

SCOTTISH BORDERS COUNCIL AUDIT AND SCRUTINY COMMITTEE

MINUTE of Meeting of the AUDIT AND SCRUTINY COMMITTEE held Via Microsoft Teams on Monday, 23 November 2020 at 10.15 am

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

In Attendance:- Executive Director Finance & Regulatory, Executive Director Corporate Improvement & Economy (para 8), Chief Officer Audit & Risk, Clerk to the Council, Democratic Services Officer (F. Walling); Ms G. Woolman – Audit Scotland.

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 22 October 2020.

DECISION

APPROVED for signature by the Chairman.

2. **ACTION TRACKER**

There had been circulated copies of the Action Tracker for the Audit and Scrutiny Committee. In reviewing the Action Tracker, the Chief Officer Audit & Risk advised that status updates would be circulated to Members by email for the two outstanding actions relating to the Annual Assurance Statement 2019/20 to the Scottish Housing Regulator. In terms of the action relating to Police Community Action Teams Governance, the Clerk confirmed that a report would be brought to the next Audit & Scrutiny meeting on 10 December 2020.

DECISION

NOTED the Action Tracker

AUDIT BUSINESS

3. **MID-TERM TREASURY MANAGEMENT REPORT 2020/21**

3.1 There had been circulated copies of a report by the Executive Director Finance & Regulatory presenting the mid-year report of treasury management activities for 2020/21 in line with the requirements of the CIPFA Code of Practice, including Prudential and Treasury Management Indicators, and seeking comments from Audit and Scrutiny Committee prior to consideration of the report by Council. This provided a mid-year report on the Council's treasury activity during the six month period to 30 September 2020 and demonstrated that Treasury activity in the first six months of 2020/21 had been undertaken in full compliance with the approved Treasury Strategy and Policy for the year. Appendix 1 to the report contained an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators, and proposed revised estimates of these indicators in light of the 2019/20 out-turn and experience in 2020/21 to date for Council approval. The Pension & Investments Manager, Kirsty Robb, highlighted the main points of the Council's Capital Expenditure and Financing summarised in the Appendix to the report. She referred to the element of slippage in the capital programme as a result of COVID-19. Detailed explanations of the movements within the planned expenditure had been reported in the ongoing monitoring reports, the last of which was to the Executive Committee on 17 November 2020. Due to the overall financial position with

the effect of COVID-19 on the capital programme and the higher than normal cash level held, Ms Robb explained that there had been no new external borrowing undertaken so far this year. It was anticipated that borrowing of £10m would be undertaken during the remainder of the financial year.

- 3.2 The Executive Director Finance & Regulatory and Ms Robb answered Members' questions and gave further detailed information where requested. In terms of investments and opportunities to invest surplus balances in the short term, the Executive Director Finance & Regulatory gave assurance that the Council deposited surplus funds only in triple A rated institutions and the priorities when looking at money market funds were security, liquidity and yield in that order. The Chairman asked a question about the Loan Charges estimate contained in the Council's Financial Plan and whether the interest element of the Council's PFI contracts was included in those Loan Charges. The Executive Director Finance & Regulatory explained that accounting for PFI was undertaken separately and under different regulations controlled nationally. Ms Robb offered to provide clarification to the Chairman of how the estimated loan charges figure of £19.111m was calculated. In terms of the PFI contracts the interest rate was fixed for the life of the 25 year contract. There was a facility for re-financing but this was the responsibility of the contractor, with the Council being entitled to a share of any subsequent re-financing gain. The Chairman suggested that it would be helpful to have a paper presented at the next Audit Committee meeting with a summary of the facts relating to the financial elements of the PFI contracts and to explore any opportunities to make national representations through COSLA to change the regulations.

DECISION AGREED:-

- (a) to note that treasury management activity in the six months to 30 September 2020 was carried out in compliance with the approved Treasury Management Strategy and Policy; and**
- (b) that the Treasury Management Mid-Year Report 2020/21, as contained in Appendix I to the report, be presented to Council for approval of the revised indicators; and**
- (c) to request the Executive Director Finance & Regulatory bring a briefing paper on the financial elements of PFI contracts, including any changes being sought on the national regulations.**

4. INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2020/21

- 4.1 With reference to paragraph 7 of the Minute of 9 March 2020, there had been circulated copies of a report by the Chief Officer Audit & Risk to inform of the progress Internal Audit had made, in the first 6 months of the year to 30 September 2020, towards completing the Internal Audit Annual Plan 2020/21. It also summarised the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards (PSIAS). The Internal Audit Annual Plan 2020/21 that was approved by the Audit and Scrutiny Committee on 9 March 2020, set out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer Audit and Risk (the Council's Chief Audit Executive (CAE)), to provide the statutory annual Internal Audit opinion regarding the adequacy and effectiveness of internal control within the Council. Internal Audit assurance services and annual opinions were also provided to the Scottish Borders Pension Fund Board and Committee, and the Scottish Borders Health and Social Care Integration Joint Board to meet their obligations. Appendix 1 to the report provided details of the half-yearly progress by Internal Audit with the delivery of its programme of work. Internal Audit had made good progress in the first half of the year, despite the COVID-19 pandemic response, though amendments to the Internal Audit Plan 2020/21 required approval by the Committee. At the 23 June 2020 meeting, the Chief Officer Audit & Risk had advised members that, due to the effects of the COVID-19 emergency response, the

Internal Audit Annual Plan 2020/21 had been re-assessed in terms of potential changes i.e. add audits to cover new risks, re-schedule medium risk audits to later in the current year, and defer low risk cyclical audits to a future year. The report listed the proposed Audits to be deferred to 2021/22. The revised Internal Audit Annual Plan 2020/21 (Appendix 1) was now being presented for approval.

- 4.2 The Chief Officer Audit & Risk, Jill Stacey, answered Members' questions and provided more information, in particular about any implications of the audits being deferred. Ms Stacey accepted it was unusual to have a significant change in the audit plan but she was aware that many other Local Authorities were in a similar position. She assured Members that this was a risk-based Internal Audit Plan and in each case, there had been good engagement with Management about the deferral. In some of the services concerned deferral of the audit aligned with strategies relating to the FF24 programme. She agreed that the deferrals may put pressure on capacity to carry out audits in 2021/22 although some of the scheduled audits were cyclical rather than risk based. Although some work may have to be realigned she did not expect there to be a significant impact.

DECISION

AGREED to note the progress Internal Audit had made towards completing the Internal Audit Annual Plan 2020/21, to confirm that it was satisfied with the Performance of the Internal Audit service, and to approve the revisions to the Internal Audit Annual Plan 2020/21.

5. PROGRESS ON IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

- 5.1 With reference to paragraph 6 of the Minute of 25 November 2019, there had been circulated copies of a report by the Chief Officer Audit & Risk providing an update to members of the Audit and Scrutiny Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during 2019/20 and previous years. A table within the report highlighted the current status of Internal Audit recommendations from current and previous years and further details on those recommendations not yet fully implemented were shown in Appendix 1 to the report. In light of the Management resources deployed to the Covid-19 emergency response, the Chief Officer Audit & Risk in April 2020 agreed to an automatic 3-month extension to the due dates of all open Audit recommendations in the Pentana Risk system. In response to the Audit and Scrutiny Committee decision "Requested that the Corporate Management Team determined an escalation process to address those Internal Audit recommendations not completed within the agreed timescale", two quarterly update reports on Internal Audit recommendations had been presented to the Corporate Management Team on 22 July 2020 and on 21 October 2020, to enhance Management monitoring and oversight of progress. Corporate Management Team had drawn attention to the requirement for Internal Audit recommendations to be more routinely cited in Departmental Management Team meetings as part of the monitoring process.
- 5.2 Members asked questions about particular outstanding Internal Audit Recommendations as listed in Appendix 1 to the report, expressing concern about the length of time some were overdue. With regard to the recommendation relating to the delayed Digital Customer Access Programme, Mr Robertson explained that the project had been subject to revision due to the system having to be redesigned. Testing on that was now being finalised and business intelligence work nearing completion. Members requested that the senior managers involved in that programme be asked to attend the next Audit & Scrutiny Committee (Audit business) meeting to provide further information. After Members had received detailed answers to questions about several other actions, there was a general discussion about the way in which the information was presented within the report and Appendix. Members asked for more clarity within the narrative, confirmation that the older actions were still relevant, and an indication in the report of which outstanding actions represented a significant level of risk.

DECISION

AGREED:-

- (a) to acknowledge the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks;**
- (b) that further action was still required by Management to implement those outstanding Internal Audit recommendations;**
- (c) to note that Internal Audit would continue to monitor for completion of the outstanding recommendations and would provide update reports to the Audit & Scrutiny Committee.**
- (d) to request that the senior managers implementing the Digital Customer Access programme attend the next meeting of the Audit & Scrutiny Committee (Audit business) to provide further information.**

6. INTERNAL AUDIT WORK TO OCTOBER 2020

With reference to paragraph 9 of the Minute of 22 October 2020, there had been circulated copies of a report by the Chief Officer Audit & Risk providing 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 in the period from 1 to 31 October 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21 was detailed in this report. During this period a total of 3 Final Internal Audit Reports had been issued, on the following subjects: Treasury Management; EU Funded Programmes LEADER and EMFF; and Community Equipment Service. There were no recommendations made, with a category of comprehensive assurance given to the audit of Treasury Management and substantial assurance given to the other two audits. 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 shown in Appendix 1 to the report. Also included in the report was a summary of current Audit Assurance work in progress. In a discussion of the report Members asked for further information about the Community Equipment Service audit, referring in particular to the previous and outstanding recommendation relating to the signature of the Service Level Agreement (SLA) regarding the funding package for this service to ensure its financial sustainability. Mr Robertson confirmed that the service sought to recycle and re-use all equipment within the store and that although the agreement was for a 50:50 funding split between the Council and NHS Borders the SLA was with NHS Borders and was still to be signed. At the request of the Committee, Mr Robertson agreed to write to the Chief Executive of NHS Borders to encourage the SLA to be signed-off at the earliest opportunity.

DECISION

AGREED to:-

- (a) note the final assurance reports issued in the period from 1 to 31 October 2020 associated with the delivery of the approved Internal Audit Annual Plan 2019/20;**
- (b) note 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) acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work; and**

- (d) **request that the Executive Director Finance & Regulatory write to the Chief Executive NHS Borders to encourage sign-off at the earliest opportunity of the SLA relating to the Community Equipment Service.**

7. RISK MANAGEMENT IN SERVICES

7.1 The Executive Director Corporate Improvement & Economy, Rob Dickson, was in attendance to give a presentation on the strategic risks facing the service and the internal controls and governance in place to manage/mitigate those risks, to demonstrate how risk management was embedded within services. With the aid of slides, which included a description, detailed assessment, internal controls and scoring for each risk area, Mr Dickson firstly gave a summary of five Corporate Risks which he managed for the Corporate Management Team. The five Corporate Risks were: Contract Monitoring, now incorporating Live Borders, SB Contracts and CGI; External Events; Major Incidents; Political Instability; and Climate Change. In terms of Climate Change, Mr Dickson explained that this was work in progress with the recent formation of the Sustainable Development Committee and associated reports to Council. Work was being undertaken to update the risk with new Risk Factors, Consequences, Internal Controls and Linked Actions. Once this work was completed, a Risk Score and Target Risk could be decided. In time, Climate Change would have its own Risk Register. Mr Dickson moved on to refer to the Service Risk Registers he oversaw: Planning, Development & Building Standards; Emergency Planning; and Economic Development. Mr Dickson referred in particular to Emergency Planning and the pressure the service had been under over the past 12 months, with the Peebles High School fire, major flooding events and the COVID-19 outbreak. The presentation concluded with reference to three additional Risk Registers relating to Live Borders; Tweedbank Programme Board; and SBC Brexit.

7.2 In a discussion of the presentation, a question was asked as to whether there was a risk in relation to the capacity of Directors to provide what had often been 24-hour cover in relation to the management of major incidents and recent events. Mr Dickson explained that, whilst it used to be the case that just the Chief Executive and Executive Director Corporate Improvement & Economy shared the responsibility for management of emergency events, a range of senior colleagues were now involved and were being given formal training. Members recognised the importance of good communications and use of media particularly in relation to emergency events. As the press were often keen to have comments from elected Members on these occasions, a question was asked about training Members on media engagement. The Clerk confirmed that specific media training had been provided within this term of office to Members with particular areas of responsibility, but this could be revisited. The Chairman thanked Mr Dickson for his presentation and it was noted that the slides would be circulated to Members for their information.

DECISION

NOTED the presentation

MEMBERS

Ms H. Barnett and Mr M Middlemiss left the meeting.

SCRUTINY BUSINESS

8. SCRUTINY WORK PROGRAMME

With reference to paragraph 10 of the meeting of 10 February 2020, and after discussion with the Chairman, there had been circulated copies of an updated version of the previously agreed Scrutiny Work Programme. The Clerk provided further information in response to questions about certain hearings.

DECISION

NOTED the dates for hearings for the Scrutiny Work Programme.

The meeting concluded at 12.30 pm