.
- 2** Scottish ministers have committed to at least matching the UK Government's funding of deals. This removes some control and flexibility over the Scottish Government's future spending decisions.
- 3** Governance arrangements are in place at national and deal level. Accountability and scrutiny arrangements are still evolving and it remains untested how accountability will work in practice.
- 4** Partner involvement varies across deals. Generally, later deals have more input from private-sector partners. Communities have had very little direct involvement in deals to date. Community planning partners have had limited involvement in developing most signed deals.

### Agreeing a deal can be a lengthy and complex process

#### There is no standard guidance or framework to help local areas develop a deal

**26.** Scotland's Agenda for Cities 2016 refresh sets out the Scottish Government's high-level criteria for deals, but neither the UK nor the Scottish Government has set out in detail how partners should go about putting a deal together. Neither provides an indication of how much funding will be available, what projects may be accepted or what a proposal should include. The Scottish Government appreciates that the lack of detailed guidance can make the process more difficult for regional partners but feels tight guidance can close off opportunities and constrain possibilities when developing a deal. Although there is no written guidance, both the UK and Scottish governments engage with regional partners throughout the process of developing a deal to set general parameters. This approach is intended to give regional partners flexibility in preparing their proposal.

**27.** While some local partners welcome this approach, others feel that the absence of a set process and guidance makes it more difficult to develop a deal proposal. There is no formal forum for sharing learning or experiences of



the process, but this does happen on an ad hoc basis. The lack of guidance, opportunities for learning and peer support available when the earlier deals were developed may have resulted in extra work and time being required to set up other deals. The Scottish Government intends to use the Scottish Centre for Regional Inclusive Growth to share learning and good practice.<sup>7</sup> It also encourages peer learning between regions and has, for example, facilitated meetings between itself and city partners.

### **Developing and agreeing a deal can involve a lot of time and staff**

**28.** Developing a deal has been a lengthy and complex process for councils and the UK and Scottish governments. They need to allocate enough time to developing deals alongside their existing workloads. Local partners can spend several years working with both governments to develop proposals before funding is committed. It can then take up to two years to sign a deal.

**29.** The first wave of City Deals in England in 2012 was agreed relatively quickly, with all eight deals being signed off within eight months. The National Audit Office (NAO) highlighted, in its 2015 report *Devolving responsibilities to cities in England: Wave 1 City Deals*, that this short timescale did not leave time to fully involve officials from relevant government departments.<sup>8</sup> Experience to date suggests that the timetable needs careful planning to include all key stakeholders.

**30.** Councils may also lack some of the skills and experience needed to develop a deal, such as economic modelling and preparing detailed business cases. External consultants have been brought in to help with at least part of the process for most deals. Developing a deal proposal as a single council means that all this work and the costs of external help must be met by that council.

**31.** The UK and Scottish governments are committed to deals for all parts of Scotland. Those areas without a deal are keen to agree one as soon as possible and UK and Scottish government officials must carefully manage the demand this creates. Having a clear process and indicative timescales should help partners to manage the negotiations that are a key part of agreeing each deal.

### **A lack of publicly available information makes it difficult to scrutinise key decisions**

#### **It is not clear why some projects are selected and others are not**

**32.** Local partners, usually led by councils, identify projects to be covered by their deal. In most of the deals signed to date, this has not been an open process. Proposal documents are not generally available to the public, with often little information on how the proposal was developed or where the ideas came from. If there is no explanation as to why local ideas are not taken forward, there is a risk that partners and communities see no value in engaging with the process.

**33.** There has been some improvement in more recent deals. For example, the partners behind the Tay Cities Deal invited ideas from the business community, charities and voluntary organisations, and public agencies that operate across the region. This led to suggestions for 110 projects, which were then scored with help from an economic consultant. Around 60 of these projects were included in the final deal proposal that was put to the two governments. The proposal document was made publicly available along with the Tay Cities Regional Economic Strategy, which provided an explanation of the projects put forward. It did not detail how final decisions were made though. Not all decisions were

based on a rational scoring process. For example, the Angus Fund was included because of political support for achieving geographical balance of projects across the region.

**34.** When the UK and Scottish governments receive proposals, they first check that they fit with national priorities and consider the expected impact on economic growth. The UK and Scottish governments then work with local areas to further develop proposals and give feedback on funding decisions to regional partners. The results of these discussions are not publicly available. As negotiations may involve commercial considerations this may be reasonable, but it is not clear:

- why some projects are approved for funding and others are not
- how the UK and Scottish governments coordinate deals across Scotland to ensure that projects complement each other rather than compete
- whether the expected economic benefits of a deal are maximised, or whether a different set of projects could provide more economic benefits.

**35.** Making information on the reasons behind decisions publicly available would allow greater understanding of decision-making by individuals, communities and organisations. It would also enable communities to hold public bodies to account for how public money has been used and what it has achieved.

#### **It is not clear how funding decisions are made**

**36.** Government and partner funding is decided during the negotiations for each deal, but it is unclear how this is done. The UK and Scottish governments do not use a set mechanism to decide on funding levels and neither government has a fixed amount of money set aside to fund deals. Funding is not based on factors such as population or poverty levels. The total funding for a deal is based on that required for the projects that each government decides to include in the deal. Council and other partner funding for deals varies and the reasons for this are also not clear.

**37.** Scottish ministers have committed to at least matching the funding from the UK Government. There is a risk that this could result in the Scottish Government providing more financial support to a deal than it otherwise would, based on its spending priorities. For example, regional partners might decide to develop a deal which involves several projects that the UK Government is known to be inclined to support, such as innovation projects, in order to gain additional funding from the Scottish Government.

**38.** Neither government clearly sets out what it will and will not fund, but both provide what they call 'soft guidance' during the negotiation period. Apart from the Glasgow deal, the UK Government has stated that it will only fund projects that are not devolved to the Scottish Parliament. In practice, the UK Government has shown some flexibility on this and has agreed to fund some projects that sit within devolved policy areas.

#### **Arrangements are in place to manage deals at a national and local level**

**39.** Governance arrangements should set out how an organisation, programme or project is managed and directed, and the roles, responsibilities and accountability

channels of all partners involved. Sound governance requires bodies to clearly set out how and when decisions are scrutinised, how risks are managed and who, or what organisation, is responsible if things go wrong.

### **Some national governance arrangements were not in place when the deals programme began**

**40.** At the national level, the Scottish City Region Deal Delivery Board (SCRDDDB) is a joint UK and Scottish government board. It is the main national governing body for signed deals and is made up of senior civil servants from both governments. It scrutinises performance, budgets and risks, and holds individual deals to account. It reports back to the Scottish and UK governments and can raise any concerns with relevant ministers. The role of the SCRDDDB is still evolving. For example, its role in evaluating the impact of deals is still not clear.

**41.** The UK and Scottish governments approved the SCRDDDB Governance Operating Model (GOM) in 2019. For the first five years after announcing the first deal, both governments had a general understanding of how the governance arrangements should work but no formal agreement was in place. Although these informal arrangements worked well, the Scottish Government acknowledges that the absence of a written governance approach for the first five years meant that there was a risk of governance structures being faulty or incomplete.

### **Local governance arrangements are agreed with both governments and set out in deal documents**

**42.** The local partners involved in individual deals decide on the governance structure that best suits them. The Scottish Government and the Scottish Futures Trust provide guidance and support to local partners on their governance structures. These must be agreed before the UK Government and the Scottish Government formally sign a deal. Details of agreed governance arrangements are set out in deal documents.

**43.** Arrangements vary between individual deals, but are broadly similar ([Exhibit 5, page 22](#)). There are generally four levels of governance in place for each signed deal:

- The senior governing body, usually a councillor-led joint committee, has strategic oversight of the deal. The SCRDDDB holds it to account for delivery of the deal. Ultimately, any formally constituted joint committee, which involves councillors, is also accountable to local people.
- The programme board comprises council chief executives and other senior individuals as an extra layer of scrutiny.
- The programme management office (PMO) is responsible for the day-to-day management of the deal.
- Project boards oversee the delivery of individual projects. These are accountable to the senior governing body. The SCRDDDB also holds the individual project boards to account for delivery of their projects. Transport Scotland projects are governed through Transport Scotland's arrangements rather than by project boards accountable to the senior governing body.

[Appendix 4 \(page 41\)](#) outlines the governance arrangements in each of the signed deals.

## Exhibit 5

### Governance arrangements for deals

The governance arrangements of all signed deals are broadly similar.



Source: Audit Scotland

**44.** In addition to these four levels of governance, deals may also have advisory bodies that provide support and advice on aspects of the deal, or from a community of interest. For example, the Edinburgh and South East Scotland deal has a Regional Enterprise Council that gives business, voluntary organisations and social enterprises an opportunity to feed into the deal.

**45.** For each deal, arrangements are in place for reporting deal-level and project-level risks to the joint committee. At project level, the partner organisation responsible for the project has its own arrangements for managing risks. Deals also have performance-reporting arrangements in place so that relevant committees can review and assess the progress of the deal and its individual projects. At national level, the SCRDDB also reviews a deal’s progress every three months.

### **Transport Scotland has its own processes for managing projects**

**46.** Transport Scotland manages the funding and delivery of the Longman and Inshes project in Inverness and the Sheriffhall improvement project in the Edinburgh deal. Transport Scotland delivers these projects using its arrangements and systems and submits progress reports to the deals' senior governing bodies. Some PMOs raised concerns that this made it harder to manage their deal, as potential delays or changes to a transport project could affect other projects. Although there have been no delays to Transport Scotland projects so far, it is important that SCRDDDB's monitoring role over the progress of deals includes consideration of how well Transport Scotland is working with other deal partners to deliver projects to time and budget.

### **Governance and accountability arrangements for deals are largely untested and should be kept under review**

**47.** Although it is early days, current governance arrangements have some positive aspects:

- Those serving on the senior governing bodies for deals are aware of their roles and responsibilities in managing the deal. Following the 2017 local government elections, new members of Glasgow's senior governing body were given training and an induction pack. The pack included: an overview of the deal; detail on the projects in the deal; governance structures; evaluation arrangements; business case development; and communication and marketing. It also covered the region's Economic Strategy and Action Plan.
- There are good and productive relationships between joint committee members across all deals. Maintaining good working relationships among elected members is crucial for good governance.

**48.** Senior governing bodies and PMOs for all deals plan to keep their governance arrangements under review to ensure that they are effective. Getting independent assurance, for example through internal audit, can add value and generate confidence that processes are working as intended. An internal audit report of the Inverness and Highland City Region Deal published in 2019 recommended improvements to some scrutiny and reporting arrangements. The PMO has taken these on board and amended arrangements in line with the recommendations.

**49.** The ultimate test of accountability happens when something goes wrong. Given the early stage of the deals programme, arrangements at national and local levels are untested in this regard. Deals are complex collaborations between a range of partners. There is a lack of clarity in some current arrangements and it is not always clear how different bodies would be held to account if things did go wrong. For example:

- The relationship between the senior governing bodies and councils is not clear. In 2018, the Under Secretary of State for Scotland stated that the senior governing bodies are accountable to the individual council partners.<sup>9</sup> We found limited evidence of formal arrangements for council representatives on the senior governing bodies to report back to their councils on the wider progress of the deal. It is therefore unclear how this works in practice.
- Transport Scotland manages the delivery of some deal transport projects using its own procedures and systems. It is responsible for updating

the senior governing body on the progress of these projects, but it is not clear what influence, if any, the senior governing body would have if Transport Scotland had to prioritise other wider commitments over its deal commitments. The Scottish Government has committed that Transport Scotland projects will be delivered during the lifetime of each deal.

- Private business and universities are full partners in some deals and committed to their successful delivery. But it is not clear what recourse, apart from financial, the senior governing body or the UK or Scottish governments would have if either partner did not deliver what was agreed or decided to walk away from the deal at a later date.

### The role of partners involved in deals varies significantly

**50.** The *Scotland's Agenda for Cities* refresh states that councils should consider wider public-sector, business and industry interests in deal governance arrangements. All deals involve the Scottish and UK governments plus councils. The range of other partners and their level of involvement varies across the signed deals. For example:

- The Glasgow deal has only councillors on its most senior governing body. But for the Aberdeen deal, Opportunity North East (ONE), a private-sector economic leadership group, was heavily involved in developing the deal and is a full member of the senior governing body.
- In Edinburgh and South East Scotland, the region's higher and further education institutions, as a consortium, are a dedicated partner and signatory to the deal. They played a central role in developing the deal and will lead on the Data Driven Innovation projects. Some partners input into specific committees or act in advisory roles. For example, in Glasgow the NHS is represented on the Independent Commission for Economic Growth, which provides advice on how to maximise the effectiveness of funding for deals.
- Some partners are responsible for the day-to-day management of individual projects. For example, as part of the Inverness and Highland deal, Highlands and Islands Enterprise lead on the Northern Innovation Hub project. This project aims to help key industry sectors in the region adopt new innovative technologies to promote the growth of their businesses.

**51.** The Edinburgh and South East Scotland deal is the only signed deal to formally involve charities and voluntary organisations. The Edinburgh Social Enterprise Network represents the third sector interface on the senior governing body. This deal is the most recent one to be signed and others that are still being negotiated have had more input from charities and voluntary organisations than earlier deals.

**52.** Funding contributions from other partners also vary across deals ([Exhibit 3, page 12](#)). For example, only two per cent of funding for the Glasgow deal comes from sources other than councils and the UK and Scottish governments, compared to 67 per cent in Aberdeen. Councils should be aware of the potential financial impact should partner funding not materialise as expected, particularly where this makes up a large percentage of overall funding for the deal.

### Some deals have had more input from business than others

**53.** ONE is a main partner in the Aberdeen deal. Business leaders launched ONE in 2015 to address the long-term economic challenges in the North East and began to engage with Aberdeen City Council and Aberdeenshire Council. ONE played a key role in developing the regional economic strategy and the deal. [Case study 2](#) lists some of the benefits that the Aberdeen deal partners believe ONE's involvement has brought to the deal.

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## Case study 2



### Opportunity North East's involvement helped to shape and drive the Aberdeen deal

ONE played a key role in the development of the Aberdeen deal and remains heavily involved in its ongoing delivery. Some examples of how it has helped to shape and drive the deal include:

- the presence of a strong and influential business leader, who can tap into a wide network of contacts
- the ability to cut through political obstacles
- it introduced both councils to new ways of working in partnership to deliver at pace
- it provided expertise in developing business cases in partnership with Scottish Enterprise
- committed development funding, matched by Scottish Enterprise, to leverage resources for the development of the business cases.

Source: Audit Scotland

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**54.** The other three signed deals have business and industry advisory groups. These groups can make recommendations to the senior governing bodies and ensure that their own activities maximise the benefits of the deal. These groups were not involved in deciding which projects to include in the deals.

**55.** Some councils and their partners currently developing deals would like more business and industry input but are not sure how best to get it. The Federation for Small Businesses would also like to see more opportunities for small and local business to become involved in deals. The Scottish Government should coordinate the sharing of good practice and advise deal partners on how to work with businesses in their area. ONE's chief executive officer gave us some suggestions that might help attract and encourage business involvement in deals:

- Early involvement in the deal helps form strong relationships that are crucial as the deal develops.
- Flexibility is needed from both sides to make a relationship between the public and private sectors work.
- Public-sector partners need to think about how to demonstrate to private-sector partners the benefits of getting involved in deals, particularly given the time to get approval for proposals and business cases.



## Direct community involvement in deals is limited and links to community planning partnerships are not clear

**56.** The Scottish Government states that deals should build a consensus among all local stakeholders, including local people. But it has not stated what it expects in terms of direct community involvement in deals. Communities to date have had very limited direct involvement in the development of deals. Engaging communities on large-scale infrastructure and innovation projects is not straightforward and managing expectations is crucial. Transport Scotland holds public engagement events for its road projects and uses the feedback from these. Deals have generally adopted strategies to improve communication with the public. This is an important contribution to deal transparency and should help the public to scrutinise progress and hold deal partners to account.

**57.** More could be done to show how deals reflect the aspirations of communities. Although communities have generally not been directly involved in the deal-making process, communities' views should be the basis for community planning partnership (CPP) LOIPs and should be included in the priorities of local development plans. The extent of community planning partners' links to deals is not explicit in most of the signed deals. One exception is the Inverness and Highland deal. This is a single-council deal where the CPP is key and has strong links to the deal. More explicit alignment with local development plans, LOIPs and councils' corporate plans could provide more evidence that deals reflect community priorities.

**58.** Community Planning Partnerships also provide a means for those working on deals to engage with the NHS, which is one of the main community planning partners. Health bodies have had very little involvement in any of the deals to date. Health inequalities can be a major barrier to achieving inclusive growth, and input from health bodies could be vital to the success of deals. Poor health negatively affects people's economic activity. Without consideration of health there is a risk that measures to grow the economy are not fully realised.

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## Recommendations

**Effective scrutiny of individual deals is hampered by a lack of publicly available information on key decisions concerning their development.**

**Accordingly:**

**The Scottish Government and councils should:**

- consider how best to make more information publicly available as to the reasons behind key decisions on funding and project selection for signed deals, and for deals still being developed
- work together to improve the process for developing deal proposals and agreeing deals, for example by developing guidance clarifying what information local partners should provide in support of their proposals, how projects are expected to align with national priorities, and how working with other partners should be considered.

**Deals take significant time and resources to develop and can be heavily dependent on financial contributions from partners other than councils and the UK and Scottish Governments. Accordingly:**



**The Scottish Government should:**

- identify good practice in the development of deals and ensure this is made available for future deal proposals.

**Councils should:**

- ensure that the right skills, expertise and resources are made available for the management and delivery of deals
- regularly monitor the risk of partner funding not materialising as agreed and be aware of the financial implications for themselves if that risk is realised.

Deals involve significant public spending and it is imperative that governance arrangements should be effective in monitoring their progress. Accordingly:

**The Scottish Government should:**

- clarify the role of the SCRDDDB in coordinating and evaluating deals
- consider, along with the UK Government, how best to monitor the effectiveness of the SCRDDDB as the deals programme develops.

**Councils should:**

- work with partners to agree clear and commonly understood lines of accountability, including which body is ultimately responsible if things go wrong and how information on the progress of deals is reported to them
- work with deal partners to regularly review their governance, monitoring and risk-management arrangements to ensure they are clear and operating effectively
- consider the ways that internal audit can assist in ensuring their governance arrangements are effective.

Deals can benefit from the involvement of a range of partners in their development. Accordingly:

**The Scottish Government should:**

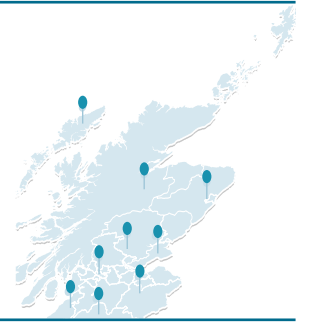
- clarify its expectations around community involvement in the development of deals.

**Councils should:**

- ensure a wide range of partners and stakeholders, including local businesses, voluntary organisations, communities and community planning partners including the NHS, are effectively engaged and represented in the deal development and agreement process and in the delivery of the deal.

# Part 3

## Progress to date and risks to the success of deals



### Key messages

- 1** Deals represent a long-term funding commitment for Scottish economic development and have enabled projects that may otherwise not have gone ahead. Deals have also been a catalyst for increased collaboration between councils and between councils and their partners.
- 2** The impact of deals is measured in different ways and the Scottish Government is still considering how best to measure their overall success. Individual deals include output measures such as new jobs created. But, five years after signing the first deal, the Scottish Government has not set out how deals will contribute to the outcomes in the National Performance Framework, meaning opportunities for the deals to contribute to these outcomes may have already been missed.
- 3** Shortages of staff, money and skills across councils are risks to the successful delivery of deals.

### Deals are generally progressing as planned

**59.** Once signed, deals have a clear delivery plan and timetable. Signed deals are in the early stages but are generally progressing as planned. The Glasgow deal is the most advanced and has had some delays largely because of processes involving changes to land use and planning applications. The deal's independent evaluators reported in February 2019 that 'good progress' was being made overall with the deal. The senior governing body is also content with the progress so far.

### The content of a deal may change as it develops

**60.** Given the relatively long timeframe of deals, the UK Government, the Scottish Government and local partners do not expect every project within a deal to progress as planned. The projects within each deal should be able to adapt to changes in national or local economies so that they remain relevant and maximise their impact. Similarly, when a deal is signed, detailed business cases are not put forward for all projects and so these may change over the course of the deal. For example, plans for the Glasgow Airport Rail Link are being reviewed because of concerns over the impact that the original plans would have on Glasgow Central station ([Case study 3, page 29](#)).

## Case study 3

### Glasgow Airport Access Project



The Glasgow Airport Access Project aims to improve access to Glasgow Airport. The Glasgow deal's senior governing body approved a strategic business case for the project in June 2015.

Further work was then carried out to look at two options: a tram-train model and a light-rail personal rapid transit system. The senior governing body approved an Outline Business Case (OBC) for the tram-train model as the preferred option in December 2016.

Because of the project's potential significant impact on the existing rail network in the West of Scotland, a joint executive steering group was set up by the Minister of Transport and Islands at that time to consider the project in more detail. This included looking at the impact a tram-train would have on the existing rail network's services and the wider economy. This group is currently chaired by the Cabinet Secretary for Transport, Infrastructure and Connectivity. It consists of the leaders and chief executives of Renfrewshire Council and Glasgow City Council, as the two lead councils, Transport Scotland, Glasgow Airport and Network Rail.

Consultants were brought in to audit the project's OBC and reported in 2017. The audit report identified concerns about whether the project could be carried out and whether it would remain successful in the long-term. The report stated that the project had the potential to impact negatively on other parts of the region's economy, including Renfrewshire, Inverclyde and North Lanarkshire.

These issues were discussed at the joint executive steering group in January 2019, where it was agreed that a recommendation be made to the deal's senior governing body to develop a revised OBC with a focus on Personal Rapid Transport (PRT). Further work is now under way to examine the PRT option within a revised OBC.


Partners in the Glasgow deal are still committed to improving access to Glasgow Airport. The timeline is unchanged, as is the £144 million funding allocated to the project.

Source: Audit Scotland

## Deals bring additional benefits

**61.** Deals are expected to promote inclusive economic growth over 10-20 years. It is too early to assess their impact on the economy, but some early benefits of deals can be seen.

### Deals bring a firm commitment to long-term funding

**62.** Deals represent a long-term funding commitment from both the UK and the Scottish governments. Regional partners welcome this. The total funding commitment from the UK and Scottish governments so far of over £2 billion for signed deals is significant. This equates to an average annual spend of around £125 million ([Exhibit 6, page 30](#)). Annual spend equates to only a relatively small proportion of councils' annual capital spend. The Scottish Government gave over £1 billion of **capital grants**  to councils in 2019/20.



### Capital Grants

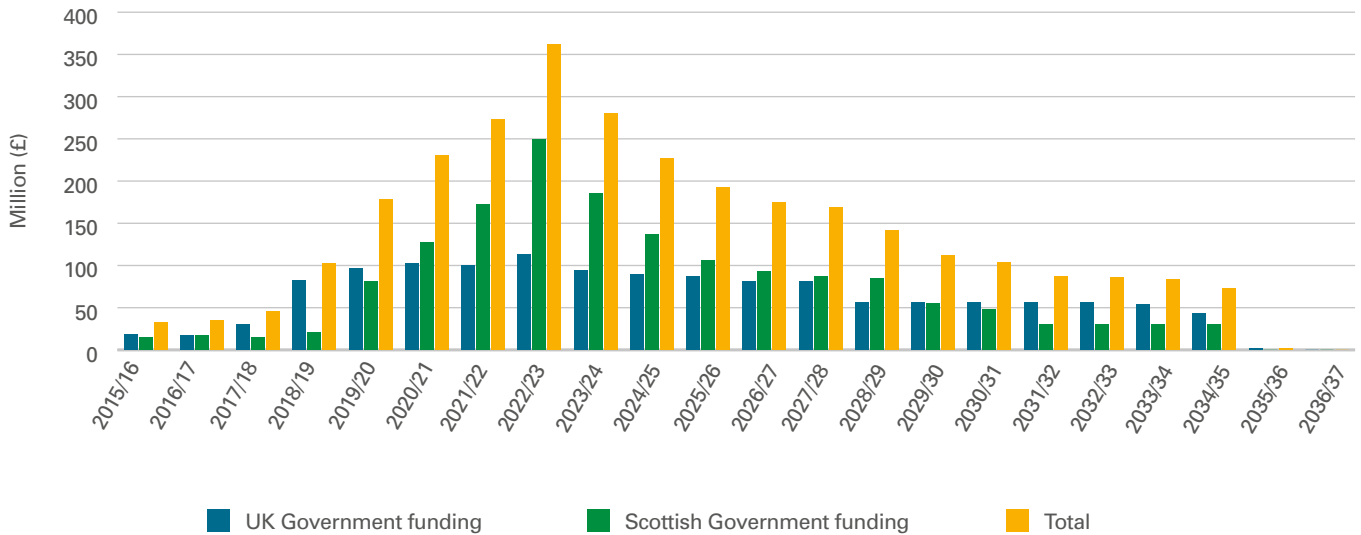
These allow councils to finance infrastructure projects or allow them to buy or make improvements to existing equipment, land or buildings.

On an annual basis, the Scottish Government issues two different types of capital grants (General Capital Grant and Specific Capital Grant) to support the expenditure of councils.

## Exhibit 6

### Timeline of spend to date and future funding for signed deals

Deals are funded over a long period, but the amount of funding is relatively small each year.



Source: Audit Scotland (based on Scottish Government monitoring and planning figures, August 2019)

**63.** As long-term commitments, deals require long-term spending plans which reflect the availability of funding. The Scottish Government has a working plan which sets out anticipated spend over the lifetime of each signed deal. This does not reflect future year budget commitments. Rather, the Scottish Government sets annual budgets and publishes a Medium-Term Financial Strategy each year. The Scottish Government’s working plan feeds into this strategy. The financial strategy is not intended to act as a multi-year budget but it should provide indications of future spending commitments.

**64.** Following the introduction of the Scotland Act 2012, the level of taxes raised, and therefore the Scottish Government’s budget, will vary in line with how Scotland’s economy performs. The Scottish Government needs to consider the impact that changes in its level of funding will have against its commitment to deals over the long-term. This may include scenario planning to consider how deals can be adapted to match the increased or decreased availability of funding, or consideration of how new sources of funding could be obtained. Such analysis should also consider what impact changes in funding and spending would have on the impact of deals.

**65.** Councils also need to think about the affordability of their financial contribution over the duration of deals as part of their longer-term financial planning and borrowing strategies. Councils’ combined contribution to deals signed so far varies considerably but works out on average around £41 million each year over the life of the deals.<sup>10</sup> While this represents only 0.6 per cent of the current annual revenue spend of councils who are involved in signed deals, it is still important for councils to monitor the impact of spending on deals on their overall spending capacity against a backdrop of increasingly tight council finances.

### **Deals have enabled economic development projects to go ahead**

**66.** Deals have helped councils and their partners to develop and begin economic development projects. These projects may already have been in councils' local development plans or Transport Scotland's priorities as set out in the Strategic Transport Projects Review 2008 but did not have identified funding. We did not find any project included in a deal that was expected to have still gone ahead at the same time and scale had the deal not been agreed. Deals appear to have led to projects going ahead that would otherwise not have, at least at that time.

**67.** Deal projects are seen as a package rather than as individual projects. This means that they should tie in with each other to provide greater value than they would on their own. For example, a data centre for Edinburgh's universities was developed through a project under the Edinburgh and South East Scotland deal. The universities could have developed this data centre on their own, but because it was developed as part of the deal it is also linked to transport, housing and skills development projects.

### **Deals have led to an increase in joint working**

**68.** The main benefit to date, as reported by all stakeholders, has been the increase in joint working between all deal partners, including the UK and Scottish governments, national agencies, councils, universities and business representatives. The idea of Regional Economic Partnerships came from the partnership working created by deals.<sup>11</sup>

**69.** There is evidence of an increase in joint working across councils among councillors and at chief executive and officer level and that this is beginning to influence how councils work and make decisions in other areas of council activity. For example, in the Glasgow city region, the chief executives are looking at how they could distribute funding to address child poverty and post-EU funding on a regional basis. This shift to more regional working is at an early stage and has not led to any service reform or transfer of powers or staff. It is important that partnership working continues beyond the development of deals.

### **The Scottish Government needs to be clearer about what it expects deals to achieve**

#### **The Scottish Government is still considering how best to evaluate deals**

**70.** The Scottish Government did not clearly set out what it hoped deals would achieve when it introduced them. It agreed on a series of output measures for individual deals. These measures are generally new jobs created and increased Gross Value Added (GVA).<sup>12</sup> But it did not clearly set out objectives or outcomes for the deals programme. SMART outcomes would have given more clarity on what the Scottish Government expected the deals to achieve and made it easier to measure progress and evaluate success.<sup>13</sup> Five years after signing the first deal, the Scottish Government has still to set clear objectives or outcomes for the deals programme.

**71.** The Scottish Government is still considering how to measure the success of deals in the long-term. It expects to report on the impact of the deals programme and on the impact of individual deals. It has not been clear on how it expects those responsible for individual deals to measure their impact. Those responsible for signed deals are monitoring their impact in various ways. Some are looking to attribute changes in the local economy to the deal but others are not.

**72.** The Scottish Government has not shown how deals are linked to the National Performance Framework (NPF), meaning opportunities for deals to contribute may have been missed. The NPF sets out a vision supported by a series of national outcomes the Scottish Government wants to see. The Scottish Government updated the NPF in 2016 and again in 2018, during the roll-out of the deals programme. The revised NPF is now more aligned with the UN's Sustainable Development Goals and has a stronger focus on inclusive growth and sustainable growth.<sup>14</sup> It includes a revised economic outcome: 'We have a globally competitive, entrepreneurial, inclusive and sustainable economy.' Ten national indicators feed into this outcome.<sup>15</sup>

**73.** These changes have resulted in a more direct link between the expected impact of deals and the NPF. Two of the national indicators (productivity and gross domestic product) link directly to the expected impacts of some of the signed deals. Before the NPF was updated, the expected impact of deals did not link directly to any of the eight national economic indicators.

**74.** Deals could also contribute to several of the other economic indicators in the NPF, such as access to broadband and income equality, and other wider outcomes such as 'we have thriving and innovative businesses, with quality jobs and fair work for everyone' and 'we live in communities that are inclusive, empowered, resilient and safe'. These are not stated as aims in the deal documents and have not been agreed as output measures for any of the signed deals. Without a clear link to the NPF, there is a risk that opportunities for deals to contribute to the outcomes may have been missed. Given that deals are at an early stage, there is still scope for the Scottish Government and councils to align output and outcome measures to show how deals are contributing to national outcomes.


**75.** At a deal level, wider benefits that would normally be expected from large capital investment projects, such as increases to land value, have not routinely been captured in deals. Without full economic and other benefits of deals being identified and measured it will be difficult for local and national governments to demonstrate value for money.

### **Guidance on how to assess the contribution of deals to inclusive growth is being developed**

**76.** The heads of terms for each deal state that regional partners will develop monitoring and evaluation frameworks that will allow the performance of the deal to be assessed. Some of those responsible for deals have raised concerns that they lack the expertise to measure the impact of deals. Regional partners are asking for a clear indication of how their success will be measured. There are concerns about the lack of clarity around what the Scottish Government means by inclusive growth and how they will evaluate it.

**77.** The Scottish Government is in the process of updating its inclusive growth monitoring framework to clarify how deals can demonstrate their contribution to inclusive growth. Five years after the Scottish Government signed its first deal, and four years after it committed to achieving inclusive growth in Scotland's Economic Strategy, this framework is yet to be finalised.

**78.** The Glasgow deal is the only signed deal that includes a specific output measure related to inclusive growth – to work with 19,000 unemployed people and support 5,000 to get back to sustained work. But the employability projects put in place to achieve this only account for just over two per cent of overall funding for the deal.

**79.** The Equalities and Human Rights Commission (EHRC) is working with deals to help them set **equality outcomes**  for each deal. Certain characteristics are protected by the Equality Act and it is against the law to discriminate against someone because of a protected characteristic. The EHRC's focus has been on creating opportunities for three of these protected characteristic groups: women, disabled people and those from ethnic minority communities. As the four signed deals have already agreed their projects there is a risk that some opportunities for them to contribute to equality outcomes may have been missed. Although as these deals develop there is still scope for them to show their impact.

**80.** It is important that the impact of deals on all groups is considered. One of the challenges encountered with deals so far is a lack of reliable data to measure the impact on disadvantaged groups or on equality outcomes, such as the number of new jobs created for people in these protected groups.

### **Given the stage of deals, reporting arrangements currently focus more on progress than impact**

**81.** The arrangements for monitoring the progress of deals have become more uniform over time. Each deal now must submit an annual report to the SCRDDDB, and these are published on the individual deal websites. Analysis of annual reports from the first three deals shows a varied approach. Annual reports cover standard items, such as governance, project performance and financial statements but there is some variation. For example, the Glasgow Annual Report 2017/18 has a specific section on the deal's monitoring and evaluation requirements whereas the 2018 Inverness Annual Report has a section on the additional benefits resulting from the deal.

**82.** Annual reports are followed up in a conversation between the SCRDDDB and the senior representatives of the deal, where progress and concerns are discussed. The SCRDDDB also receive reports and meet with partners involved in deals on a quarterly basis to monitor progress throughout the year. PMOs report that this has helped to improve their relationship with both the UK and the Scottish governments. Given that the deals programme is at an early stage, these discussions have looked more at the progress made towards setting up projects than benefits achieved so far.

### **Lack of staff and skills is a risk to the success of the deals**

#### **Shortages of money, staff and skills in councils put the successful delivery of deals at risk, particularly single-council deals**

**83.** At local level, deals are usually led by councils' economic development departments with support from colleagues from other services, such as legal and finance. The Accounts Commission reported in its 2019 local government overview report that councils have made staff reductions in services other than education and social work in recent years. This trend is expected to continue as council funding is reduced further.<sup>16</sup>

**84.** Developing deals can put extra pressure on teams that are already stretched. This is particularly the case for smaller councils, as there are fewer staff and staff often have wider remits. Deals can also put pressure on staff in other council departments, such as the legal and finance departments, which support the development of the deal. Councils recognise that, if they are to get funding for deals, they must commit staff, money and time. No extra funding is made available through deals to cover the cost of staff and other resources needed to



#### **Equality outcomes**

An equality outcome is a high-level, strategic goal that aims to drive an organisation's development towards furthering equality. Outcomes are the changes that result for individuals, communities, organisations or society as a consequence of the action organisations have taken.



deliver the deal projects. Councils and local partners are accountable for making sure staff, time and money are available to deliver the deal.

**85.** A lack of staff, particularly trained staff, is a risk to the successful delivery of deals. Officers from deals across Scotland raised concerns around the challenges of delivering deals owing to staff reductions. Often, staff working on deals are also working on other projects, and these could suffer if deals are prioritised. The NAO has raised similar concerns about councils' ability to manage and monitor deals in England.

**86.** Councils have taken different approaches to providing staff resources for deals. Some councils have decided to increase the number of staff and the amount of funding to create deal teams dedicated to managing and monitoring deal-related projects while others are using existing staff. It is important that councils consider the staff numbers needed to successfully deliver deal projects and the impact this may have on existing workloads.

### **Deals are reliant on a construction industry that is already stretched**

**87.** Most deals involve large-scale infrastructure projects. A skilled construction industry is required to deliver these projects to the necessary standards. Evidence to the Scottish Parliament's Economy, Energy and Fair Work Committee's inquiry, *Under Construction: Building the future of the sector in Scotland*,<sup>17</sup> identified that the industry is facing several challenges that could put the delivery of deals at risk. These include: a need for stronger leadership across the sector; shortage of skills; lack of diversity among the workforce; ineffective public sector procurement processes; and barriers to innovation and uptake of digital technology.

**88.** The committee made several recommendations to help address these challenges. The committee identified important roles for Skills Development Scotland in improving apprenticeship frameworks and raising awareness of opportunities among groups that are under-represented in the sector. This shows the importance of SDS being involved in deals. Partners working on deals should be aware of these challenges and recommendations, and the potential impact and opportunities for their deal.



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## Recommendations

Plans for measuring the success of deals need further development. Accordingly:

### The Scottish Government should:

- develop arrangements for measuring the impact of the overall deals programme, in particular how it has taken account of the full range of outcomes set out in the National Performance Framework and whether it has achieved value for money
- clarify for partners how they should measure and report on the impact of individual deals, including their delivery of inclusive growth and impact on the National Performance Framework. This is especially urgent for shorter-term deals that are already in the delivery stage.

### Councils should:

- work with partners to develop annual reports for deals, including how best to demonstrate progress and spend to date, challenges and risks encountered, and benefits to date
- consider how they will measure and report on the full long-term impact of the deal and whether it has achieved value for money
- consider arrangements for collecting and analysing data on different groups in their communities, including protected characteristic groups, to allow the impact of deals on all minority and disadvantaged groups to be evaluated.

It is important that the long-term funding commitment associated with deals is properly considered as part of financial planning. Accordingly:

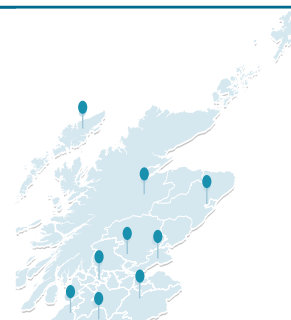
### The Scottish Government should:


- show how funding for deals fits into its longer-term financial plans.

### Councils should:

- look at how their deals affect their longer-term financial plans, capital programmes and borrowing strategies
  - ensure that they commit enough resources to the successful delivery of deals.
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# Endnotes



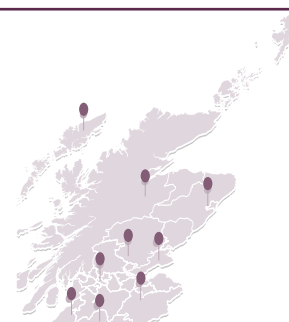
- 1 The Borderlands deal is a cross-border deal that includes three English councils – Carlisle City, Cumbria and Northumberland.
- 2 *Unlocking Growth in Cities*, UK Government White Paper, 2012.
- 3 Funding commitments from both governments have since been increased, to £520 million from the Scottish Government and £524 million from the UK Government.
- 4 *Agenda for Cities*, Scottish Government, 2011.
- 5 *Local Enterprise Partnerships*, National Audit Office, 2016.
- 6 *International research on regional economies: Implications for delivering inclusive growth in Scotland*, Oxford Economics, 2019.
- 7 The Scottish Centre for Regional Inclusive Growth is an online research and analysis service that focuses on regional inclusive growth in Scotland.
- 8 *Devolving responsibilities to cities in England: Wave 1 City Deals*, National Audit Office, 2015.
- 9 *Response to the Local Government and Communities Committee's Report 'City Regions: Deal or No Deal?'*, UK Government, 2018.
- 10 This figure is based on the average contribution each year for the four signed deals across the total lifetime of each deal.
- 11 *Enterprise and skills review: report on Phase 2*, Scottish Government, 2017.
- 12 Gross Value Added is the measure of the value of goods and services produced in an area, industry or sector of an economy.
- 13 SMART outcomes are outcomes that are Specific, Measurable, Achievable, Realistic and Timebound.
- 14 The United Nations' Sustainable Development Goals are 17 international interconnected goals which aim to tackle a range of global challenges as a means of promoting prosperity while protecting the planet.
- 15 *National Performance Framework*, Scottish Government, 2018.
- 16 [Local government in Scotland; Challenges and performance 2019](#) , Accounts Commission, 2019.
- 17 *Under Construction: Building the future of the sector in Scotland*, Scottish Parliament Economy, Energy and Fair Work Committee, 2019.

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# Appendix 1

## Audit methodology

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### **Our objective: to carry out an early assessment of how prepared the Scottish Government and councils are for deals.**

#### **Our audit questions:**

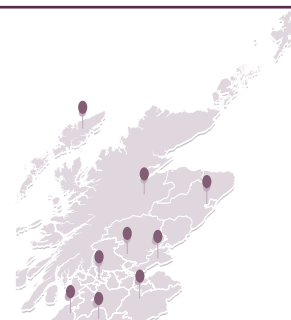
- Is it clear why the Scottish Government and other partners are taking deals forward, who is involved, how much money is committed and what deals are expected to achieve?
- Are arrangements in place to manage and monitor City Region and Growth Deals and to measure their impact at national and local level?
- What progress has been made in relation to City Region and Growth Deals so far and what are the risks to their success?

#### **Our methodology:**

- We conducted interviews with a range of stakeholders including: representatives from the Scottish Government; the Office of the Secretary of State for Scotland; individual PMOs of signed City Region Deals; working on deals in development; council officers; elected members; and representatives from the Convention of Scottish Local Authorities (COSLA), enterprise agencies, the Scottish Futures Trust and the EHRC.
- We reviewed policy documents and strategies as well as signed deal documents and heads of terms. We also reviewed individual business cases, monitoring reports, implementation plans and financial agreements in place.
- We performed a case-study analysis of the four signed deals as well as five deals that are in development (Ayrshire, Tay Cities, Moray, Borderlands and Islands).

# Appendix 2

## Advisory group membership



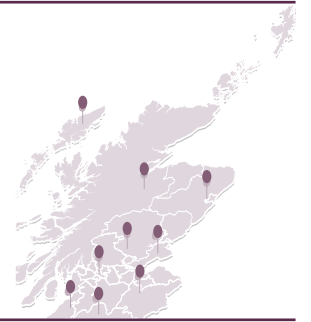
Audit Scotland would like to thank members of the advisory group for their input and advice throughout the audit.

Member	Organisation
Johanna Boyd	Adviser to the Equality and Human Rights Commission
Gillian Fyfe and Callum Lindsay	COSLA
Neil MacLennan	UK Government
Professor Duncan MacLennan	University of Glasgow
Barry McCulloch	Federation of Small Businesses
Professor Alan McGregor	University of Glasgow
Andy Nichol	City of Edinburgh Council
Julie Richards-Wood	Aberdeen City Council
John Robertson	Highland Council
Kevin Rush	Glasgow City Council
Dr Morag Watt	Scottish Government
Dr David Waite	University of Glasgow

Note: Members sat in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

# Appendix 3

## Scrutiny checklist for councillors



This scrutiny tool is designed to provide councillors with examples of questions they may wish to ask to help them better understand their council's deal and to scrutinise performance.

### How well informed am I?

#### Questions for councillors to consider

##### Part 1: The introduction of deals in Scotland

Do you know what impact the council's deal is expected to have on local and national priorities?

Do you feel you learn lessons from other councils and other deals about what works well?

##### Part 2: Making, managing and monitoring a deal

Do you know the reasons why projects were selected and not selected for your deal?

- Has your council informed local communities?

Do you know how much money your council is contributing to the deal?

- Has your council informed local communities?

How is progress of the overall deal and individual projects reported to the council?

- Does this work well?

Do you think the council has the capacity to deliver the deal?

Do you know who the council's partners are?

What engagement has the council had with partners when establishing and delivering the deal?

What involvement have local communities had in the deal process?

- Is this appropriate?
- Are links with community planning priorities and Local Outcome Improvement Plans clear?

What involvement have local businesses had in the deal process?

- Is this appropriate?

Is there clarity on your role and responsibilities in relation to the deal? Do you need further guidance on how to fulfil your role?

Does your council publish an annual report on the performance of the deal?

- Does this include progress against performance or outcomes?
- Does this include emerging risks?

### **Part 3: Impact of deals and risks to their successful delivery**

Do you see a clear link between the deal and priorities identified by local communities?

Do you know how the council will measure the impact of the deal and deal projects?

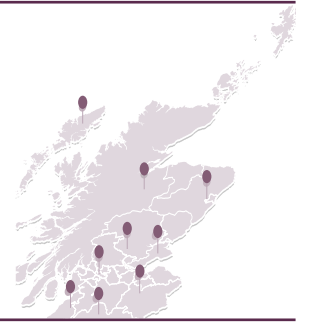
- Will this show the deals contribution to the national outcomes in the National Performance Framework?
- Will you be able to assess value for money?

Has the council considered the impact of its financial commitment to the deal within its longer-term financial plans and borrowing strategy?

- Is this regularly reviewed?

# Appendix 4

## Overview of signed deals



### Glasgow City Region Deal (20-year deal)

#### Funding



UK Government – £523.7 million  
 Scottish Government – £520 million  
 Councils – £153.9 million  
 Other regional partners – £29.2 million

Total =



#### Projects



**Infrastructure fund programme (£1.13 billion)** – a fund to support 21 infrastructure projects across the region. This programme aims to promote the growth of the regional economy by providing an improved transport network.

**Skills and employment (£24.6 million)** – three dedicated projects aim to reduce unemployment across the region by helping local people access the jobs created by the deal.

**Innovation and business growth (£72.14 million)** – three specific projects will aim to support the life sciences industry across the region.

#### Council partners



- Glasgow City Council (accountable body)
- East Dunbartonshire Council
- East Renfrewshire Council
- Inverclyde Council
- North Lanarkshire Council
- Renfrewshire Council
- South Lanarkshire Council
- West Dunbartonshire Council

#### External partners

- **National agencies**  
 Transport Scotland, NHS Scotland, Scottish Enterprise, Department of Work and Pensions, Skills Development Scotland, Scottish Fire and Rescue, Police Scotland
- **Regional bodies**  
 Strathclyde Partnership for Transport, Glasgow and Clyde Valley Strategic Development Plan Authority, Clydespan
- **Higher education/further education institutions**  
 representative from further education sector, University of Glasgow's private business enterprise BioCity Scotland Ltd

#### Governance



##### City Cabinet



Acts as the **Joint Committee** and is the ultimate decision-making body for the deal. The elected leaders of the eight councils serve on the City Cabinet and are ultimately responsible for delivering the deal.

Reporting to . . . ▶

UK and Scottish Governments

Supported by several advisory groups, including a chief executives' group, the Glasgow and Clyde Valley Economic Leadership Board, the Regeneration and Economy Consultative Group, and the independent Commission on Economic Growth (which provides independent advice on monitoring and evaluation).

## Aberdeen City Region Deal (10-year deal)

### Funding



UK Government – £125 million  
 Scottish Government – £125 million  
 Councils – £20 million  
 Other regional partners – £556.2 million

**Total =**



(In addition to this, the Scottish Government, private investors and Scottish Enterprise have announced further contributions to Aberdeen City Region Deal.)

### Projects



**Oil and Gas Technology Centre (£354.1 million)** – a new centre that will boost innovation in the sector in the North East. The centre aims to become the global centre for solving challenges related to offshore oil and gas mature basin, subsea and decommissioning technology.

**Agri-Food and Nutrition Hub for Innovation (£20.1 million)** – an international hub for innovation excellence that will help develop sustainable agriculture and nutrition for commercial product development and innovation.

**Bio-Therapeutic Hub for Innovation (£38 million)** – a new hub that will seek to make the North East the location of choice for companies engaged in next-generation bio-therapeutics.

**Digital connectivity (£32 million)** – improving the region’s digital infrastructure to help support growth in the region’s economy.

**Harbour expansion (£375 million)** – funding will be provided to help expand Aberdeen Harbour, including £25 million for improved transport links.

**Strategic transport appraisal (£7 million)** – a 20-year transport appraisal to assess the needs of the region.

### Council partners



- Aberdeenshire Council (accountable body)
- Aberdeen City Council

### External partners

- **National agencies**  
Transport Scotland, NHS Scotland, Scottish Enterprise, Department of Work and Pensions
- **Regional bodies**  
NESTRANS (Transport Partnership for Aberdeen City and Shire)
- **Higher education/further education institutions**  
Robert Gordon University, Aberdeen University
- **Private businesses**  
ONE, Oil and Gas Technology Centre, Aberdeen Harbour, BioCity Scotland Ltd

### Governance



#### Joint Committee



Comprises representatives from both councils and ONE. This is the senior governance body for the deal. It approves all business cases and monitors the progress of individual projects.

....Reporting to....

UK and Scottish Governments

Supported by individual project boards and a programme board made up of senior officers.



## Inverness and Highland City Region Deal (10-year deal)

### Funding



UK Government – £53.1 million  
 Scottish Government – £135 million  
 Councils – £119.7 million  
 Other regional partners – £7.3 million

Total =



### Projects



**Digital (£30 million)** – this aims to support the roll-out of improved broadband and mobile coverage across the Highlands.

**Northern Innovation Hub (£16 million)** – this will be designed to build on the sector strengths of the city region by providing tailored help for high-growth small and medium-sized businesses.

**UHI School of Health and Life Science (£9 million)** – a new centre of excellence will be installed at the university that will bring together partners working in the health and life sciences sector. A focus of this project is to promote the growth of the commercial life sciences sector in the region.

**Assisted living (£5.224 million)** – this will help to develop clusters of innovative assisted-living schemes at key locations across the region.

**Science Skills Academy (£3.06 million)** – this will provide a network of STEM (Science, Technology, Engineering and Mathematics) learning centres across the region that will provide state-of-the-art teaching spaces for science subjects.

**Inverness Castle (£33.46 million)** – this aims to make the site a world-class visitor attraction.

**Housing (£35 million)** – a programme to provide mid-market rental properties and a fund to invest in the enabling infrastructure required to open up key strategic housing sites in advance of investment for housing.

**Land remediation (£10 million)** – this will aim to create economic opportunities following improvements to the A9/A82 Longman junction.

**Transport (£173.36 million)** – funding for the development of the A9/A96 Inshes to Smithton link road, Longman Interchange, West Link and work to improve air access to the region.

### Council partners



- Highland Council

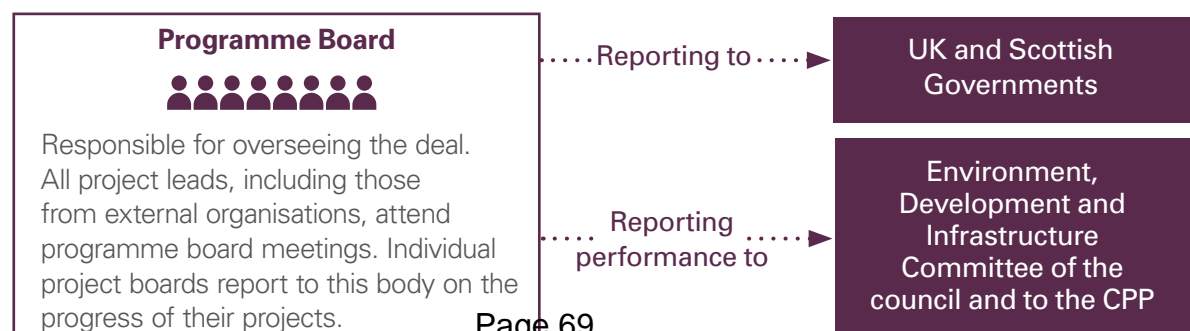
### External partners

- National agency**  
Transport Scotland
- Regional bodies**  
Highlands and Islands Enterprise, Albyn Housing Society, HITRANS (Highlands and Islands Transport Partnership)
- Higher education/further education institution**  
University of Highlands and Islands (UHI)
- Private business**  
Scottish Council for Development and Industry (SCDI)

### Governance




The governance structure for the deal has been built into the existing governance framework for Highland Council.




## Edinburgh and South East Scotland City Region Deal (15-year deal)


### Funding



UK Government – £300 million  
 Scottish Government – £300 million  
 Councils – £303.2 million  
 Other regional partners – £426.9 million

**Total =** 

### Projects



**Research, development and innovation projects:**

- **Data Driven Innovation (DDI) Programme (£661 million)** – the DDI project will be delivered through a network of five hubs. These hubs will draw upon the World Class Data Infrastructure project to provide the required underpinning data capability, and computing and data storage infrastructure.
- **Food and Drink Innovation Campus (£52 million)** – a new state-of-the art facility, located next to Queen Margaret University, that will support and develop sustainable new businesses' access to a global market for healthy and functional food.
- **Business Innovation (£78.48 million)** – creation of innovation space in Fife and the Scottish Borders.
- **Integrated Regional Employability and Skills Programme (£25 million)** – this programme hopes to increase employment opportunities for under-represented groups, increase the skill-set of local people and support people to overcome any barriers they face in trying to secure employment.


**Transport (£156 million):**

- **£120 million** to support improvements to the A720 City Bypass for the grade separation of the Sheriffhall Roundabout, which will be managed and delivered by Transport Scotland.
- **£36 million** to support public transport infrastructure improvements identified by the West Edinburgh Transport Appraisal.

**IMPACT Centre (£44.99 million)** – supporting the delivery of a new concert hall.

**Housing (£313 million)** – aims to accelerate the delivery of affordable housing across the region.

### Council partners




- City of Edinburgh Council (accountable body)
- East Lothian Council
- Fife Council
- Midlothian Council
- Scottish Borders Council
- West Lothian Council


### External partners

- **National agencies**  
Transport Scotland, NHS Scotland, Scottish Enterprise, Department of Work and Pensions, Skills Development Scotland, UK Research and Innovation, Scottish Funding Council
- **Higher education/further education institutions**  
University of Edinburgh, Borders College, Edinburgh College, Edinburgh Napier University, Fife College, Heriot Watt University, Newbattle Abbey College, Queen Margaret University, West Lothian College, Scotland's Rural College


### Governance



**Joint Committee**



This is the senior body. It includes all the local authority partners as well as representatives from the third sector and the region's higher education/further education sector.

...Reporting to... 

UK and Scottish Governments

Supported by various committees, including individual project boards, a chief executives' group and the Regional Enterprise Council,<sup>1</sup> which acts as the voice of the business community and third sector.

Note: 1. Members on the Regional Enterprise Council are selected based on their expertise rather than the organisation they represent.

# Scotland's City Region and Growth Deals

This report is available in PDF and RTF formats,  
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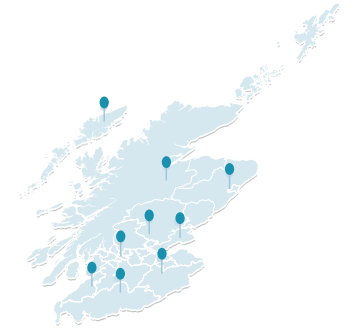
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# Scotland's City Region and Growth Deals

## Scrutiny tool checklist for councillors



This scrutiny tool is designed to provide councillors with examples of questions they may wish to ask to help them better understand their council's deal and to scrutinise performance.

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### How well informed am I?

#### Questions for councillors to consider

#### What do I know?

#### Do I need to ask any further questions?

#### Part 1: The introduction of deals in Scotland

Do you know what impact the council's deal is expected to have on local and national priorities?

Do you feel you learn lessons from other councils and other deals about what works well?

#### Part 2: Making, managing and monitoring a deal

Do you know the reasons why projects were selected and not selected for your deal?

Has your council informed local communities?



## How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
<p>Do you know how much money your council is contributing to the deal?</p> <p>Has your council informed local communities?</p>		
<p>How is progress of the overall deal and individual projects reported to the council?</p> <p>Does this work well?</p>		
<p>Do you think the council has the capacity to deliver the deal?</p>		
<p>Do you know who the council's partners are?</p>		
<p>What engagement has the council had with partners when establishing and delivering the deal?</p>		
<p>What involvement have local communities had in the deal process?</p> <p>Is this appropriate?</p>		
<p>Are links with community planning plans such as Local Outcome Improvement Plans clear?</p>		
<p>What involvement have local businesses had in the deal process?</p> <p>Is this appropriate?</p>		
<p>Is there clarity on your role and responsibilities in relation to the deal?</p> <p>Do you need further guidance on how to fulfil your role?</p>		

## How well informed am I?

Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
<p>Does your council publish an annual report on the performance of the deal?</p> <p>Does this include progress against performance or outcomes?</p> <p>Does this include emerging risks?</p>		

### Part 3: Impact of deals and risks to their successful delivery

<p>Do you see a clear link between the deal and priorities identified by local communities?</p>		
<p>Do you know how the council will measure the impact of the deal and deal projects?</p> <p>Will this show the deal's contribution to the national outcomes in the National Performance Framework?</p> <p>Will you be able to assess value for money?</p>		
<p>Has the council considered the impact of its financial commitment to the deal within its longer-term financial plans and borrowing strategy? Is this regularly reviewed?</p>		

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## **INTERNAL AUDIT CHARTER**

**Report by Chief Officer Audit & Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**9 March 2020**

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

- 1.1 **This report provides the Audit and Scrutiny Committee with the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.**
- 1.2 The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 1.3 In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Officer Audit & Risk, as the Chief Audit Executive at Scottish Borders Council, must periodically review the Internal Audit Charter and present it to senior management (Corporate Management Team) and the board (Audit and Scrutiny Committee) for approval.
- 1.4 The Internal Audit Charter as shown in Appendix 1 to this report has been updated by the Chief Audit Executive (SBC's Chief Officer Audit & Risk) in conformance with the PSIAS for approval by the Audit and Scrutiny Committee to ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice.

#### **2 RECOMMENDATIONS**

- 2.1 **I recommend that the Audit and Scrutiny Committee approves the updated Internal Audit Charter, as shown in Appendix 1 to this report.**

### 3 BACKGROUND

- 3.1 The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 3.2 The SBC Internal Audit function follows the professional standards as set out in the PSIAS which came into effect on 1 April 2013 (amended 2017), along with the CIPFA Local Government Application Note for the United Kingdom. The PSIAS have been developed by the standard setters (CIPFA for local government) through the Internal Audit Standards Advisory Board (IASAB) and have been based on the Institute of Internal Auditors International Standards of Professional Practice.
- 3.3 In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Audit Executive at Scottish Borders Council (the Chief Officer Audit & Risk) must periodically review the Internal Audit Charter and present it to 'senior management' (Corporate Management Team) and the 'board' (Audit and Scrutiny Committee) for approval.
- 3.4 The Internal Audit Charter as shown in Appendix 1 to this report: establishes the Internal Audit activity's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.
- 3.5 Within the PSIAS a Public Sector requirement states the Internal Audit Charter must also:
- define the terms 'board' and 'senior management' for the purposes of Internal Audit activity;
  - cover the arrangements for appropriate resourcing;
  - define the role of Internal Audit in any fraud-related work; and
  - include arrangements for avoiding conflicts of interest if Internal Audit undertakes non-audit activities.
- 3.6 The Internal Audit Charter, since its previous approval by the Audit and Scrutiny Committee on 11 March 2019, has been updated to:
- Reflect the change in reporting line of CAE associated with the revised Corporate Management structure from January 2020;
  - Reflect the Council decision 26 September 2019 to reintegrate all of the services directly delivered by the SB Cares ALEO into the Council from 1 December 2019; and
  - Amend reference to Corporate Risk Officer to reflect resource arrangements for risk management activity from September 2019.
- 3.7 The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2020/21 that sets out the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions. It also sets out the Council's assurance framework within which Internal Audit operates.

## 4 IMPLICATIONS

### 4.1 Financial

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment. Internal Audit resources are set out in the Internal Audit Strategy and Plan 2020/21.

### 4.2 Risk and Mitigations

- (a) The authority for Internal Audit to operate in Scottish Borders Council is contained in the Local Code of Corporate Governance and in the Financial Regulations. This Internal Audit Charter expands upon that framework.
- (b) Approval of the Internal Audit Charter (Appendix 1), as recommended in this report, will ensure that Internal Audit is tasked to carry out its role in accordance with PSIAS and best Corporate Governance practice.
- (c) The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. The work of Internal Audit (including its opinion on the control environment) shall contribute to the Council's review of its corporate governance arrangements the outcome of which is published in the Annual Governance Statement.
- (d) At all times, Management's responsibilities (led by the Corporate Management Team) include:
  - Designing and maintaining proper risk management, governance and internal control processes and systems for which they have responsibility to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. These evolve as the Council changes.
  - Checking that these governance arrangements and internal controls are operating effectively, and obtaining assurances from internal compliance, risk, inspection, quality, and control functions.

(The above are known as the first and second lines of defence.)

  - Engaging with Internal Audit (the third line of defence) in a positive way to achieve shared goals for robust internal control and governance, best value and improvement, and ensuring that Internal Audit can properly fulfil its role.
  - Considering and acting upon Internal Audit findings and conclusions, including implementation of audit recommendations within agreed timescales and updating Pentana performance system, or accepting responsibility for any resultant risk from not doing so.
  - Seeking advice and consultancy support from Internal Audit on existing controls and on changes to and transformation of governance, processes and procedures.
- (e) Applying the framework of the PSIAS will give the Audit Committee assurance that the Internal Audit function is compliant with legislative requirements and current best practice.

#### 4.3 Equalities

It is anticipated there will be no equalities issues associated with this report. The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance.

#### 4.4 Acting Sustainably

It is anticipated that there are no adverse economic, social or environmental effects of this report.

#### 4.5 Carbon Management

It is anticipated that there are no carbon management issues associated with 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.

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

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

### 5 CONSULTATION

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

5.2 The Executive Director Finance & Regulatory, the Chief Legal Officer (the Monitoring Officer), the Chief Officer HR, the Clerk to the Council and Communications team have been consulted on this report and any comments received have been taken into account.

#### 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

**Background Papers:** Local Code of Corporate Governance; Financial Regulations

**Previous Minute Reference:** Audit and Scrutiny Committee 11 March 2019

**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)

## INTERNAL AUDIT CHARTER

### INTRODUCTION

In accordance with the Public Sector Internal Audit Standards (PSIAS), the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

The Council has adopted the definition of Internal Auditing as given in the PSIAS:

*Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes<sup>1</sup>.*

### OBJECTIVES OF INTERNAL AUDIT

Internal Audit's responsibility is to report to the Council on its assessment of the adequacy of the entire control environment, through the Corporate Management Team ('senior management') and the Audit and Scrutiny Committee (the 'board' for the purposes of Internal Audit activity for the Council).

Internal Audit adds value to the organisation (and its stakeholders) by enhancing governance, risk management and internal control and objectively providing assurance.

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:

- In support of the Council's vision, values and priorities.
- As a contribution to the Council's management of risks, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
- As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 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 performance information are accurate and reliable.

Scottish Borders Council's Internal Audit function provides assurance services to the Pension Fund and the Scottish Borders Health and Social Care Integration Joint Board (SBIJB). It will apply the same standards as defined in this Charter to any work undertaken for the Pension Fund and the SBIJB, with separate Internal Audit plans and reports presented to their respective 'senior management' and 'board'.

<sup>1</sup> Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)  
Audit and Scrutiny Committee – 9 March 2020

## **POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION**

In terms of the PSIAS, the status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The Chief Audit Executive (CAE) should have "sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation"<sup>2</sup>

The CAE within the Council (the Chief Officer Audit & Risk) has full access to those charged with governance for each organisation, specifically the elected members or board members and the 'senior management' team. The CAE has free and unfettered access to the Chair of each organisation's 'board' (audit committee or equivalent) to discuss any matters the committee or auditors believe should be raised privately.

In terms of accountability and independence to ensure conformance with PSIAS, the CAE reports functionally to Scottish Borders Council's Audit and Scrutiny Committee. In this context functional reporting<sup>3</sup> means the Audit and Scrutiny Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based Internal Audit Annual Plan.
- Ratify the Internal Audit budget and resource plan to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.
- Receive communications from the CAE on the Internal Audit activity's performance relative to its plan and other matters.
- Ratify all decisions regarding the appointment or removal of the CAE.
- Provide feedback to contribute to the performance appraisal of the CAE.
- Make appropriate enquiries of Management and the CAE to determine whether there are inappropriate scope or resource limitations.

The CAE is line managed by the Executive Director but retains responsibility for all operational audit activity and reports in their own name and retains final right of edit over all Internal Audit reports.

The reporting line will be managed in a manner which: ensures the CAE is accorded open and direct communication with Management; ensures the CAE and the Internal Audit function have an adequate and timely flow of information concerning the activities, plans and initiatives of the Council, Pension Fund, and IJB.

## **RIGHTS OF ACCESS**

The CAE and any member of the Internal Audit service, authorised by them relevant to the performance of audit engagements for each of the organisations, has authority to:

- Have access at any reasonable times to all computer systems and records (both paper and electronic).
- Require and receive explanations concerning any matter under examination from personnel relevant to their roles including elected members or board members.
- Enter at all reasonable times and without notice any properties, provided that where such properties are leased to a third party that the terms of the lease are observed.
- Require personnel to produce cash, stores, or other assets under their control.

Internal Audit will safeguard all information obtained in the carrying out of its duties, will only use it for defined purposes and will make no disclosure of any information held, unless this is authorised or there is a legal or professional requirement to do so.

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<sup>2</sup> Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

<sup>3</sup> Chartered Institute of Internal Auditors (CIIA) – International Standards for Professional Practice of Internal Auditing  
*Audit and Scrutiny Committee – 9 March 2020*

## **SCOPE OF INTERNAL AUDIT ACTIVITY**

For each organisation Internal Audit will systematically review, appraise, make appropriate recommendations for improvement, and report upon:

- The efficacy of governance arrangements put in place to achieve the organisation's objectives and priorities.
- The effectiveness of all internal controls and other arrangements put in place to manage risk, in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the organisation's objectives (this involves 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).
- The completeness, reliability and integrity of information, both financial and operational performance, including working alongside Services in a 'critical friend' role to authenticate any self-assessment evidence of Service performance and improvement.
- The systems established to ensure compliance with policies, plans, procedures, laws and regulations whether established by the organisation or externally.
- The effectiveness of arrangements for safeguarding the organisation's assets and interests, including fraud prevention controls and detection processes (this involves liaising with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit; and this might involve assisting or liaising in fraud investigations where appropriate).
- The economy, efficiency and effectiveness with which resources are deployed.
- The extent to which Services' operational practices are being carried out as planned and objectives and goals are met.

Internal Audit's work covers:

- All activities, systems, processes, policies and protocols that are currently existing or under development.
- All records, personnel and properties.
- All services and other activities for which the organisation is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

## **AUDIT RESOURCES AND WORK PRIORITISATION**

The CAE will ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of qualifications, knowledge, skills and other competencies needed to perform the plan such as compliance with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance. Sufficient refers to the quantity of resources needed to accomplish the plan. Effectively deployed refers to when they are used in a way that optimises the achievement of the approved plan.

The SBC Internal Audit Annual Plan as approved by the Audit and Scrutiny Committee will be the main determinant of the relative priority to be placed on each part of the work of Internal Audit, with Internal Audit Annual Plans specific to the Pension Fund and the Health and Social Care Integration Joint Board being approved and monitored by their respective 'senior management' and 'board'. The CAE will determine the actual deployment of available resources covering the range and breadth of audit areas which are integral to the assurance process across the activities of the Council, Pension Fund, and IJB in order to provide the statutory annual internal audit opinion to each organisation's 'senior management' and 'board'. This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of each organisation.

The Plan will have within it provision of resources as contingency to respond to specific control issues highlighted during the year and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies.

The Plan will have within it provision of resources for Internal Audit 'critical friend' consultancy that are valued by Management to support them in delivering innovation, change and transformation. This allocation will reflect what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.

In the event that there is a need for greater audit work than there are resources available, the CAE will identify the shortfall in the plan and initially advise the Chief Executive, Executive Director, and s95 officer followed by the Audit and Scrutiny Committee as required. It will be for the Audit and Scrutiny Committee to decide whether to accept the risks associated with the non-delivery of such audit work or to recommend to the Council that it requires Management to identify additional resources.

## **NON AUDIT ACTIVITIES**

The Internal Audit service will preserve its independence and objectivity by ensuring that: staff are free from any conflicts of interest when undertaking assurance audits; and there is clarity on duties undertaken during audit consultancy engagements.

The CAE has managerial responsibility for the corporate functions and resources which develop, support and advise on the frameworks in place at the Council on Risk Management and on Counter Fraud to support Management. In order to prevent a perceived impairment of objectivity and to ensure that Internal Audit independence and objectivity is maintained and demonstrated, any planned audit engagements solely on Risk Management and Counter Fraud frameworks will be carried out by Internal Audit with the CAE as the client and therefore with no involvement in the delivery and reporting of the Internal Audit reviews. The Principal Internal Auditor will be accountable for those audit engagements directly to the Executive Director during the period.

## **APPROVAL**

The Internal Audit Charter was reported to and approved by the Audit and Scrutiny Committee at its meeting on *9 March 2020* and will be subject to regular review by the CAE and the Audit and Scrutiny Committee.



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## **INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2020/21**

**Report by Chief Officer Audit & Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**9 March 2020**

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

- 1.1 The purpose of this report is to gain approval to the proposed Internal Audit Strategy and Internal Audit Annual Plan 2020/21 to enable the Chief Officer Audit & Risk to prepare annual opinions on the adequacy of the overall control environment for Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board.**
- 1.2 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 (updated 2017) which requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation's goals. The plans also require to be sufficiently flexible to reflect the changing risks and priorities pertaining to each organisation.
- 1.3 A fundamental role of the Council's Internal Audit function is to provide senior management and members with independent and objective assurance which is designed to add value and improve the organisation's operations. In addition, the CAE is also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment.
- 1.4 The report presents the background to the Internal Audit Strategy at Appendix 1 that outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance to meet the Internal Audit Charter.
- 1.5 The proposed Internal Audit Annual Plan 2020/21 at Appendix 2 sets out the range and breadth of audit areas and sufficient work within the audit programme of work to enable the CAE to prepare an Internal Audit annual opinion. Key components of the audit planning process include a clear understanding of the organisation's functions, associated risks, and assurance framework.
- 1.6 There are staff and other resources currently in place to achieve the Internal Audit Annual Plan 2020/21 and to meet its objectives.

#### **2 RECOMMENDATION**

- 2.1 I recommend that the Audit and Scrutiny Committee approves the Internal Audit Strategy (Appendix 1) and Internal Audit Annual Plan 2020/21 (Appendix 2).**

### **3 BACKGROUND**

- 3.1 The Local Authority Accounts (Scotland) Regulations 2014 that 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 organisation.

### **4 INTERNAL AUDIT STRATEGY**

- 4.1 The key standards within the PSIAS which relate to Managing the Internal Audit Activity are summarised below:  
“The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.  
The internal audit activity is effectively managed when:
- The results of the internal audit activity’s work achieve the purpose and responsibility included in the internal audit charter;
  - The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and
  - The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.
- The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.”
- 4.2 The Internal Audit Strategy at Appendix 1 outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance to the relevant organisation’s senior management and board/audit committee.
- 4.3 The Internal Audit Strategy reflects the Council decision 26 September 2019 to reintegrate all of the services directly delivered by the SB Cares ALEO into the Council from 1 December 2019. This has had the effect of reducing the percentage allocation of resources to Non-SBC organisations and increasing the percentage allocation of resources to the Council.

### **5 INTERNAL AUDIT ANNUAL PLAN 2020/21**

- 5.1 The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:
- No. 2010 – Planning which states that “the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”
  - No. 2020 – Communication and Approval which states that “the chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.”
- 5.2 The CIPFA Audit Committees guidance states that “The audit committee should seek to make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to provide an annual internal audit opinion that can be used to inform the Annual Governance Statement. Specific activities will include:
- Approving (but not directing) the risk-based plan, considering the use made of other sources of assurance.”

Also, "The committee will wish to seek assurance from the HIA that appropriate risk assessment has been carried out as part of the preparation of the internal audit plans when they are presented."

- 5.3 The Internal Audit Annual Plan 2020/21 at Appendix 2 outlines the proposed reviews, grouped into key themes as set out in the Internal Audit Strategy at Appendix 1. There is a brief commentary for each review.
- 5.4 The following table summarises the initial allocation of available Audit Days by key theme for the Internal Audit Annual Plan 2020/21:

<b>Key Theme</b>	<b>Audit Days 2020/21</b>
Corporate Governance	145
Financial Governance	110
ICT Governance	30
Internal Controls	220
Asset Management	55
Legislative & Other Compliance	40
Consultancy	85
Other	75
<b>SBC</b>	<b>760</b>
<b>Non SBC</b>	<b>50</b>
<b>Total Audit Days</b>	<b>810</b>

- 5.5 The plan 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. Any amendments relating to the Council will be brought to Corporate Management Team and the Audit and Scrutiny Committee for approval.
- 5.6 The Non SBC days reflect the Council's commitment to provide Internal Audit assurance resources to the Pension Fund and to the Health and Social Care Integration Joint Board. Separate Internal Audit annual plans will be presented to their respective Board/Audit Committee for approval. The reintegration of all of the services directly delivered by the SB Cares ALEO into the Council from 1 December 2019 has been reflected in the plan; this has the effect of shifting 35 Audit days from Non-SBC to SBC.

## **6 IMPLICATIONS**

### **6.1 Financial**

The Internal Audit staff resources comprise Chief Officer Audit & Risk (50% recharged to Midlothian Council for the shared services provision which brings the opportunity for sharing best practice), one Principal Internal Auditor, one Senior Internal Auditor, and three Internal Auditors, for the provision of Internal Audit Services to Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board in a collaborative way with the Corporate Fraud and Compliance Officer and the Corporate Risk Officer. The Revenue Financial Plans which were approved by the Council on 26 February 2020 reflect this arrangement and resources, though it should be noted that this includes budget reduction for staff turnover adjustment of 4% in accordance with corporate financial policy.

## 6.2 Risk and Mitigations

The Internal Audit objectives in its Charter include "As a contribution to the Council's management of risks, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives".

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. To capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risks and mitigations on corporate and operational risk registers have been considered.

## 6.3 Equalities

There are no direct equalities issues.

## 6.4 Acting Sustainably

There are no direct economic, social or environmental issues.

## 6.5 Carbon Management

There are no direct carbon emissions impacts.

## 6.6 Rural Proofing

Not applicable.

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

None.

## 7 CONSULTATION

7.1 The Service Director Finance & Regulatory, the Chief Legal Officer (the Monitoring Officer), the Chief Officer HR, the Clerk to the Council and Communications team have been consulted on this report and any comments received have been taken into account.

7.2 The Corporate Management Team has been consulted on the risk-based audit approach and the resultant planned audit coverage to ensure it will provide assurance on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities within the Council. Senior Managers have been engaged in discussions on the key risks and the planned audit coverage.

7.3 Audit Scotland, the Council's appointed external auditor, has been consulted on the approach and the resultant planned Internal Audit coverage to ensure that audit work is co-ordinated and programmed to avoid duplication and maximise assurance.

### Approved by

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

**Signature .....**

### Author(s)

Name	Designation and Contact Number
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**Background Papers:** Audit Universe; Risk Registers

**Previous Minute Reference:** Audit and Scrutiny Committee 11 March 2019

**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)

**1. AIM OF STRATEGY**

- 1.1. The aim of this strategy is to guide SBC Internal Audit function in delivering a high quality internal audit service to Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board, which is capable of:
- providing the statutory annual assurance and audit opinion on the adequacy of each organisation's risk management, internal control and governance arrangements to the relevant organisation's senior management and board/audit committee;
  - carrying out all other objectives contained in Internal Audit's Charter; and
  - adding value to each organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to their strategic priorities .

**2. STRATEGY OBJECTIVES**

- 2.1. The objectives of this strategy are to:
- Outline the assurance framework which comprises assurances from within the organisation and from external providers of assurance to improve the organisational understanding of the expectations of Internal Audit;
  - State how the key themes which are integral to the assurance gathering process across the organisation's activities will be covered to inform the annual audit opinion statement;
  - Describe the approach to the development of the risk based Internal Audit Annual Plan;
  - Set out the relative allocation of Internal Audit resources;
  - Outline how the Internal Audit programme of work will be delivered to add value; and
  - Describe the monitoring and reporting of the Internal Audit findings from its work and progress with its plans to the relevant organisation's Audit Committee/Board.

**3. ASSURANCE FRAMEWORK**

- 3.1. It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. These are known as the first and second lines of defence. Internal Audit, as the third line of defence, is the review function which will provide independent assurance on the effectiveness of the first and second lines of defence, challenge current practices, recommend best practice and improvements to lead to a strengthening of the control environment and management of risks, therefore assisting the organisation in achieving its objectives.
- 3.2. The organisation's assurance framework is the means by which the relevant organisation's Senior Management and Audit Committee/Board ensures that they are properly informed on the risks of not meeting objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of systems in place to mitigate those risks.
- 3.3. The assurance framework comprises assurances from within the organisation (from Management and compliance functions, and independent assurance from Internal Audit) and from external providers of assurance. For example, Accounts Commission, External Audit (Audit Scotland - 5 year appointment 2016/17 to 2020/21 inclusive - for SBC, Pension Fund, and IJB), Education Scotland, Care Inspectorate, Scottish Housing Regulator, etc.
- 3.4. The assurances are considered during the annual review of the effectiveness of each organisation's overall governance framework carried out by officers of each organisation and supported by Internal Audit. The output is the Annual Governance Statement which is included within their respective Annual Report and Accounts.
- 3.5. Where audit assurance is required on Services that are delivered by public sector joint working arrangements which include the organisation as a partner, these assurances will be sought as appropriate from partners' Internal Audit service providers and Management.

#### **4. KEY THEMES INTEGRAL TO INTERNAL AUDIT ASSURANCE**

- 4.1. Each organisation is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Fundamentally corporate governance is about the systems and processes, and cultures and values that are used by each organisation to discharge those responsibilities in a timely, inclusive, open, honest and accountable manner. This includes: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law; Ensuring openness and comprehensive stakeholder engagement; Defining outcomes in terms of sustainable economic, social, and environmental benefits; Determining the interventions necessary to optimise the achievement of the intended outcomes; Developing the entity's capacity, including the capability of its leadership and the individuals within it; Managing risks and performance through robust internal control and strong public financial management; Implementing good practices in transparency, reporting, and audit to deliver effective accountability.
- 4.2. Each organisation's statutory financial officer, Section 95 Officer or equivalent, i.e. Chief Financial Officer (roles relevant to the Council, Pension Fund, and IJB) is responsible for the proper administration of each organisation's financial affairs. Under their direction, each organisation's system of internal financial control is based on a framework of Financial Regulations (rules and regulations for financial management or administration arrangements linked to other key financial documents that set out the policy framework, associated strategy, and the more detailed procedures and guidelines), regular Management Information, administrative procedures (including segregation of duties), Management Supervision, and a system of Delegation and Accountability.
- 4.3. The continued use of and investment in technology to support service delivery, and digital change and transformation to improve operations is a key part of the vision for each organisation, underpinned by the Council's ICT service delivery outsource contract with CGI. The overarching framework of the ICT security policy is designed to ensure that computer systems are secure, reliable and conform to nationally agreed standards, and the ICT Strategy is designed to support effective and modern service delivery to meet corporate objectives.

#### **5. APPROACH TO PERIODIC PLANNING**

- 5.1. The Internal Audit Strategy and the Internal Audit Annual Plan 2020/21 have been prepared in conformance with the Public Sector Internal Audit Standards (PSIAS) to fulfil the requirement to produce the statutory annual assurance and audit opinion for each organisation.
- 5.2. As part of the Internal Audit planning process it was necessary to consider each organisation's objectives, priorities, strategies, plans, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with each organisation's goals, as follows:
  - Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage, and Risk Registers were checked to confirm coverage on key corporate risks; and
  - Account is taken of known external audit and inspection activities to avoid duplication of assurance work. For example: Discussions are held to agree which Internal Audit assurance work will be relied upon by External Audit for its annual audit; the schools Internal Audit work on internal financial controls is designed to complement inspections carried out by Education Scotland; and any matters raised by other inspection and regulatory bodies, including Care Inspectorate and Scottish Housing Regulator, are considered.
- 5.3. The audit planning process involves consultation with key stakeholders including discussions with Senior Management and with the External Auditors of each organisation to capture potential areas of risk and uncertainty more fully. This is of particular importance during a period of change and transformation as each organisation responds to new legislation or service delivery arrangements that might affect plans, priorities and resources.

## 6. ALLOCATION OF INTERNAL AUDIT RESOURCES

- 6.1. The Internal Audit staff resources comprise Chief Officer Audit & Risk (shared with Midlothian Council and recharged), one Principal Internal Auditor, one Senior Internal Auditor, and three Internal Auditors with a mix of qualifications, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS) needed to perform the plan. The Available Audit Days reflects the Internal Audit resources after consideration of annual leave, public holidays, sickness absence (estimated), learning and development, management and supervision.
- 6.2. It is estimated that around 84% of Internal Audit's available days will be spent on *assurance, legislative and other compliance, and other* activities combined. The Assurance work includes sufficient work across a range and breadth of audit areas within the key themes of *Corporate Governance, Financial Governance, ICT Governance, Internal Controls and Asset Management* which assure those processes that are currently in place and which Management rely on to deliver services, and to enable preparation of the statutory annual audit opinion on the adequacy of the organisation's overall control environment.
- 6.3. An estimate of around 10% of Internal Audit's available days will be utilised on consultancy activities which support Management in delivering innovation, change and transformation through Internal Audit 'critical friend' challenge and quality assurance of change programmes and projects. Management seek this added value activity though this allocation reflects a reasonable estimate of what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.
- 6.4. It is estimated that around 6% of Internal Audit's available days will be spent on the provision of Internal Audit services to non-SBC organisations i.e. Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board. This reflects the Council's contribution of corporate support resources to partner organisations.

## 7. APPROACH TO DELIVERY OF PROGRAMME OF WORK

- 7.1. To facilitate operational delivery an Internal Audit Programme of Work will be developed which provides an indication of when work will be scheduled during the year, taking account of discussions with Senior Management and the availability of Internal Audit resources.
- 7.2. For each *assurance* audit within the key themes of *Corporate Governance, Financial Governance, ICT Governance, Internal Controls and Asset Management*, in line with recognised good practice an Audit Assignment detailing the scope, objectives and timing will be prepared and agreed with the relevant Executive/Service Director and Manager prior to commencement of the Internal Audit fieldwork. Internal Audit will:
  - Within the *Corporate Governance* and *Internal Control* assurance work, use the organisation's Local Code of Corporate Governance (Council/IJB) or Business Plan (Pension Fund) as an integrated toolkit to test the extent of compliance;
  - Within the *Financial Governance* and *Asset Management* assurance work, undertake end-to-end reviews of financial management and administration processes to test the extent of compliance (an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably), carry out substantive testing of transactions and balances to ensure completeness and accuracy of data in core systems, and review Plans to deliver the organisation's objectives and priorities against best practice standards;
  - Within the themed *ICT Governance* assurance work, test the ICT arrangements in place to protect each organisation's computer systems from attack in relation to data security, integrity and availability and to conform to nationally agreed standards, and review ICT Strategy and Plans to confirm they are designed to support modern service delivery and each organisation's objectives and priorities;
  - During the course of all *assurance* work consider fraud risk and prevention and detection controls, and other appropriate cross-cutting risks and controls (such as performance management, community engagement, equalities, and health and safety), and highlight examples of effective internal controls and share good practice across Service areas; and
  - Consider and apply National Reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies. Engage proactively with, assist, and advise Management on best practice to evidence improvements.

- 7.3. The *Legislative and Other Compliance* work will include testing in accordance with the terms of the funders' service level agreements or legislative requirements.
- 7.4. Within *Consultancy* activities Internal Audit will continue to add value to each organisation as it transforms its service delivery models, re-designs its business processes, and utilises technology to automate processes by influencing and offering ways to enhance the governance and internal control environment. Internal Audit in its 'critical friend' role will provide internal challenge as part of strategic and service reviews, advise on effective controls for new systems and activities, highlight opportunities to reduce costs through greater economy and efficiency, provide quality assurance on a sample of projects involving major change and systems development, and provide an independent assessment of the evidence to support self-evaluation and improvement.
- 7.5. *Other* work will include: performing potentially high risk *Contingency* audits, investigations and review of issues highlighted during the year that may be the result of a weakness in internal controls or that may be requested by Management or the relevant organisation's Audit Committee/Board; carrying out *Follow-Up* to monitor progress with implementation of Audit recommendations and ensure these 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 (Audit recommendations will be input to the Pentana performance management system to assist relevant Management in tracking and recording their implementation in a consistent way); and responding to *Counter Fraud* data sharing requests from Police Scotland, Audit Scotland (National Fraud Initiative), and other partners as part of the wider assurance framework on counter fraud and crime controls.

## **8. MONITORING AND REPORTING THE WORK OF INTERNAL AUDIT**

- 8.1. The Public Sector Internal Audit Standards (PSIAS) require periodic reporting on the Internal Audit activity to the relevant organisation's Senior Management and Audit Committee/Board.
- 8.2. The PSIAS also require an annual Internal Self-Assessment and an External Quality Assessment (EQA) each five years to assess conformance with the Definition of Internal Auditing and Standards and the application of the Code of Ethics. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) implemented a "peer review" framework, in which SBC participates, as a cost effective means of complying with the EQA requirement. Reporting on outcomes include a statement on conformance with PSIAS and the quality assurance and improvement plan (QAIP) to enable an evaluation of conformance with the PSIAS, and to identify opportunities for improvement.
- 8.3. Internal Audit work completed and work in progress for the Council within regular reports to its Audit and Scrutiny Committee will include an Executive Summary of the audit objective, good practice, findings, recommendations, and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management in the period.
- 8.4. Regular reports to the Council's Audit and Scrutiny Committee, and the IJB Audit Committee will provide progress updates on implementation by Management of relevant Audit recommendations for each organisation.
- 8.5. Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plan, and outcomes of assessment(s) against PSIAS will be considered by the CAE on a regular basis and formally reported every six months to the Council's Corporate Management Team and the Audit and Scrutiny Committee, within a Mid-Term Performance Report and the Annual Assurance Report.
- 8.6. The Internal Audit Annual Assurance Report for each organisation (Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board) to their respective Senior Management and Audit Committee/Board will provide the statutory annual audit opinion on the levels of assurance based on Internal Audit findings and conclusions over the year to inform each organisation's Annual Governance Statement.



## Appendix 2 Internal Audit Annual Plan 2020/21

AUDIT	2020/21 (Days)	COMMENTARY
<b>Corporate Governance</b>		
Corporate Governance	30	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.
Information Governance	25	Continuous 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). Provide annual assurance to the Senior Information Risk Owner (SIRO).
Performance Management	30	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 either Local Government Benchmarking Framework or Corporate Priorities PIs. Assess progress of the review and revision of the Performance Management Framework.
Corporate Transformation Programme - Fit for 2024	10	Review 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.
Contract Management - Strategic Contracts	15	Review of the Council's Contract Management Framework to ensure that there are adequate and effective controls in place over Contract Monitoring arrangements throughout the Council, including sports trusts and strategic arrangements with third parties.
Business Planning, Budget Setting, Monitoring and Reporting	20	Ensure business plans are aligned to Council priorities, that the systems and procedures for preparing, monitoring and controlling the budget, including efficiency savings, are robust, that the roles and responsibilities of budget holders are clear, and there is transparency of reporting to Elected Members.
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. Review the management and use of the Council's appraisal process via Business World ERP system to ensure PRD and training needs are addressed.
	<b>145</b>	

AUDIT	2020/21 (Days)	COMMENTARY
<b>Financial Governance</b>		
Payroll	25	Compliance testing of controls at Service level, including Business World assurance work on Payroll processes.
Sales to Cash	10	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. Business World assurance work on Sales to Cash processes.
Procurement to Payment	25	Review of purchase to payment processes at Service level including authorisation to test compliance. Business World assurance work on Procure to Pay processes.
Record to Report	15	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.
Treasury & Banking	10	Treasury functions are administered effectively and in compliance with policy, strategy, codes of practice and indicators, including a review of the change to the Council's banking providers.
Revenues (Council Tax and NDR)	25	Assess the application and key controls regarding Council Tax and NDR exemptions and discounts, and progress with the development of the Corporate Address Gazetteer. 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.
	<b>110</b>	

## Appendix 2 Internal Audit Annual Plan 2020/21

AUDIT	2020/21 (Days)	COMMENTARY
<b>ICT Governance</b>		
ICT Strategy	15	Ensure that the ICT Strategy is aligned to Council priorities and business requirements. Review of client relationship and contract management with CGI to assess compliance with Service Delivery and terms and conditions.
ICT Operational Computer Systems	10	Review the change request processes in place to ensure they are fit for purpose to support service delivery.
ICT Cyber Essentials	5	Review the self-evaluation and evidence associated with Cyber Essential requirements
	<b>30</b>	
AUDIT	2020/21 (Days)	COMMENTARY
<b>Internal Controls</b>		
Schools	40	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments including evaluation of the systems in place to set and monitor DSM budgets.
Adults & Children with Physical Disabilities	15	Assess the adequacy of controls to provide ability aids and equipment and other services through partners to meet the needs of people with physical disabilities. Ensure there is sound budgetary control in place.
Mental Health Services (Adults & Children)	15	Assess the governance arrangements in place to commission specialist mental health services to promote closer integration and partnership working to meet the needs of people with mental health needs. Ensure there is sound budgetary control in place.
Foster and Kinship Carer Payments	15	Review the controls in place to ensure payments to foster and kinship carers payments are accurately and correctly calculated and acted upon.
Community Justice	20	Assess the adequacy of internal controls, administrative procedures and resources in place to meet statutory obligations.
Community Equipment Service	15	Assess the adequacy of operational processes and practices in place to meet the needs of users to ensure the efficient and effective operation and delivery of the Community Equipment Service.
Social Work Locality Offices	20	Review of the internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources, including evaluation of the systems and processes.
Benefits Assessments - Scottish Welfare Fund	20	Assess the adequacy of operational processes in place to administer the payment of Crisis Grants and Community Care Grants for the Scottish Welfare Fund (SWF) and that they are effective, appropriate and consistent.
Homelessness (Temporary Accommodation)	15	Review the rent accounting processes and procedures in place, including collection and recovery of rents for temporary accommodation.
Waste & Recycling Services	25	Ensure there are adequate operational and financial controls in place for the effective delivery of waste and recycling services.
Parks & Environment	20	Procedures and controls are in place to provide for efficient and effective use of operational resources in Parks & Environment pertaining to the Cemeteries and Burials service delivery.
	<b>220</b>	

## Appendix 2 Internal Audit Annual Plan 2020/21

AUDIT	2020/21 (Days)	COMMENTARY
<b>Asset Management</b>		
Asset Registers	15	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 Technology Forge Cloud.
Capital Investment	20	Review the governance arrangements in place for capital planning and investment including strategic asset management plans to ensure these are aligned to Council priorities and business requirements.
Roads Asset Management	20	Assess that the Council has a structured framework for Roads Asset Management (roads, bridges, footways, lighting), including an inspection programme and management information and reporting, to demonstrate efficient and effective use of resources.
	<b>55</b>	
AUDIT	2020/21 (Days)	COMMENTARY
<b>Legislative &amp; Other Compliance</b>		
Jedburgh / Hawick Conservation Area Regeneration Scheme (CARS)	20	Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.
EU Funded Programmes (LEADER and European Maritime Fisheries Fund )	10	Annual audits of EU grant-funded programmes under the terms of Service Level Agreements (SLAs) to assess compliance with the requirements of the SLAs and the relevant EC Regulations.
Sustainable Environment	10	Assess progress with the development of new governance arrangements to meet obligations regarding sustainable environmental programmes, including corporate and social responsibility.
	<b>40</b>	
AUDIT	2020/21 (Days)	COMMENTARY
<b>Consultancy</b>		
Advice	20	Provision of ad-hoc Internal Audit advice and assistance on internal controls, risk management and governance in response to requests.
Corporate Transformation Project Boards / Teams and Other Forums	65	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 programmes and projects involving major change and systems implementation; provide independent challenge of the evidence to support improvement; and perform an independent and objective assessment of the evidence to support self-evaluation and improvement in support of Best Value.
	<b>85</b>	
AUDIT	2020/21 (Days)	COMMENTARY
<b>Other</b>		
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.
Follow-Up	20	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.
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.
	<b>75</b>	
	<b>760</b>	

## Appendix 2 Internal Audit Annual Plan 2020/21

AUDIT	2020/21 (Days)	COMMENTARY
<b>Non Scottish Borders Council</b>		
<b>Scottish Borders Pension Fund</b>	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.
<b>Scottish Borders Health and Social Care Integration Joint Board</b>	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.
	<b>50</b>	
<b>Total Audit Days</b>	<b>810</b>	