

Public Document Pack



AUDIT AND SCRUTINY COMMITTEE MONDAY, 23 NOVEMBER 2020

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held on MONDAY, 23 NOVEMBER 2020 at 10.15 am. The meeting will be conducted by Microsoft Teams live event. Arrangements are in place to stream the meeting for public viewing. Further information and a link is provided on the Council's website

As previously agreed, there will be a meeting of Members of the Committee at 9.30 a.m. prior to the main meeting. The main focus will be on actions to address areas of improvement identified in the Audit and Scrutiny Committee Annual Report 2019/20 and other learning and development.

J. J. WILKINSON,
Clerk to the Council,

16 November 2020

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
4.	Minute (Pages 3 - 10) Minute of Meeting of the Audit and Scrutiny Committee held on 22 October 2020 to be approved and signed by the Chairman. (Copy attached.)	5 mins
5.	Action Tracker (Pages 11 - 12) To note progress made on the Action Tracker. (Copy attached.)	5 mins
AUDIT BUSINESS		
6.	Mid-Term Treasury Management Report 2020/21 (Pages 13 - 32) Consider mid-term report by Executive Director Finance & Regulatory on the Council's Treasury Management activities undertaken during first half of financial year 2020/21 for review and scrutiny prior to Council approval. (Copy attached.)	15 mins
7.	Internal Audit Mid-Term Performance Report 2020/21 (Pages 33 - 44) Consider a report by Chief Officer Audit & Risk on progress Internal Audit	15 mins

	has made during the first half of the year towards completing the Annual Plan 2020/21 and an outline of performance. (Copy attached)	
8.	Progress on Implementation of Internal Audit Recommendations (Pages 45 - 56) Consider a report by Chief Officer Audit & Risk on the status of the implementation by Management of recommendations made and agreed in Internal Audit reports during 2019/20 and previous years. (Copy attached)	15 mins
9.	Internal Audit Work to October 2020 (Pages 57 - 64) Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and other work in progress to deliver the approved Internal Audit Annual Plan 2020/21. (Copy attached)	15 mins
10.	Risk Management in Services Presentation by Executive Director Corporate Improvement & Economy on the strategic risks facing the Service and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within Services. (Verbal presentation)	30 mins
11.	Any Other Audit Items Previously Circulated.	
12.	Any Other Audit Items which the Chairman Decides are Urgent.	
SCRUTINY BUSINESS		
13.	Scrutiny Work Programme (Pages 65 - 68) Confirm new work programme (copy attached).	10 mins
14.	Any Other Scrutiny Items Previously Circulated.	
15.	Any Other Scrutiny Items which the Chairman Decides are Urgent.	

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.

Membership of Committee:- Councillors S. Bell (Chairman), H. Anderson, J. A. Fullarton, J. Greenwell, N. Richards, E. Robson, H. Scott, E. Thornton-Nicol, S. Scott, Mr M Middlemiss and Ms H Barnett

Please direct any enquiries to Fiona Walling Tel: 01835 826504
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**SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE**

MINUTES of Meeting of the AUDIT AND
SCRUTINY COMMITTEE held Via MS
Teams on Thursday, 22 October 2020 at
10.00 am

Present:- Councillors S. Bell (Chairman), H. Anderson, K. Chapman, J. A. Fullarton, J. Greenwell, N. Richards, E Robson, H. Scott, S. Scott, E. Thornton-Nicol and Mr M. Middlemiss.

Apologies: Councillor S Scott, Ms H Barnett.

In Attendance:- Executive Director Finance & Regulatory, Service Director Customer and Communities, Chief Officer Audit and Risk, Clerk to the Council, Democratic Services Officer (J Turnbull).
Mrs G Woolman and Mr G Samson – Audit Scotland.

1. WELCOME AND INTRODUCTIONS

The Chairman opened the meeting and welcomed members of the Audit and Scrutiny Committee and members of the public to the Scottish Borders Council's open on-line meeting. The meeting was being held remotely in order to adhere to guidance on public meetings and social distancing currently in place, due to Covid-19 pandemic

AUDIT BUSINESS

2. MINUTE.

There had been circulated copies of the Minute of 28 September 2020. With reference to paragraph 5 and 6 of the Minute, it was noted that the presentations on Customer and Communities Risk Management and Best Value Audit Action Plan had been circulated to members of the Committee.

DECISION

APPROVED for signature by the Chairman.

3. ACTION TRACKER.

There had been circulated copies of the Action Tracker for the Audit and Scrutiny Committee. The Chief Officer Audit and Risk, advised that there were a number of completed Actions. The Action Tracker captured the key decisions raised at the 28 September 2020 meeting, outstanding actions and status.

DECISION

NOTED the Action Tracker.

4. EXTERNAL AUDIT ANNUAL REPORT 2019/20 FOR SCOTTISH BORDERS COUNCIL PENSION FUND

With reference to paragraph 4.4 of the Minute of 23 September 2019, there had been circulated copies of a report by Audit Scotland in respect of Scottish Borders Council Pension Fund. Mrs Woolman, Audit Scotland, presented the report, highlighting that exceptionally this year, the report included an 'Emphasis of Matter' paragraph which related to the uncertainties caused by Covid-19 on property investment portfolio valuations. This was a generic issue across all private and public pension funds. In response to questions, Mr Samson advised that with regard to the £0.94m unadjusted

error, this was because not all of Fund managers' valuations of illiquid assets had been received on time. This 'timing issue' might be ongoing each year with some investments. As the amount was less than the materiality level, the accounts were not required to be adjusted. With regard to financial sustainability, Mr Robertson explained that cash flow was monitored on an ongoing basis and the Strategic Asset Allocation was amended, as necessary, to reflect future cash flow requirements. The Pension Fund was well-diversified to protect against a range of uncertainties, the Fund now had £818m of assets under management, a rise from £712m at the end of March. Mr Robertson further advised that overseas pensioners were required to provide a Life Certificate for continuation of their pension payments. UK pensioners were not required to provide a certificate as Registrars' death notifications were used to check eligibility. Regarding the proposed self-service facility, Mr Robertson confirmed that telephone contact would be retained for enquiries.

DECISION

NOTED Scottish Borders Council Pension Fund Annual Report 2019/20 from the Council's External Auditor.

5. FINAL PENSION FUND ANNUAL REPORT AND ACCOUNTS 2019/20

There had been circulated copies of a report by Executive Director Finance and Regulatory. The report provided the Audit and Scrutiny Committee with an opportunity to scrutinise the final Account Report and Accounts for the Pension Fund for 2019/20 prior to their submission to Scottish Borders Council for signature. The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 specified the elements which must be contained in the Annual Report and Accounts, contained in Appendix 1 to the report. Audit Scotland had now completed their audit and had given an unqualified audit opinion. They had identified two new recommendations and three recommendations from 2018/19 requiring action and these had been accepted by Management and would be enacted within the agreed timescales. The Annual Report had also been presented to members of the Pension Fund Committee and Pension Board for approval prior to Scottish Borders Council for signature. With regard to the complexity of regulatory changes, Mr Robertson explained that officers regularly attended and engaged in pension training events to ensure the Fund complied with all requirements. Mrs Stacey added that the internal audit opinion concluded that risk management was firmly embedded in the decision making process.

DECISION

NOTED the Scottish Borders Council Pension Fund Annual Report and Accounts for 2019/20.

6. EXTERNAL AUDITORS' ANNUAL AUDIT REPORTS 2019/20.

6.1 With reference to paragraph 4.1 of the Minute of 23 September 2019 there had been circulated copies of covering letters and a report by Audit Scotland, the Council's external auditors. The report explained that Audit Scotland had now completed the audit of the Council's Annual Accounts for 2019/20 and had given an unqualified audit opinion in all cases. Mrs Woolman and Mr Samson from Audit Scotland summarised the report. Mrs Woolman advised that the financial statement gave a true and fair view and included, exceptionally, an 'Emphasis of Matter' paragraph for Common Good Funds and the Ormiston Trust for Institute because of the uncertainties caused by Covid-19 on property valuations. There were no unadjusted misstatements or material weaknesses in the accounting and internal control systems identified during the audit. The Committee confirmed that they knew of no issues or any concerns with regard to fraud or non-compliance.

6.2 A number of questions were raised which were answered by officers. Regarding Education Maintenance Grants, Mr Samson explained that external audit had identified discrepancies over attendance records and payments over the past few years. Officers had explained that school staff were satisfied pupils were in attendance but attendance

records were not always updated accordingly. The Service Director Customer and Communities, Mrs Craig, added that record management had been reviewed and progressed through Business World. In response to a request by Management, Internal Audit were also reviewing the process, ensuring appropriate controls and monitoring was in place. An update would be provided at a future meeting. With regard to the £0.8m health and social care overspend, Mr Robertson acknowledged that this was not sustainable. The ongoing problem of overspends with respect to the Social Work Budget had the potential to destabilise the Council's financial planning, was well documented in the Outturn report and Risk Register, and would be the focus of the Corporate Management Team going forward. Mr Robertson advised that slippage of the capital plan was a common to most other Councils and was currently being reviewed in terms of the impact of Covid-19, to ensure realistic and deliverable projects for 2021/2022. Regarding Executive Committee's lack of opposition membership, Mrs Woolman advised that local authorities had different administration models and this comparison would be captured in their 2020/21 Audit report. Regarding the Community Toolkit, Mrs Woolman agreed to include, as an amendment to the draft report, a recommendation for more explicit monitoring going forward. With regard to payroll creditors, positive reassurance had been received from managers that Business World had improved the system of internal controls. With regard to the significant increase in gas consumption, Mr Robertson explained that this related to converting existing inefficient oil based systems to gas, and also additional heating costs associated with the opening of new buildings for example the Jedburgh Campus and Kelso High School. Whenever possible, renewable technology was used to minimise energy consumption within the Council's estate. Mrs Stacey added that an internal audit of the Council's decisions in terms of climate change would consider associated performance indicators aligned to carbon emissions. Regarding the Brexit Response Team, Mrs Stacey confirmed the Team had been meeting throughout the pandemic and the Brexit Risk Register continued to be updated. Mrs Woolman confirmed she would reference, in the draft report, the uncertainty around the European Union and Brexit. Members noted that 'Following the Public Pound' guidance would be refreshed in November 2020 and not November 2021 as stated in the report. The Chairman thanked Mrs Woolman and Mr Samson for their attendance and the comprehensive, clear reports provided to the Committee.

DECISION

NOTED the Annual Reports from the Council's External Auditors prior to Council approval.

7. SCOTTISH BORDERS COUNCIL ANNUAL REPORTS AND ACCOUNTS 2019/20

7.1 With reference to paragraph 5 of the Minute of 23 September 2019, there had been circulated copies of a report by the Executive Director Finance and Regulatory presenting copies of the Council's audited Annual Accounts for 2019/20. The audit appointment of Audit Scotland for Scottish Borders Council accounts included the requirement to provide an auditor's report for the Council as well as related charities. KPMG continued to provide the external audit of the Council subsidiary Bridge Homes LLP. Audit Scotland had now completed the audit of the Council's Annual Accounts for 2019/20 and given an unqualified audit opinion in all cases. In addition, Audit Scotland concurred with Management's accounting treatment and judgements; and had reached positive conclusions in respect of financial sustainability, financial management, governance, transparency and value for money. Audit Scotland had identified three recommendations for improvement requiring action and these had been accepted by Management and would be enacted within the agreed timescales.

7.2 As required under the Local Authority Accounts (Scotland) Regulations 2014, the audited Annual Accounts for Scottish Borders Council, SBC Common Good Funds, the SBC Charitable Trusts, Bridge Homes LLP and Lowood Tweedbank Ltd had been presented to the Audit and Scrutiny Committee prior to signature. The report also referred to KPMG's external audit of Bridge Homes LLP which had raised no issues, with no matters to report. In response to questions, Mr Robertson advised that the rise in the number of employees

in pay bands £50k to £69k per annum related to senior manager posts and the 2018/19 teacher pay award which had tipped a significant number of teachers over the £50k threshold.

DECISION

- **AGREED to RECOMMEND the following accounts for officer signature and Council approval:**
 - (a) **the Scottish Borders Council's audited Annual Accounts for the year to 31 March 2020;**
 - (b) **the Scottish Borders Council Common Good Funds' (Charity SC031538) audited Annual Accounts for the year to 31 March 2020;**
 - (c) **the SBC Welfare Trust (Charity SC044765) audited Annual Accounts for the year to 31 March 2020;**
 - (d) **the SBC Education Trust (Charity SC044762) audited Annual Accounts for the year to 31 March 2020;**
 - (e) **the SBC Community Enhancement Trust (Charity SC044764) audited Annual Accounts for the year to 31 March 2020;**
 - (f) **the SBC Ormiston Trust for Institute Fund (Charity SC019162) audited Annual Accounts for the year to 31 March 2020;**
 - (g) **the Scottish Borders Council Charitable Trusts (Charity SC043896) audited Annual Accounts for the year to 31 March 2020;**
 - (h) **the Bridge Homes LLP audited Annual Accounts for the year to 31 March 2020;**
 - (i) **Lowood Tweedbank Ltd Annual Accounts for the year to 31 March 2020.**

8. ANNUAL ASSURANCE STATEMENT 2019/20 TO SCOTTISH HOUSING REGULATOR.

With reference to paragraph 8 of the Minute of 25 November 2019, there had been circulated copies of report by the Service Director Customer and Communities requesting consideration and approval of the Annual Assurance Statement 2019/20 in respect of landlord services provided by the Council for submission to the Scottish Housing Regulator. Homelessness Services Manager, David Kemp, joined Mrs Craig to present the report. In 2019, the Scottish Housing Regulator ("the Regulator") revised its regulatory framework. This placed a new requirement on all social landlords to submit an Annual Assurance Statement to the Regulator by the end of October each year. Part of the Audit and Scrutiny Committee's remit was to assess the effectiveness of internal controls, risk management and governance arrangements in place at the Council to achieve its objectives. Section 8 of the Annual Assurance Statement 2019/20 of the Service Director Customer and Communities at Appendix 1 of the report, was designed to meet this requirement of the Scottish Housing Regulator. It was the opinion of the Service Director Customer and Communities that, although there were a few areas of work to be completed for full compliance with the revised regulatory framework, the overall arrangements in respect of landlord services provided by the Council were operating satisfactory. Mrs Craig highlighted the two areas still outstanding: The gypsy/travellers site at Tweedside Park, Innerleithen related to changes to the occupancy agreement between the tenants and Council. Discussions continued and the Housing Regulator had been kept informed of progress towards meeting the standard. The other matter to be progressed related to strengthening governance arrangements to involve tenants in scrutinising performance. It was requested and noted that future reports would contain

more detail with regard to actions taken. A private Members' briefing would also be arranged to update Ward Councillors on progress with the occupancy agreement for Tweedside Park residents.

DECISION

- (a) to note the details of the Annual Assurance Statement 2019/20 in respect of landlord services provided by the Council, as detailed in Appendix 1, and the actions identified by management to improve arrangements; and**
- (b) approve the Annual Assurance Statement 2019/20 for submission to the Scottish Housing Regulator.**

9. INTERNAL AUDIT WORK TO SEPTEMBER 2020.

With reference to paragraph 10 of the Minute of 28 September 2020, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided 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 1 to 30 September 2020 was detailed in the report. During the period a total of five Internal Audit reports had been issued. There were a total of two recommendations associated with one of the reports (medium risk). 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 included in Appendix 1 to the report. Mrs Stacey summarised the findings in the report, explaining that some areas of work were in addition to those agreed by Audit and Scrutiny Committee in March 2020. These related to risks associated with the response to Covid-19, for example, the administration and complexity of issuing Business Support Grants. In response to questions, Mrs Stacey explained that the Major Contracts Governance Group would review CGI performance on a quarterly basis. The next meeting was scheduled for 3 November 2020. With regard to the anomalies identified in the Local Government Benchmarking Framework internal audit report, Mrs Stacey explained that all had been corrected before local government benchmarking information was published across all 32 councils. Minor challenges related to remote working and discussion with officers had identified improvement actions required. The Committee congratulated the Internal Audit team for reorganising their priorities and providing assurance that payment of Business Support Grants were appropriately managed.

DECISION:

- (a) NOTED:**
 - (i) the final assurance reports issued in the period from 1 to 30 September 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21; 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.**
- (a) ACKNOWLEDGED the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

10. AUDIT AND SCRUTINY COMMITTEE ANNUAL REPORT 2019/20 AND ANNUAL SELF-EVALUATION.

With reference to paragraph 5 of the Minute of 25 June 2019, there had been circulated copies of a report by Chief Officer Audit and Risk, providing members with the Audit and Scrutiny Committee Annual Report 2019/20 which presented performance in relation to its Terms of Reference and effectiveness of the Committee in meeting its purpose. It was

important that the Council's Audit and Scrutiny Committee fully complied with best practice guidance on Audit Committees to ensure it demonstrated its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council. The CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition (CIPFA Audit Committees Guidance) included the production of an annual report on the performance of the Audit and Scrutiny Committee against its remit (Audit functions) for submission to the Council. The Audit and Scrutiny Committee Annual Report 2019/20, Appendix 1 to the report, was presented for consideration. The Audit and Scrutiny Committee carried out self-assessments of compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the informal session on 9 March 2020 facilitated by the Chief Officer Audit and Risk. The self-assessments were appended to the report at Appendices 2 and 3 for consideration. The outcome of the self-assessments was a high degree of performance against the good practice principles and a high degree of effectiveness with areas of further improvement identified.

DECISION

(a) APPROVED the Audit and Scrutiny Committee Annual Report 2019/20 which incorporated its self-assessments using the CIPFA Audit Committees Guidance; and

(b) AGREED that the Audit and Scrutiny Committee Annual Report 2019/20 be presented to Council and then published on the Council's website.

MEMBER

Mr Middlemiss left the meeting.

ADJOURNMENT

The meeting was adjourned at 12.35 pm and reconvened at 1.05 pm.

SCRUTINY BUSINESS

11. SCOTTISH WELFARE FUND AND DISCRETIONARY HOUSING PAYMENTS

There had been circulated copies of a report by the Service Director Customer and Communities providing an overview and summary of the performance of both the Scottish Welfare Fund and Discretionary Housing Payments in the Scottish Borders from 1 April 2019 to 31 August 2020. Les Grant, Customer Services Manager, joined Mrs Craig to present the report. The budget provided by the Scottish Government for the Scottish Welfare Fund for 2019/20 was £546,737. The amount spent during 2019/20 was £541,298.78. The budget provided for the Scottish Welfare Fund for 2020/21 was initially £587,921. Following commencement of the current pandemic, this was increased to £952,921. As at 31 August 2020, Crisis Grants totalling £48,399.32 had been made and a total of £188,031.73 had been awarded in Community Care Grants leaving a balance of £716,488.95 to spend over the remaining seven months. The Discretionary Housing Payments budget for 2019/20 (not including under-occupancy funding) was £144,095. A total of £120,639.82 of this budget was spent during 2019/20. The Discretionary Housing payment budget for 2020/21 (not including under occupancy funding) was £180,177. However, due to the current pandemic, this was increased to £217,641. At 31 August 2020, there was a commitment to spend £71,796.71 up to 31 March 2021. The Scottish Government reimbursed Scottish Local Authorities with 100% Discretionary Housing Payments for applications paid in respect of under occupancy. In response to a question regarding 'Failure to provide information' as a reason for refusing a grant, Mr Grant explained that staff were well versed in obtaining the information required and conversations were usually by telephone. The 'Other and No Reason' category would be extended to allow better understanding of the reasons for refusal. Mrs Craig advised that performance relating to other local authorities and comparison with other authorities, including Dumfries and Galloway, would be circulated to Members. Mrs Craig confirmed that Housing Associations played an important role in engaging with their tenants to

encourage uptake of Crisis Grants and Community Care Grants. Mr Grant further advised that if a Crisis Grant was refused, depending on personal circumstances, the applicant would be directed to appropriate, alternative areas for assistance. The Chairman thanked Mrs Craig and Mr Grant for their attendance and report which had provided reassurance that this difficult area was being closely and carefully managed and there were no issues for further scrutiny. The Committee congratulated officers on the improvements in performance.

DECISION

NOTED the performance of the Scottish Welfare and Discretionary Housing Payments in the Scottish Borders.

12. URGENT BUSINESS

Under Section 50B(4)(b) of the Local Government (Scotland) Act 1973, the Chairman was of the opinion that the item dealt with in the following paragraph should be considered at the meeting as a matter of urgency, in view of the need to keep Members informed.

13. POLICE COMMUNITY ACTION TEAMS GOVERNANCE

With reference to paragraph 14 of the Minute of 28 September 2020, there had been circulated copies of a report by the Chief Executive providing details of the existing governance arrangements for the Police Community Action Teams and options and implications of including the Member/Officer Strategic Oversight Group into the Scheme of Administration. The report explained that as part of the budget for 2018/19, Scottish Borders Council agreed to fund a Community Action Team (CAT) of police officers for the Scottish Borders. As the intelligence information being provided to Members of the CAT Strategic Oversight Group by Police Scotland was intrinsic to current police operations, Members of the Oversight Group were required to agree to a confidentiality non-disclosure clause at each meeting. For this reason, the Oversight Group was a closed group with no other Members included either in the meetings or with access to the papers for each meeting. Due to the confidential nature of police intelligence provided to the Strategic Oversight Group, it was not possible in its current form for the Strategic Oversight Group to be included in the Scheme of Administration. An option, detailed in Section 4 of the report suggested possible changes to allow performance management of the CATs through the Executive Committee, with operational tasking of the CATs carried out by a new Member/Officer Reference Group. It was the view of all involved in the process that the current arrangements with the Strategic Oversight Group seemed to be working well and was successful. For this reason, the officer recommendation in the report was that no further action was taken. Following discussion and consideration of alternative ways of working as detailed in section 4 of the report. The Committee requested that a further report be brought to the next meeting. The report to include: details on enhancing transparency and performance monitoring to Executive Committee; and, investigating a mechanism for improving communications between the Oversight Group and the Police, Fire & Rescue and Safer Communities Board. A workshop could also be considered if required.

DECISION

(a) NOTED the alternative ways of working detailed in section 4 of the report.

(b) AGREED that officers bring back a report with details on enhancing reporting to Executive Committee and investigating a mechanism for improving communication between the Oversight Group and Police, Fire and Rescue and Safer Communities Board.

The meeting concluded at 2.00 pm

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SCOTTISH BORDERS COUNCIL

ACTION SHEET MASTER COPY

AUDIT and SCRUTINY COMMITTEE 2020/21

Notes:-

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

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
23 June 2020				
Minute	With regard to the Internal Audit Strategy and Annual Plan 2020/21, summarised in paragraph 7 of the Minute, the Chief Officer advised that, due to the effects of the current pandemic, the Plan had been re-assessed in terms of potential changes i.e. add audits to cover new risks, defer low risk cyclical audits to a future year, and re-schedule medium risk audits to later in the year. This had been carried out in consultation with the Corporate Management Team and any significant changes would be submitted to the Committee for approval.	Audit & Risk	Jill Stacey	Proposals for changes to Plan requiring Committee approval included within the Internal Audit Mid-Term Performance Report 2020/21 for 23 November 2020. Complete
Counter Fraud Annual Report 2019/20	Request that officers note the importance placed by the Committee on the availability of Fraud Awareness Training for all staff.	Audit & Risk	Jill Stacey	Discussed at the meeting of the Corporate Fraud Steering Group (Integrity Group) on 30 October 2020. Complete
28 September 2020				
Best Value Action Plan	The Chairman commented that the detail of progress had been reassuring but it would be helpful to have such information in advance of the meeting to give Members the opportunity to understand and consider what questions they may wish to ask. It had been useful to see the total of actions but for the quarterly reviews going forward, the focus would be on exceptions rather than all actions.	Transformation & Performance	Jason McDonald	Next quarterly update of BV Action Plan scheduled for presentation on 8 February 2021.
Audit Scotland Counter Fraud Reports	Request that the Corporate Fraud Steering Group (Integrity Group) of officers consider all three reports as part of their counter fraud role and responsibilities, and carry out an assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks and report back to the Committee on findings and necessary actions at the earliest opportunity.	Audit & Risk	Jill Stacey	Initiated at the meeting of the Corporate Fraud Steering Group (Integrity Group) on 30 October 2020. Report scheduled for presentation on 8 February 2021.

22 October 2020				
Scottish Borders Council Annual Reports and Accounts 2019/20	AGREED to APPROVE the accounts for officer signature and Council approval.	Finance & Regulatory	David Robertson	Presented to Council 5 November 2020. Complete
Annual Assurance Statement 2019/20 to the Scottish Housing Regulator	It was requested and noted that future reports would contain more detail with regard to actions taken. A private Members' briefing would also be arranged to update Ward Councillors on progress with the occupancy agreement for Tweedside Park residents.	Customer & Communities	Jenni Craig	
	Approve the Annual Assurance Statement 2019/20 for submission to the Scottish Housing Regulator.	Customer & Communities	Jenni Craig	
Audit and Scrutiny Committee Annual Report 2019/20	AGREED that the Audit and Scrutiny Committee Annual Report 2019/20 be presented to Council and then published on the Council's website.	Audit & Risk	Jill Stacey	Presented to Council 5 November 2020. Complete
Police Community Action Teams Governance	AGREED that officers bring back a report with details on enhancing reporting to Executive Committee and investigating a mechanism for improving communication between the Oversight Group and Police, Fire and Rescue and Safer Communities Board.	Clerk to the Council	Jenny Wilkinson	

TREASURY MANAGEMENT MID-YEAR REPORT 2020/21

Report by Executive Director, Finance & Regulatory

AUDIT AND SCRUTINY COMMITTEE

23 November 2020

1 PURPOSE AND SUMMARY

- 1.1 **This report presents 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 seeks comments from Audit and Scrutiny Committee prior to consideration of the report by Council.**
- 1.2 The report is required as part of the Council's treasury management control regime. It provides a mid-year report on the Council's treasury activity during the six month period to 30 September 2020 and demonstrates that Treasury activity in the first six months of 2020/21 has been undertaken in full compliance with the approved Treasury Strategy and Policy for the year.
- 1.3 Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators, and proposes revised estimates of these indicators in light of the 2019/20 out-turn and experience in 2020/21 to date for Council approval.

2 STATUS

- 2.1 This report is being distributed prior to the September Financial Monitoring being approved by the Executive Committee, currently scheduled for 17 November 2020. Any changes required as a result of this meeting will be reflected in the final version of this report being submitted to Council on 17 December 2020.

3 RECOMMENDATIONS

- 3.1 **It is recommended that the Audit and Scrutiny Committee:**
 - (a) **Notes that treasury management activity in the six months to 30 September 2020 was carried out in compliance with the approved Treasury Management Strategy and Policy**
 - (b) **Agrees to the presentation of the Treasury Management Mid-Year Report 2020/21, as contained in Appendix 1, to Council for approval of the revised indicators.**

4 BACKGROUND

- 4.1 The Council approved the Annual Treasury Management Strategy (the Strategy) for 2020/21 at the Council on 27 February 2020. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 4.2 As set out in the annual Treasury Strategy, the Audit and Scrutiny Committee has a role to scrutinise the Mid Year Report before submission to Council for final approval.

5 TREASURY MANAGEMENT MID-YEAR REPORT 2020/21

- 5.1 The Treasury Management Mid-Year Report for 2020/21 (the Mid-Year Report) is contained in Appendix 1. All of the 2020/21 target indicators reported upon are based on the indicators agreed as part of the Strategy approved by Council on 27 February 2020.
- 5.2 The Mid-Year Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
 - (a) An economic update for the first six months of 2020/21
 - (b) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - (c) The Council's capital expenditure (prudential indicators)
 - (d) A review of the Council's investment portfolio for 2020/21
 - (e) A review of the Council's borrowing strategy for 2020/21
 - (f) A review of compliance with Treasury and Prudential Limits for 2020/21
- 5.3 The Mid-Year Report at Annex A contains revised Prudential and Treasury Management Indicators for consideration prior to Council approval.
- 5.4 The Mid-Year Report indicates that the Council's Treasury Management activities are being managed and monitored within the agreed boundaries and indicators approved by the Council.

6 IMPLICATIONS

6.1 Financial

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

6.2 Risk and Mitigations

This report is an account of the outcomes delivered at the six month stage from the tightly controlled risk management work that the Council's Treasury staff have carried out; Appendix 1 gives further detail on these controls. The report is an important element of the overall risk management environment but has no specific risk implications of its own. An internal audit of Treasury Management carried out in October 2020 provides comprehensive assurance that sound risk, control and governance systems are in place.

6.3 Integrated Impact Assessment

There is no impact or relevance to Equality Duty or the Fairer Scotland Duty

for this report. This is a routine financial monitoring report which forms part of the governance of the Treasury function within the Council. Nevertheless, a light touch assessment has been conducted and this will be published on SBC's Equality and Diversity Pages of the website as in doing so, signifies that equality, diversity and socio-economic factors have duly been considered when preparing this report.

6.4 **Acting Sustainably**

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

6.5 **Carbon Management**

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

6.6 **Rural Proofing**

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

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

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

7 CONSULTATION

- 7.1 The Chief Legal Officer (including as Monitoring Officer), the Chief Officer Audit and Risk, Service Director HR, Communications and the Clerk to the Council have been consulted and their appropriate comments have been incorporated into this report.

Approved by

David Robertson

Executive Director, Finance & Regulatory

Signature

Author(s)

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Background Papers:

Previous Minute Reference:

Scottish Borders Council, 27 February 2020

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

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SCOTTISH BORDERS COUNCIL

TREASURY MANAGEMENT MID-YEAR REPORT 2020/21

1. BACKGROUND

a) Treasury management is defined as:

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

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

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

d) **Annex A** contains a summary of the updated Prudential and Treasury Management Indicators for 2020/21 as highlighted throughout this report.

2 ECONOMIC POSITION

2.1 ECONOMIC UPDATE (from Link Asset Services)

As expected, the Bank of England’s Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
- The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
- It forecast that there would be excess demand in the economy by Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

It also squashed any idea of using **negative interest rates**, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be “less effective as a tool to stimulate the economy” at this time when banks are worried about future loan losses. It also has “other instruments available”, including QE and the use of forward guidance.

The MPC expected the £300bn of **quantitative easing** purchases announced between its March and June meetings to continue until the “turn of the year”. This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the “medium-term projections were a less informative guide than usual” and the minutes had multiple references to **downside risks**, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.

Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

There will be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

One key addition to **the Bank’s forward guidance** was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate.

The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

US. The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to

abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked **its inflation target** from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

EU. The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

World growth. Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

2.2 INTEREST RATE FORECAST

The Council’s treasury advisor, Link Group, provided the following forecasts on 11th August 2020 (PWLB rates are certainty rates, gilt yields plus 180bps):

Link Group Interest Rate View 11.8.20										
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

Additional notes by Link on this forecast table: -

- Please note that we have made a slight change to our interest rate forecasts table above for forecasts for 3, 6 and 12 months. Traditionally, we have used LIBID forecasts, with the rate calculated using market convention of 1/8th (0.125%) taken off the LIBOR figure. Given that all LIBOR rates up to 6 months are currently running below 0.1%, using that convention would give negative figures as forecasts for those periods. However, the liquidity premium that is still in evidence at the short end of the curve, means that the rates actually being achieved by local authority investors are still modestly in positive territory. While there are differences between counterparty offer rates, our analysis would suggest that an average rate of around 0.05% is achievable for 3 months, 0.1% for 6 months and 0.15% for 12 months.
- During 2021, Link will be continuing to look at market developments in this area and will monitor these with a view to communicating with clients when full financial market agreement is reached on how to replace LIBOR. This is likely to be an iteration of the overnight SONIA rate and the use of compounded rates and Overnight Index Swap (OIS) rates for forecasting purposes.
- If clients require forecasts for 3 months to 12 months beyond the end of 2021, a temporary fix would be to assume no change in our current forecasts.

We will maintain continuity by providing clients with LIBID investment benchmark rates on the current basis.

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its meeting on 6th August (and the subsequent September meeting), although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low

levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields spiked up during the initial phases of the health crisis in March, we have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. At the close of the day on 30th September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.

From the local authority borrowing perspective, HM Treasury imposed **two changes of margins over gilt yields for PWLB rates** in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

Following the changes on 11th March 2020 in margins over gilt yields, the current situation is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will

take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK** - second nationwide wave of virus infections requiring a national lockdown
- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021**. In the German general election of September 2017, Angela Merkel’s CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.
- **US – the Presidential election in 2020**: this could have repercussions for the US economy and SINO-US trade relations.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK** - stronger than currently expected recovery in UK economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

3 TREASURY MANAGEMENT POLICY STATEMENT - UPDATE

- a) The Treasury Management Policy Statement (the Statement) was approved by Council in April 2010. There have been no policy changes to the Statement. The details in this report update the position in light of updated economic position and budgetary changes.
- b) Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Council on 27 February 2020. There are no further policy changes to the Statement. The details in this report provides an update on Treasury Management activities, including Prudential and Treasury Management Indicators.

4 COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2020/21

4.1 This part of the report is structured to update:

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

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

- a) The original capital plan for 2020/21 was approved on 27 February 2020. **Table 2** shows the current budgets for capital expenditure compared to the original estimates used in the Treasury Management Strategy report for 2020/21.

Table 2	2020/21 Original Budget	2020/21 Current Approved Budget ¹	Variance Original to Current Approved
	£m	£m	£m
Assets & Infrastructure	41.0	38.9	(2.1)
Other Corporate Services	1.9	8.8	6.9
Children & Young People	20.5	7.2	(13.3)
Culture & Sport	1.3	1.0	(0.3)
Economic Regeneration	15.9	9.4	(6.5)
Housing Strategy & Services	0.5	0.3	(0.2)
Social Care Infrastructure	5.0	2.0	(3.0)
Emergency & Unplanned Schemes	0.2	0.6	0.4
Total Capital Expenditure (PI-1)	86.3	68.2	(18.1)

¹ Executive Committee 17 November 2020

- b) The current approved budget for 2020/21 is less than the original budget mainly due to adverse timing movements as a result of the impact of COVID-19, partly offset by the acceleration of digital transformation. Detailed explanations of the movements within the planned expenditure have been reported in the ongoing monitoring reports, the last of which was to the Executive Committee on 17 November 2020. The key drivers for the 2020/21 changes in Table 2 are:

- Assets & Infrastructure - reduction to budget as a result of timing movements between financial years for the Hawick Flood Protection Scheme.
- Other Corporate Services budget - increased by £6.9m due to timing movements between financial years in ICT and Digital Learning Transformation.
- Children & Young People – reduction of £13.3m due to budget movement into 2021/22 (£9.5m) and 2022/23 (£3.0m) for new school builds, as well as a re-direction of resources to ICT transformation.
- Economic Regeneration – the reduction in budget reflects a timing movement between financial years for the Central Borders Business Park.
- Social Care Infrastructure – decrease due to the removal of works from the draft financial plan.

4.3 FINANCING OF THE CAPITAL PROGRAMME

- a) **Table 3** on the following page draws together the main funding elements of the capital expenditure plans (see 4.2 above), comparing the original components of the funding strategy to those of the latest approved budget for the 2020/21 capital programme.

Table 3	2020/21 Original Budget	2020/21 Current Approved Budget ¹	Variance Original to Current Approved
	£m	£m	£m
Capital Expenditure (PI-1)	86.3	68.2	(18.1)
Other Relevant Expenditure	-	-	-
Total Expenditure	86.3	68.2	(18.1)
<i>Financed by:</i>			
Capital receipts	(2.4)	(3.5)	(1.1)
Capital from Revenue (CFCR)	-	(0.6)	(0.6)
Developer Contributions	(0.2)	(0.2)	-
Govt. General Capital Grant	(11.1)	(10.7)	0.4
Govt. Specific Capital Grant	(21.1)	(16.2)	4.9
Other Grants & Contributions	(13.0)	(8.1)	4.9
Replacement Funds	(2.4)	(2.5)	(0.1)
Total Financing	(50.2)	(41.8)	8.4
Net Financing Need for the Year	36.1	26.4	(9.7)

¹ Executive Committee 17 November 2020

- b) The decrease in overall financing need is primarily driven by the reduced projected capital expenditure as detailed in table 2, above. The impact on net financing need by this decrease in expenditure of £18.1m in total, has been primarily off-set by a smaller reduction in Scottish Government Specific Grants of £4.9m, principally relating to Hawick Flood Protection Scheme (carried forward to future years); along with a £4.9m decrease in Other Grants & Contributions which mainly relates to the Central Borders Business Park (carried forward to 2021/22).

4.4 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT INDICATORS

CAPITAL FINANCING REQUIREMENT (CFR) (PI-2)

- i) **Table 4** below shows the CFR, which is the underlying need to incur external borrowing for a capital purpose.
- ii) The CFR has been re-calculated in light of the changes to the capital plan and the fixed asset and reserve valuations in the Council's accounts for the year ending 31 March 2020; this has resulted in a variance of £12.2m in the CFR.

Table 4	2020/21 Original estimate £m	2020/21 Revised estimate £m	Variance £m
CFR * (PI-2)	374.6	362.4	12.2

The CFR for this calculation includes current capital expenditure assumptions to 30 September 2020.

ACTUAL EXTERNAL DEBT (PI-5)

- iii) Projected external debt for 2020/21 is shown in **Table 5** below and is estimated to remain within the operational boundary.
- iv) **Table 5** also compares the current projected external borrowing estimate with the estimate in the Annual Strategy. In cash terms, the borrowing figure is lower than originally projected

in line with the reduced net financing need as detailed above. A variance in cash levels held at the year-end compared to those projected also impact on the variance below.

- v) Due to the overall financial position and the effect of COVID-19 on the capital programme, there has been no new external borrowing undertaken so far this year. It is anticipated that borrowing of £10m will be undertaken during the remainder of this financial year.

Table 5	2020/21 Original estimate	2020/21 Current Approved Budget	Variance
	£m	£m	£m
Borrowing	224.9	212.0	(12.9)
Other long-term liabilities	97.8	97.6	(0.2)
Total External Debt (PI-5)	322.7	309.6	(13.1)

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

- vi) A key control over treasury activity is a prudential indicator to ensure that, over the medium term, borrowing will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years.
- vii) **Table 6** compares the prudential indicator for (under)/over borrowing against CFR versus the updated estimate for the year end and shows that the Council's actual debt levels are well within its capital financing requirement. This is primarily driven by the tactical measures which use the Council's surplus cash-flows to finance capital expenditure minimising the need enter into additional debt financing arrangements.

Table 6	2020/21 Original estimate	2020/21 Current Approved Budget	Variance
	£m	£m	£m
Gross External Debt	322.7	309.6	(13.1)
CFR *	444.8	448.0	(3.2)
(Under)/Over Borrowing against CFR (PI-6)	(122.1)	(138.4)	(16.3)

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

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

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

- ix) Two further prudential indicators control the overall level of borrowing. These are:
- (i) The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and the expected maximum borrowing need for the Council. It needs to be set and revised by Members. The Authorised Limit is the statutory limit determined under the Local Government in Scotland Act 2003.
 - (ii) The **Operational Boundary** which shows the expected operational debt position for the period.

- x) **Table 7** below shows revised estimates for the debt indicators for the 2020/21 financial year and compares them with the original estimates shown in the 2020/21 Treasury Management Strategy Report.

Table 7	2020/21 Original estimate £m	2020/21 Revised estimate £m	Variance £m
Gross External Debt (PI-5)	322.7	309.6	13.1
Authorised Limit inc. Long Term Liabilities(PI-8a)	498.1	501.1	(3.0)
<i>Variance to External Debt Estimate</i>	<i>175.4</i>	<i>191.5</i>	<i>(16.1)</i>
Operational Boundary inc. Long Term Liabilities (PI-7a)	415.1	417.6	2.5
<i>Variance to External Debt Estimate</i>	<i>92.4</i>	<i>108.0</i>	<i>(15.6)</i>

4.5 DEBT RESCHEDULING

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

5 INVESTMENT ACTIVITY

5.1 INVESTMENTS

- a) In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by the interest rate forecasts in section 2.2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.
- b) The Council held £39.4m of balances in interest bearing accounts as at 30 September 2020 (£8.6m at 31 March 2020). As a result of current market uncertainties, the Council has been prioritising the security of deposits by investing surplus balances with money market funds and the UK Government's Debt Management Office (DMO).
- c) The increase in the level of balances invested from March to September, highlighted above are due to timing differences between the receipt of grant funding and corresponding capital expenditure, detailed in section 4.4 above, along with the advance receipts of COVID-19 related grant funding.
- d) The Council, due to the cashflow position and the requirement to manage the Pension Fund cash as well as the Council's, continues to explore opportunities to invest surplus balances in the short term.

Negative investment rates

- e) While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.
- f) As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.
- g) Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Creditworthiness.

- h) Although the credit rating agencies changed their outlook on many UK banks from stable to negative outlook during the quarter ended 30th June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of UK banks. However, during Q1 and Q2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into the next quarters ahead, more information will emerge on *actual* levels of credit losses. (Quarterly performance is normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that UK banks went into this pandemic with strong balance sheets. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". They stated that in their assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.
- i) All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on negative watch, but with a small number of actual downgrades.
- j) Link have conducted some stress testing on the Link credit methodology based list of counterparties supplied to clients, to test for the results of a 1 notch downgrade to all Long Term Ratings from all agencies. Under such a scenario, only Commerzbank, Norddeutsche Landesbank, NatWest Markets Plc (non-ring-fenced entity), Leeds, Skipton and Yorkshire Building Societies moved from Green to No Colour. While there are a further 17 drops in

other entities' suggested durations, in these instances, these entities still remain potentially available for use. (Note that this scenario excludes any additional impact from relative movement in CDS pricing.)

5.2 INVESTMENT COUNTERPARTY CRITERIA

- a) The current investment counterparty criterion, approved in the Treasury Management Strategy, represents a prudent approach to risk and the Council's concerns about security of investments. These prudent limits mean there are limited investment options when operating the cash-flow on a short term management basis.
- b) Considering security, liquidity and yield of investment, priority is given to security. Daily updates and reports are received from Link Asset Services that allow officers to assess the continued credit worthiness of investment counter parties.
- c) All investments undertaken are on a short term, highly liquid basis, allowing access to invested funds at 1 days notice.
- d) Interest rates are also monitored on a daily basis to ensure the best return is obtained. Target for internal return on cash investment is to be above the 7 Day LIBID rate. The return for six months to 30 September 2020 has averaged 0.17%, compared against an average seven day LIBID rate of $-(0.06)\%$.

LOAN CHARGES

- a) The **Loan Charges** Revenue Budget estimate contained in the Council's Financial Plans approved on 26 February 2020 was £19.111m. It is expected that charges for 2020/21 will be lower than the budgeted figure, in line with the actual and projected borrowing requirements for the year.

ANNEX A

Indicator Reference	Indicator	Page Ref.	2020/21 Original estimate	2020/21 Revised estimate
PRUDENTIAL INDICATORS				
Capital Expenditure Indicator				
PI-1	Capital Expenditure Limits (£m)	8	86.3	68.2
PI-2	Capital Financing Requirement (£m) (CFR)	9	374.6	362.4
Affordability Indicator				
PI-3	Ratio of Financing Costs to Net Revenue (inc PPP repayment costs)	N/A	8.9%	8.7%
PI-4	Incremental (Saving)/ Cost Impact of Capital Investment Decisions on Council Tax	N/A	£(0.03)	£(0.00)
External Debt Indicators				
PI-5	External Debt (£m)	10	322.7	309.6
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	11	415.1	417.6
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	N/A	317.3	319.9
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	11	498.1	501.1
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	N/A	400.4	403.5
Indicators of Prudence				
PI-6	(Under)/Over Net Borrowing against the CFR (£m)	10	(122.1)	(138.4)
TREASURY INDICATORS				
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)		415.1	417.6
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)		145.3	146.2
TI-3	Maturity Structure of Fixed Interest Rate Borrowing		Lower	
	Under 12 months		0%	
	12 months to 2 years		0%	
	2 years to 5 years		0%	
	5 years to 10 years		0%	
	10 years and above		20%	
TI-4	Maximum Principal Sum invested greater than 364 days	12	20%	20%

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INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2020/21

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

23 November 2020

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to inform the Audit and Scrutiny Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2020, towards completing the Internal Audit Annual Plan 2020/21. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.**
- 1.2 The Objectives of Internal Audit are set out in its Charter: “As part of Scottish Borders Council’s system of corporate governance, Internal Audit’s purpose is to support the Council in its activities designed to achieve its declared objectives.” Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.
- 1.3 The Internal Audit Annual Plan 2020/21 that was approved by the Audit and Scrutiny Committee on 9 March 2020 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer (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 are 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.
- 1.4 The Appendix 1 to this report provides details of the half-yearly progress by Internal Audit with the delivery of its programme of work. Internal Audit has made good progress in the first half of the year, despite the Covid-19 pandemic response though amendments are required to the Internal Audit Annual Plan 2020/21 for approval by the Committee.
- 1.5 The report also summarises the statutory obligations for Internal Audit and the requirements of the Public Sector Internal Audit Standards (PSIAS) with which the SBC Internal Audit function conforms.

2 RECOMMENDATION

- 2.1 I recommend that the Audit and Scrutiny Committee notes the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2020/21, confirms that it is satisfied with the Performance of the Internal Audit service, and approves the revisions to the Internal Audit Annual Plan 2020/21.**

3 BACKGROUND

- 3.1 The Objectives of Internal Audit are set out in its Charter: "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- As a contribution to the Council's corporate management of risk.
 - As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
 - In support of the Council's vision, values and priorities.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published information are accurate and reliable."
- 3.2 Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.
- 3.3 The Internal Audit Annual Plan 2020/21 that was approved by the Audit and Scrutiny Committee on 9 March 2020 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer (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.
- 3.4 Internal Audit assurance services are also provided during the year to the Scottish Borders Pension Fund, and the Scottish Borders Health and Social Care Integration Joint Board, and annual opinions are provided to their respective Management and Board/Committee to meet their obligations.
- 3.5 At the 23 June 2020 meeting the Chief Officer Audit & Risk 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. This re-assessment had been carried out in consultation with the Corporate Management Team and resulted in significant changes that require approval by the Audit and Scrutiny Committee. The revised Internal Audit Annual Plan 2020/21 (Appendix 1) is presented for approval.

4 HALF YEAR RESULTS AGAINST INTERNAL AUDIT PLAN 2020/21

- 4.1 The Internal Audit programme of work led by the Principal Internal Auditor takes account of the availability of auditor resources and consultation with Management to consider operational service delivery demands and timing of the Council's transformation programmes.
- 4.2 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with the delivery of its programme of work to deliver the approved Internal Audit Annual Plan 2020/21. Additional audits were added to the Plan to carry out assurance work on new risks associated with the Covid-19 emergency response. As a result some planned audits have been delayed or will be deferred to 2021/22. Those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, those scheduled for the second half of the year are not shaded, and those audits that have not been delivered as planned are marked * or deferred to 2021/22 are marked **.

- 4.3 The continuous audit approach enables Internal Auditors to provide added value advice on internal controls and governance and 'critical friend' consultancy services as the Council continues to transform its service delivery. For example: the Fit for 2024 Transformation Programme; Information Governance Group; Corporate Landlord Model; and Contract and Supplier Management Portal Implementation Group. The related Assurance Reports are scheduled for completion by the end of the year 2020/21. The continuous audit approach is applied to non-SBC Internal Audit work for the Scottish Borders Council Pension Fund and the Scottish Borders Health and Social Care Integration Joint Board.

5 COMPLETING THE REVISED INTERNAL AUDIT PLAN FOR 2020/21

- 5.1 The Internal Audit staff resources taking account of the shared Internal Audit services arrangement with Midlothian Council comprises the Chief Officer Audit & Risk (50%), one Principal Internal Auditor, one Senior Internal Auditor, and three Internal Auditors.
- 5.2 The proposed audits to be deferred to 2021/22 are as follows:
- ICT Strategy (ICT Governance)
 - Mental Health Services - Adults & Children (Internal Controls)
 - Homelessness - Temporary Accommodation (Internal Controls)
 - Waste & Recycling Services (Internal Controls)
 - Parks & Environment (Internal Controls)
 - Roads Asset Management (Asset Management)
- 5.3 The Internal Audit programme of work for the six months from October 2020 to March 2021 to complete the delayed work and incorporate the remaining revised planned audit work, based on maintaining current staffing levels within this period, presently indicates that the proposed revised Internal Audit Annual Plan 2020/21 can be delivered in full.
- 5.4 The Internal Audit work will continue to be reported to the Corporate Management Team and to the Audit and Scrutiny Committee. The Internal Audit Work reports will include: an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management; a summary of Internal Audit Assurance Work in Progress; and an outline of Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter.
- 5.5 Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will continue to be communicated to the Corporate Management Team and the Audit and Scrutiny Committee within the Internal Audit Annual Assurance Report which will also provide the statutory audit opinion based on audit findings over the year.

6 THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014

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

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

- 7.1 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (responsibility, independence, proficiency, quality);
 - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).
- 7.2 The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.
- 7.3 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2020/21. The results and any associated improvement actions will continue to be reported to Corporate Management and the Audit and Scrutiny Committee within the Internal Audit Annual Assurance Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.
- 7.4 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. The first EQA of SBC Internal Audit was carried out by Renfrewshire Council in October 2015 and the results reported to the Audit and Risk Committee in November 2015. The schedule for the second cycle of EQAs has been affected by the Covid-19 response when activities for the EQA for SBC by North Lanarkshire Council and the EQA of Angus Council by SBC were paused in March 2020. The EQAs have recommenced in September 2020 following the receipt of additional guidance from SLACIAG on conducting the EQAs in a virtual way. The findings of the SBC EQA by North Lanarkshire Council will be presented to the Audit and Scrutiny Committee at the next meeting of Audit business in early 2021. Any highlighted improvements from the EQA will be included in the QAIP and progress on their completion will be presented within the Internal Audit Annual Assurance Report 2020/21 scheduled for presentation to the Audit and Scrutiny Committee in May 2021.

8 IMPLICATIONS

8.1 Financial

- (a) There are staff resources available to achieve the Internal Audit Annual Plan 2020/21 and to meet the key objective of delivering an effective Internal Audit function and providing the statutory internal audit opinion on internal controls and governance.
- (b) Budget monitoring of the Audit and Risk service (Internal Audit, Risk Management and Counter Fraud) is discussed by the Chief Officer Audit & Risk on a quarterly basis with Finance staff to address any budgetary pressures and to manage service delivery within budget.

8.2 Risk and Mitigations

- (a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Specifically as "a contribution to the Council's corporate management of risk".
- (b) The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process.
- (c) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2020/21, at the start of each audit engagement, and during the re-assessment of the Plan, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered. This is illustrated by way of the amendments that have been proposed to the Plan.
- (d) If Internal Audit staffing levels fall below that assumed for the remaining six-month period or if there is a further unplanned level of contingency or consultancy audit work, there is the risk that the revised Annual Plan 2020/21 will not be delivered in full. That in turn increases the risk of reduced assurance and not providing the statutory audit opinion to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council. This will be mitigated by way of people planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary.

8.3 Integrated Impact Assessment

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017). It does not relate to new/amended policy/strategy and as a result an integrated impact assessment is not an applicable consideration.

8.4 Acting Sustainably

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

8.5 Carbon Management

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

8.6 Rural Proofing

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

8.7 Changes to Scheme of Administration or Scheme of Delegation

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

9 CONSULTATION

- 9.1 The re-assessment of the Internal Audit Annual 2020/21 had been carried out in consultation with the Corporate Management Team and resulted in significant changes that require approval by the Audit and Scrutiny Committee. The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 9.2 The Executive Director Finance & Regulatory, Chief Legal Officer (and Monitoring Officer), Service Director HR & Communications, 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
Sue Holmes	Principal Internal Auditor Tel 01835 825556

Background Papers: Appropriate Internal Audit files

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

AUDIT	DAYS	COMMENTARY	STATUS
Corporate Governance			
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.	Ongoing follow-up on implementation of actions on Areas of Improvement set out in the Annual Governance Statement 2019/20 including Best Value Assurance Report actions (BVAR); Annual evaluation of compliance with and effectiveness of the Council's Local Code of Corporate Governance scheduled 4th Quarter.
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), review policy development and implementation, assess compliance with the legislation, and provide annual assurance to the Senior Information Risk Owner (SIRO).	Ongoing as part of assurance role on the Information Governance Group and the Information Management Team. Assurance Report scheduled 4th Quarter.
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 Pls. Assess progress of the review and revision of the Performance Management Framework.	LGBF Final report issued 7 October 2020; Executive Summary reported to Audit and Scrutiny Committee on 22 October 2020. Review of Performance Management Framework scheduled for 4th Quarter.
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.	Ongoing as part of other associated audit work relating to change. Assurance Report scheduled 4th Quarter.
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.	Final report issued 13 October 2020; Executive Summary reported to Audit and Scrutiny Committee on 22 October 2020.
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.	Now combined with People Planning and Capital Investment - Integrated Financial People and Business Planning. *Audit work underway though slight delay compared to schedule in programme of work. Interim report to be issued 3rd Quarter regarding the assessment of the process followed by final report during 4th Quarter.
People Planning	15	Review of approach to people 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.	People Planning now part of Integrated Financial People and Business Planning audit (see above). Use of the Council's appraisal system will be covered as part of the Business World ERP system audit scheduled 4th Quarter.
	145		

AUDIT	DAYS	COMMENTARY	STATUS
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Financial Governance

Payroll	25	Compliance testing of controls at Service level, including Business World assurance work on Payroll processes.	Scheduled 4th Quarter
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.	Scheduled 4th Quarter
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.	Scheduled 4th Quarter Some audit work ongoing as part of Contract and Supplier Management Portal Implementation, and also data matching regarding duplicate suppliers and duplicate invoices.
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.	Scheduled 4th Quarter
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.	Final report issued 29 October 2020; Executive Summary reported to Audit and Scrutiny Committee on 23 November 2020. Further work on Banking to be carried out during 4th Quarter as part of Business World ERP System Key Controls audit.
Revenues (Council Tax and NDR)	25	Ensure that the billing, collection and recovery processes and procedures for Council Tax and NDR are robust and adequately applied.	High level audit objective has been amended in discussions with Management. Scheduled 3rd Quarter.
	110		

AUDIT	DAYS	COMMENTARY	STATUS
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ICT Governance

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.	** Defer to Q1 2021/22 - one of the first deliverables for CGI after Contract Extension is new ICT Strategy.
ICT Operational Computer Systems	10	Review the change request processes in place to ensure they are fit for purpose to support service delivery.	* Scheduled 3rd Quarter (moved from 2nd Quarter due to CGI Governance Review and Contract Extension)
ICT Cyber Essentials	5	Review the self-evaluation and evidence associated with Cyber Essential requirements	Final report issued 7 August 2020; Executive Summary reported to Audit and Scrutiny Committee on 28 September 2020.
	30		

AUDIT	DAYS	COMMENTARY	STATUS
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Internal Controls

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.	Scheduled 3rd Quarter. Due to the COVID-19 Pandemic restrictions, establishment visits will not be undertaken. Internal Audit will carry out data analytical work covering all schools regarding School Finance and Business Administration processes. Some analysis work has already been carried out in respect of School Fund.
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.	Scheduled 3rd Quarter.
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.	** Defer to 2021/22 at the request of the Chief Social Work and Public Protection Officer due to COVID-19 Pandemic and to realign the timing of the suite of Social Work audits within the 5 year strategic Internal Audit plan.
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.	*Audit work nearly completed though slight delay compared to schedule in programme of work. Report to be issued 3rd Quarter.
Community Justice	20	Assess the adequacy of internal controls, administrative procedures and resources in place to meet statutory obligations.	Scheduled 4th Quarter.
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.	*Audit work completed though slight delay compared to schedule in programme of work. Final report issued 9 November 2020; Executive Summary reported to Audit and Scrutiny Committee on 23 November 2020..
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.	Audit scope changed to review the SW Locality Offices payment processes put in place due to COVID-19 Pandemic. Final report issued 9 October 2020; Executive Summary reported to Audit and Scrutiny Committee on 22 October 2020.
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.	Audit work completed though slight delay compared to schedule in programme of work. Final report issued 9 October 2020; Executive Summary reported to Audit and Scrutiny Committee on 22 October 2020.
Homelessness - Temporary Accommodation	15	Review the rent accounting processes and procedures in place, including collection and recovery of rents for temporary accommodation.	** Defer to 2021/22 at the request of the Service Director Customer and Communities due to COVID-19 Pandemic.
Waste & Recycling Services	25	Ensure there are adequate operational and financial controls in place for the effective delivery of waste and recycling services.	** Defer to 2021/22 at the request of the previous Service Director Assets & Infrastructure due to COVID-19 Pandemic impact on staff deployment.
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.	** Defer to 2021/22 at the request of the previous Service Director Assets & Infrastructure due to COVID-19 Pandemic impact on staff deployment.
	220		

AUDIT	DAYS	COMMENTARY	STATUS
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Asset Management

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.	Final report issued 18 August 2020; Executive Summary reported to Audit and Scrutiny Committee on 28 September 2020.
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.	Capital Planning and Investment now part of Integrated Financial People and Business Planning audit (see above), as capital and revenue budget setting now an integrated process.
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.	** Defer to 2021/22 at the request of the previous Service Director Assets & Infrastructure due to COVID-19 Pandemic impact on dependency for system development.
	55		

AUDIT	DAYS	COMMENTARY	STATUS
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Legislative & Other Compliance

Jedburgh / Hawick Conservation Area Regeneration Scheme (CARS)	20	Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.	Scheduled 3rd Quarter
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.	*Audit work nearly completed though slight delay compared to schedule in programme of work. Report to be issued 3rd Quarter. Audit Assurance Report will be issued to Scottish Government to comply with Audit terms in SLA.
Sustainable Environment	10	Assess progress with the development of new governance arrangements to meet obligations regarding sustainable environmental programmes, including corporate and social responsibility.	Scheduled 4th Quarter
	40		

AUDIT	DAYS	COMMENTARY	STATUS
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Consultancy

Advice	20	Provision of ad-hoc Internal Audit advice and assistance on internal controls, risk management and governance in response to requests.	Ongoing; specific work during first 6 months to provide advice for policy development (School Fund, Petty Cash/Purchase Cards).
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.	Ongoing - during first 6 months various members of the Internal Audit team in 'critical friend' role engaged in various Project Boards / Teams or other Forums to provide internal challenge and quality assurance. For example: Fit for 2024 Transformation Programme Board; Social Work Performance Board; Social Work Charging; Corporate Landlord; Contract and Supplier Management Portal implementation.
	85		

AUDIT	DAYS	COMMENTARY	STATUS
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Other

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.	Ongoing - during the first 6 months various members of the Internal Audit team were involved in reactive work due to the new risks posed by the COVID-19 pandemic. For example; Business Support Grants (including Community Council payments and Newly Self-Employed Grant payments); Education Maintenance Allowance Process. Further work will continue over the next 6 months as new or emerging risks occur.
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.	Ongoing; Report on Progress with Management implementation of Audit Recommendations for presentation to CMT then Audit and Scrutiny Committee on 23 November 2020. Follow up review of a sample of completed audit actions is scheduled 4th Quarter.
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.	Ongoing
	75		

SBC Total	760
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AUDIT	DAYS	COMMENTARY	STATUS
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Non SBC

Scottish Borders Pension Fund	5	To be determined and agreed with Pension Fund Committee and Management for review of governance of pension fund and provision of annual governance statement.	Attendance at Joint Pension Fund Committee and Board; Assurance Audit work over the systems and controls in place at Scottish Borders Council which covers the same systems for the Pension Fund and input to Annual Governance Statement scheduled in 4th Quarter. Internal Audit Annual Assurance Report will be presented to Joint Pension Fund Committee and Board in June 2021.
Scottish Borders Health and Social Care Integration Joint Board	45	To be determined and agreed by the Scottish Borders Health and Social Care Integration Joint Board for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources.	SBIJB Internal Audit Annual Plan 2020/21 approved by IJB Audit Committee on 9 March 2020. Audit work ongoing. In respect of joint services, assurances will be sought from partner Internal Audit service providers (e.g. NHS Borders - GT; SBC - SBC IA). Progress against Plan will be presented in December 2020 and Internal Audit Annual Assurance Report will be presented in June 2021 to IJB Audit Committee.
	50		

Overall Total	810
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PROGRESS WITH IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

23 November 2020

1 PURPOSE AND SUMMARY

- 1.1 **The purpose of the report is to provide an update to Members of the Audit and Scrutiny Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports during 2019/20 and previous years.**
- 1.2 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 1.4 The Remit of the Audit and Scrutiny Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Scrutiny Committee:-**
- (a) Acknowledges the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks;**
 - (b) Considers whether it is satisfied with the progress or whether any further action is required; and**
 - (c) Notes that Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to this Committee.**

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. At Internal Audit Final Report stage the Audit Recommendations are input to Pentana Risk (previously Covalent), the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks and evidence improvement.
- 3.4 The Remit of the Audit and Scrutiny Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council. An update report on Progress with Implementation of Internal Audit Recommendations was presented to the Audit and Scrutiny Committee on 25 November 2019. Furthermore, a summary of the status of recommendations was presented within the Internal Audit Annual Assurance Report 2019/20 presented to the Audit and Scrutiny Committee on 23 June 2020.
- 3.5 Internal Audit continues to perform its standard quarterly follow-up activity to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk. Internal Audit works with Management to address any actions that become overdue, and bring any matters to the attention of the Audit and Scrutiny Committee.
- 3.6 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.
- 3.7 The Audit and Scrutiny Committee decision "Requested that the Corporate Management Team determine an escalation process to address those Internal Audit recommendations not completed within the agreed timescale". In response, two quarterly update reports on Internal Audit recommendations have been presented to the Corporate Management Team on 22 July 2020 and on 21 October 2020 to enhance the Management monitoring and oversight of progress.

4 PROGRESS UPDATE

- 4.1 The following table highlights the current status (as at 13 November 2020) of Internal Audit recommendations from current and previous years:

Year	Total	Implemented	Not Yet Due	Overdue on or before 31/10/20
2019/20	40	21	11	8
2018/19	4 + 1 SB Cares*	4	0	1*
2017/18	42 + 2 SB Cares	40	2	2

- 4.2 Further details on those Internal Audit recommendations that are not yet fully implemented are shown in Appendix 1.
- 4.3 There are occasions when it is necessary to grant extra time to complete recommendations. Some Managers have proposed extensions to due dates which have been approved by Internal Audit based on the further work required to implement these recommendations in full, as highlighted in the Appendix. The Pentana Risk system has been updated accordingly.
- 4.4 Internal Audit will complete an annual audit in the fourth quarter of each financial year on a sample of Internal Audit actions that have been completed within the preceding calendar year. The purpose of this Follow-up activity will be to check the evidence that improvement action has been undertaken and to ensure that the new controls or governance had the desired effect on improving internal control and governance. The findings will be presented to the Corporate Management Team and then to the Audit and Scrutiny Committee in the fourth quarter of each financial year. This practice is consistent with that adopted by Midlothian Council to provide additional assurance on the evidence of improvement in internal controls, risk management and governance as part of its continuous improvement processes.
- 4.5 A further update on progress with the implementation of Internal Audit recommendations will be included within the Internal Audit Annual Assurance Report 2020/21 for Scottish Borders Council which is scheduled for presentation to the Audit and Scrutiny Committee in May 2021.

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

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

- (c) Internal Audit recommendations also highlight potential risks and are taken into account when risk registers are reviewed and new risks are identified. Internal Audit is the third line of defence in the governance of risk.

5.3 Integrated Impact Assessment

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017). It does not relate to new/amended policy/strategy and as a result an integrated impact assessment is not an applicable consideration.

5.4 Acting Sustainably

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

5.5 Carbon Management

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

5.6 Rural Proofing

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

5.7 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

- 6.1 The Corporate Management Team have been consulted on this report on 11 November 2020 and further updates made by Action Owners to the Pentana system up to 13 November 2020 have been taken into account.
- 6.2 The Executive Director Finance & Regulatory, Chief Legal Officer (and Monitoring Officer), Service Director HR & Communications, 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

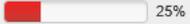
Author(s)

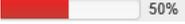
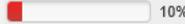
Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036
Sue Holmes	Principal Internal Auditor Tel 01835 825556

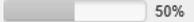
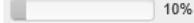
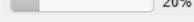
Background Papers: Appropriate Internal Audit files, and Pentana system
Previous Minute Reference: Audit and Scrutiny Committee 25 November 2019

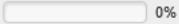
Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

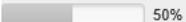
Contact us at Internal Audit intaudit@scotborders.gov.uk

Code	Title	Risk Rating	Status	Progress 13.11.20	Original Due Date	Due Date	Managed By	Assigned To	Update 13.11.20
023/001 Corporate and Social Work Complaints (Final Report Issued 19 June 2017)									
AUDIT.018	(2017 IA 023-001 Recs 5.1-5.4) Refresh of Complaints Handling Policy and Procedures to include Internal Audit recommended improvements (Training arrangements for staff, Processes for validating service quality control, Root cause analysis included in Reporting, and recording Lessons Learned in corporate system).	Medium	 Overdue	 25%	31/09/17	31/07/20	 Senior Manager Business Strategy and Resources	 Business Support Officer	Last update 7 November 2019: There is a dependency on the Digital Customer Access Programme which has been delayed. (25%) Note: Business Support staff deployed to Covid-19 response and recovery activity.
165/001 C&YP School Excursions (Final Report Issued 6 September 2017)									
AUDIT.033	(2017 IA 165-001 Rec 5.2) The importance of compliance with policy and procedures should be reaffirmed including those on authorisations, post excursion reporting, accident reporting, monitoring of compliance with the excursions procedures and processes, and assurance reporting to Management.	Low	 In progress	 66%	30/06/18	31/01/21	 Chief Officer Education	 Senior Lead Officer, E&LL	Last Update 5 November 2020: This is reliant on the policy approval by Executive Committee, scheduled for 19 January 2021. Will be adopted and followed in schools. There is a system in place for assuring compliance by schools. (66%) Note: 4 of the 6 milestone actions have been completed. An extension to due date has been granted by Internal Audit from 30 June 2020 to 31 January 2021.
AUDIT.034	(2017 IA 165-001 Rec 5.3) Clear guidance on the Disclosure requirements for non-supervisory, non-staff adults accompanying an excursion should be clarified with the support of HR and Legal services.	Medium	 In progress	 80%	30/06/18	31/01/21	 Chief Officer Education	 Senior Lead Officer, E&LL	Last Update 5 November 2020: This is reliant on the policy approval by Executive Committee, scheduled for 19 January 2021. Will be adopted and followed in schools. There is a system in place for assuring compliance by schools. (80%) Note: 4 of the 5 milestone actions have been completed. An extension to due date has been granted by Internal Audit from 30 June 2020 to 31 January 2021.

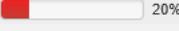
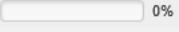
Code	Title	Risk Rating	Status	Progress 13.11.20	Original Due Date	Due Date	Managed By	Assigned To	Update 13.11.20
073/001 Business World ERP System Key Internal Controls (Final Report Issued 4 May 2018)									
AUDIT.065	(2017 IA 073-001 Rec 7.1a) <u>Audit Trails</u> A review of the available (or other) audit logs should be carried out to ensure that: . all transactions within Business World are listed on these logs; . configuration and formatting are easily understandable and the audit logs are straightforward to review; . they are readily available for regular review by Managers so that any unintended, inaccurate or fraudulent changes might be detected; - evidence of regular reviews are maintained	Medium	 Overdue	 70%	31/10/18	30/06/20	 Executive Director Finance and Regulatory	 HRSS Manager	Last update 10 November 2020: Continuing to review audit trails as part of the implementation of any new future functionality to ensure that they are recording the appropriate information within the Business World system. (70%)
SB Cares (Final Report Issued 13 September 2019)									
AUDIT.086	SB Cares Management should carry out a further review of the Call Confirm system to ascertain if carer's mileage can be recorded as well as hours to facilitate checking.	Medium	 Overdue	 50%	31/10/18	30/06/20	 Service Director SB Cares	 Service Development Manager	Last update 28 January 2020: Possible that this will be addressed by upgraded Call Confirm app but implementation of this app not due until Jun - Sept 20. (50%)
016/013a Performance Management – LGBF (Final Report Issued 10 September 2019)									
AUDIT.095	(2019 IA 016-013a Rec 5.1) Performance Management should be included as an agenda item on Department Management Team meetings to ensure that both data and insight are recorded and reported within timescales requested by the Performance Team for performance reporting purposes. As system and organisational developments continue during 2019/20 there is a need to ensure performance monitoring and reporting is accurate, robust and provided on time.	Medium	 Overdue	 10%	30/09/19	30/09/20	 Service Director Customer and Communities	 Service Director Customer and Communities	Last Update 27 November 2019: We are planning to implement a new CMT focused performance approach and would anticipate that a more robust DMT approach should flow from that, subject to the points below. - CMT to agree to proposed performance reporting approach - Service Directors need to help own and drive a robust DMT approach in their respective directorates for performance reporting/monitoring and management. This can be linked to the BVAR 2019 Action Plan regarding Performance Reporting. (10%) Note: Reported as part of the Internal Audit Report on LGBF in October 2020.

Code	Title	Risk Rating	Status	Progress 13.11.20	Original Due Date	Due Date	Managed By	Assigned To	Update 13.11.20
070/005 Health and Safety (Final Report Issued 24 January 2020)									
AUDIT.104	(2019 IA 070-005 Rec 5.1) H&S Management should consider making some aspects of the H&S policies and LEXI system training mandatory for employees to ensure that all managers and staff understand their H&S responsibilities.	Medium	 In progress	 66%	30/06/20	31/12/20	 Principal Regulatory Services Officer	 Health and Safety Team Leader	Last update 29 January 2020: Work is currently ongoing between H&S team and Training on developing a series of mandatory e-learning courses for premises duty holders, managers and other staff to raise awareness and understanding of their roles. (66%) Note: 2 of the 3 milestone actions have been completed.
AUDIT.105	(2019 IA 070-005 Rec 5.2) More informed H&S management information and performance reporting should be presented to DMTs as well as reporting to CMT on a more regular basis. This should include an Annual H&S Report to enable the Council to demonstrate how it is fulfilling its H&S obligations.	Medium	 In progress	 50%	30/06/20	30/11/20	 Principal Regulatory Services Officer	 Health and Safety Team Leader	Last update 1 October 2020: The CMT reports have been developed and the first went to CMT in June 2020. DMT reports will now be developed and reporting to CMT and H&S Committee continue quarterly. (50%)
150/009 Developer Contributions/ Development Management Fees (Final Report Issued 31 January 2020)									
AUDIT.106	(2019 IA 150-009 Rec 5.1) Operating procedures, relevant to both the Planning team and the Service areas, should reflect current Legislation and be drafted and/or updated to reflect current working practices.	Medium	 In progress	 10%	30/06/20	31/12/20	 Planning and Development Standards Manager	 Lead Planning Officer	Last update 1 April 2020: Initial review of procedure note commenced. (10%) Note: Due date extension agreed by Internal Audit to 31 December 2020 from 30 September 2020 to allow actions to be completed.
AUDIT.108	(2019 IA 150-009 Rec 5.3) A working group, which would be accountable to CMT, should be established with a documented remit and roles and responsibilities for the Planning team and Service area representatives.	Medium	 In progress	 20%	30/06/20	31/12/20	 Planning and Development Standards Manager	 Lead Planning Officer	Last update 1 April 2020: Identified key service areas / contacts and advised stakeholders of the purpose of the working group. Advised service area reps to review their own processes and procedures. Identified date for initial working group and prepare draft agenda. (20%) Note: Due date extension agreed by Internal Audit to 31 December 2020 from 30 September 2020 to allow actions to be completed.

Code	Title	Risk Rating	Status	Progress 13.11.20	Original Due Date	Due Date	Managed By	Assigned To	Update 13.11.20
010/017 Corporate Transformation Programme Fit for 2024 (Final Report Issued 27 February 2020)									
AUDIT.109	(2019 IA 010-017 Rec 5.1) 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	 Overdue	 0%	31/03/20	30/06/20	 Senior Manager Business Strategy and Resources	 Senior Manager Business Strategy and Resources	Last update 31 August 2020: Scheduling a discussion next week to look at creating the risk register. (0%) Note: Internal Audit recommendations discussed at Fit for 2024 Board meetings. Risk Management support staff deployed to Covid-19 response and recovery activity.
AUDIT.111	(2019 IA 010-017 Rec 5.3) Ensure that the business benefits other than financial savings are being identified through the plans and tracked through the monitoring mechanisms.	Low	 Overdue	 0%	30/06/20	30/09/20	 Senior Manager Business Strategy and Resources	 Senior Manager Business Strategy and Resources	Management Response 27 February 2020: Agreed. Will be identified as part of key project documentation including business case for resources. Key business benefits will be monitored as part of the Board's evaluation of progress and success through the programme planning template. (0%) Note: Internal Audit recommendations discussed at Fit for 2024 Board meetings.
230/007 ICT Security (Final Report Issued 27 February 2020)									
AUDIT.112	(2019 IA 230-007 Rec 5.1) Guidance should be issued to Service Managers explaining the importance of leaver's forms being completed timeously.	Medium	 Overdue	 80%	30/04/20	31/07/20	 Service Director Human Resources and Communications	 HRSS Manager	Last update 10 November 2020: Delayed to to Covid-19. Reminder for Managers has been drafted. Awaiting final confirmation of process to ensure this is agreed with SBC and CGI in terms of process. (80%)
AUDIT.113	(2019 IA 230-007 Rec 5.2) 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	 Overdue	 90%	30/04/20	30/09/20	 Executive Director Finance and Regulatory	 IT Client Manager	Last update 8 October 2020: Currently working through the expired user account report to highlight accounts for deletion. (90%)

Code	Title	Risk Rating	Status	Progress 13.11.20	Original Due Date	Due Date	Managed By	Assigned To	Update 13.11.20
209/004 SB Contracts (Final Report Issued 22 April 2020)									
AUDIT.114	(2019 IA 209-004 Rec 5.1) A process should be developed and introduced for the scrutiny of purchase orders from Servitor system by Procurement staff.	Medium	 In progress	 70%	31/03/21	31/03/21	 Chief Officer Roads	 Contracts Manager	Last update 12 November 2020: We are working with Procurement and Finance to establish is and is not possible. The conversations will continue throughout the remainder of the year. Orders outside framework-approved-suppliers requires a waiver being raised and approved by Procurement. (70%)
AUDIT.115	(2019 IA 209-004 Rec 5.2) SB Contracts Management should engage with Procurement Business Partners to ascertain if Framework Agreements can be put in place for sub-contractors.	Medium	 In progress	 60%	31/03/21	31/03/21	 Chief Officer Roads	 Contracts Manager	Last update 12 November 2020: We are working with Procurement and have started the development of a framework for SBc Contracts. We have reviewed the Property Maintenance Framework and will be using those where appropriate. We also creating new Frameworks that better meet our needs. Due to Covid-19 the initial timeline to have in place before the end of March 2020 is tight. However, we are trying to achieve this. (60%)
AUDIT.116	(2019 IA 209-004 Rec 5.3) SB Contracts Management should assess and identify staff who require training regarding the Procurement/Purchasing framework to ensure they are aware of the processes and procedures when procuring goods, works and services.	Medium	 In progress	 50%	31/03/21	31/03/21	 Chief Officer Roads	 Contracts Manager	Last update 12 November 2020: Staff continue to seek out the online learning resources and to familiarise themselves with the Council procedures, etc. this will also be included in appraisals and work objective-setting. For staff involved in Procurement in the Management technical side of the business, good progress has been made here with business processes already altering. For example, the use of waiver process for procuring those then being supplied to Procurement in advance of placing orders. (50%)

Code	Title	Risk Rating	Status	Progress 13.11.20	Original Due Date	Due Date	Managed By	Assigned To	Update 13.11.20
002/010 Contracting and Procurement (Final Report Issued 2 June 2020)									
AUDIT.117	(2019 IA 002-010 Rec 5.1) The Procurement and Contract Standing Orders should be reviewed and updated, and communicated across the Council to ensure compliance with Procurement rules. A review of the waiver process should be undertaken, including the level of approvals delegated to the Procurement Business Partners, to ensure efficient operation of controls.	Low	 In progress	 70%	30/11/20	30/11/20	 Executive Director Finance and Regulatory	 Commercial and Commissioned Services Manager	Last update 11 November 2020: A consultation has been carried out across the organisation. Following this a review has identified positive opportunities to update the existing governance. These next steps will be undertaken to take report to appropriate Committee as soon as practical. (70%)
AUDIT.118	(2019 IA 002-010 Rec 5.2) There should be Senior Management oversight of the use of the waiver process, supplier spend analysis and expiration of contracts. Services should also ensure that their procurement forward planning processes are robust in order to reduce the number of waiver applications.	Medium	 In progress	 70%	31/08/20	30/11/20	 Executive Director Finance and Regulatory	 Commercial and Commissioned Services Manager	Last update 11 November 2020: Will be included in update to Standing Orders. (70%) Note: Due date extension granted from original due date to 30 November 2020 to bring in line with action AUDIT.117 above.
AUDIT.119	(2019 IA 002-010 Rec 5.3) Line Managers should ensure that staff with responsibility for procuring and purchasing goods, works and services undertake training regarding the Procurement / Purchasing framework to ensure they are aware of the processes and procedures when procuring goods, works and services.	Medium	 In progress	 70%	31/08/20	30/11/20	 Executive Director Finance and Regulatory	 Commercial and Commissioned Services Manager	Last update 11 November 2020: Connected to update to Standing Orders supporting training will be clearly stated in the role and responsibilities of Service Directors and communications on the new governance will include training requirements. (70%) Note: Due date extension granted from original due date to 30 November 2020 to bring in line with action AUDIT.117 above.

Code	Title	Risk Rating	Status	Progress 13.11.20	Original Due Date	Due Date	Managed By	Assigned To	Update 13.11.20
073/003 Business World ERP System Key Controls (Final Report Issued 3 June 2020)									
AUDIT.120	(2019 IA 073/003 Rec 5.1) VAT on invoices should be calculated by the BW system with the exceptions being dealt with by the AP team.	Low	 In progress	 0%	31/03/21	31/03/21	 Commercial and Commissioned Services Manager	 HRSS Manager	Management Response 4 June 2020: This can be reviewed, however the current approach is based on system improvements / practice put in place by the BW Consultants. (0%)
AUDIT.125	(2019 IA 073/003 Rec 5.6) The aged debt report within BW should be reviewed to consider how debt managed under payment by instalment and where recovery has been deferred can be reported.	Low	 Overdue	 20%	31/10/20	31/10/20	 Financial Services Manager	 HRSS Manager	Last update 10 November 2020: Discussions have started with the S2C team around the requirements for this report and how this should be structured. Consultants will need to look at the provision of this report and they are aware that this will be one of the priorities for delivery. (20%)
AUDIT.126	(2019 IA 073/003 Rec 5.7) The Employee Travel and Mileage Policy should be updated to reflect current arrangements, and clarity provided regarding the correct process for supply and peripatetic officer mileage / expense claims.	Medium	 Overdue	 75%	30/09/20	30/09/20	 Service Director Human Resources and Communications	 HRSS Manager	Last update 10 November 2020: Policy has been reviewed. Going through final verification to ensure all supporting guidance is available and up-to-date as referenced within the policy. (75%)
AUDIT.127	(2019 IA 073/003 Rec 5.8) Line Managers should be reminded of their responsibilities to ensure accurate information is recorded in BW system, namely: <ul style="list-style-type: none"> Greater scrutiny when authorising expense claims to ensure that staff are claiming expenses only when at work and not when shown to be absent. Ensure staff are aware, and make use, of the Employee Travel and Mileage Policy and the Business Travel Decision Maker regarding business journeys, specifically the use of pool cars. Licence, Insurance and MOT information should be recorded in BW to enable staff to use their own vehicles when a pool car is not available, and reviewed annually. 	Medium	 Overdue	 0%	30/09/20	30/09/20	 Service Director Human Resources	 HRSS Manager	Management Response 4 June 2020: Agreed. This should be issued as soon as possible. Additionally, this should be communicated at the same time as the reviewed Policy has been approved and launched. (0%) Note: Dependency on update and approval of revised policy and guidance (action AUDIT.126 above).

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INTERNAL AUDIT WORK TO OCTOBER 2020

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

23 November 2020

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 31 October 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21 is detailed in this report. A total of 3 final Internal Audit reports have been issued. There were no recommendations made.
- 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 31 October 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21; 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 2020/21 was approved by the Audit and Scrutiny Committee on 9 March 2020. Internal Audit has carried out the following work in the period from 1 to 31 October 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:
- Treasury Management
 - EU Funded Programmes LEADER and EMFF
 - Community Equipment Service
- 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 2020/21 consists of the following:

Audit Area	Audit Stage
Foster and Kinship Carer Payments	Drafting the report
Integrated People, Financial and Business Planning	Testing underway
Education Maintenance Allowances Process	Audit Assignment issued
Schools Financial and Business Administration Processes	Audit Assignment Issued
ICT Operational Computer Systems	Audit Assignment Issued

Revenues (Council Tax and NDR)	Planning the Assignment
Adults and Children with Physical Disabilities	Planning the Assignment

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); attendance at the Contract and Supplier Management Implementation Group and Social Work Performance Board.
 - Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual audit forums and meetings.

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 2020/21:

	2020/21 Number of Recs
High	0
Medium	0
Low	0
Sub-total reported this period	0
Previously reported	2
Total	2
Recommendations agreed with action plan	2
Not agreed; risk accepted	0
Total	2

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 2020/21 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 Integrated Impact Assessment

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017). It does not relate to new/amended policy/strategy and as a result an integrated impact assessment is not an applicable consideration.

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 & Communications, 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 22 October 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

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Treasury Management</p> <p>No: 077/005</p> <p>Date issued: 28 October 2020 Draft; 29 October 2020 Final</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to ensure the treasury functions are administered effectively and in compliance with policy, strategy, codes of practice and indicators.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> Reporting, governance and performance measurement processes follow those set out in the CIPFA Prudential Code. The quality of reporting is very good. There was evidence of effective review controls over the calculation of prudential indicators, and the audit testing confirmed the completeness and accuracy of figures published in publically available documents. There was evidence of effective cash flow management, allowing excess funds to be invested while allowing liabilities to be met as planned. Compliance with the CIPFA Prudential Code is based on an understanding of risks relating to the Council’s investment strategy and plans, and an understanding of how these risks are managed. In addition, we noted that risks relating to treasury management are described in the finance risk registers. They are managed and reported in line with Council policy. Controls and mitigations are described to reduce residual risk to acceptable levels. <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> <p>We made no recommendations.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and have welcomed its findings.</p> <p>Treasury management is one of the more complicated technical areas of financial management which requires a high level of specialist knowledge from officers.</p> <p>Likewise the effective scrutiny of the Treasury Function requires expertise to be held by those charged with governance.</p> <p>Officers will ensure the ongoing programme of training with the Audit and Scrutiny Committee is maintained to ensure members have the requisite knowledge, using specialist advisers where necessary.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Community Equipment Service</p> <p>No: 190/006</p> <p>Date issued: 29 October 2020 Draft; 13 November 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to 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 (CES).</p> <p>CES provides equipment for people aiming to maximise independence and mobility. Whilst not governed by legislation, this Service follows the guidance from Scottish Government, COSLA and National Association of Equipment Providers. Equipment is available on loan following an assessment from an NHS- or SBC-trained professional. Clients are supplied with equipment as a means of them being discharged from hospital and returning back into their own homes.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • Staff reacted quickly to a unique fast changing situation in order to continue the delivery of their service to support colleagues and service users. • Service currently have 65% of specific equipment items being recycled. This in part is due to the investment of a decontamination machine. <p>A recommendation arising from the previous audit of the Service to complete a review of the stock control processes throughout the satellite stores has been implemented.</p> <p>Internal Audit are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is some scope for minor improvements in relation to the recycling of equipment, setting standards of service and performance measures which were discussed with Management during the audit. The previous recommendation remains outstanding relating to the signature of the SLA and agreement re the funding package for this Service to ensure its financial sustainability. No further recommendations were made.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings, and will follow up on the areas of note including review of recycling process and agreeing a SLA for the service with the commissioners.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Subject: EU Funded Programmes LEADER and EMFF</p> <p>No: 154/026</p> <p>Date issued: 05 November 2020 Draft; 16 November 2020 Final</p> <p>Level of Assurance: Substantial Assurance that SBC has complied with the LEADER SLA and the EMFF Framework Agreement</p>	<p>The purpose of the review was to perform annual audits of EU grant-funded programmes for 2014-2020, Liaison Entre Actions de Développement de l'Économie Rurale (LEADER) and the European Maritime Fisheries Fund (EMFF), under the terms of Service Level Agreements (SLAs) to assess compliance with the requirements of the SLAs and the relevant EC Regulations.</p> <p>Internal Audit tested all claims made during the period 16 October 2019 and 15 October 2020: twelve LEADER claims of project costs totalling £747k; four LEADER claims for the reimbursement of staff costs totalling £180k; and five EMFF claims for staff and admin costs totalling £14k.</p> <p>Internal Audit are able to provide Substantial Assurance that SBC has complied with the LEADER SLA and the EMFF Framework Agreement.</p> <p>The audit work undertaken allows Internal Audit to confirm that SBC, as Accountable Body, has complied substantially with the requirements of the LEADER SLA. This is an area of ongoing high risk owing to the potential for disallowance of costs and significant fines levied by either the EU Auditors (as a result of their conformity audits) and / or Audit Scotland (in their capacity as certifiers of the EC accounts). Internal Audit cannot provide assurance that this level of compliance with the LEADER SLA will be enough to reduce the risk of disallowance and financial penalty. The risk of disallowance is contained in the Economic Development Risk Register and is reviewed regularly.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>The annual submission to the Scottish Government will include the findings from this Internal Audit report.</p>

SCRUTINY WORK PROGRAMME

Committee dates – Thursday 22 October (Scrutiny); Monday 23 November; Thursday 10 December 2020(Scrutiny); Thursday 14 January 2020 (Scrutiny); Monday 8 February 2021; Monday 10 May 2021, Thursday 3 June 2021 (Scrutiny); Tuesday 29 June 2021.

	SUBJECT	SCOPE & APPROACH	LEAD OFFICER	COMMITTEE MEETING DATE
1.	Police Community Action Teams	<p>Scope: Receive information on the current arrangements for the Police Community Action Teams – governance, management, community engagement.</p> <p>Approach: Initial Scrutiny hearing to determine best methodology and reporting</p>	Stuart Easingwood, Chief Social Work & Public Protection Officer	28 September 2020 COMPLETE
2.	Welfare Fund	<p>Scope: An evaluation of how SBC manages applications alongside other funds</p> <p>Approach: Scrutiny hearing</p>	Jenni Craig, Service Director Customer & Communities	22 October 2020 COMPLETE
3.	Balance between 20mph speed limits and street architecture	<p>Scope: An evaluation of the current situation and future plans</p> <p>Approach: Scrutiny hearing</p>	John Curry, Service Director Assets & Infrastructure	10 December 2020

	SUBJECT	SCOPE & APPROACH	LEAD OFFICER	COMMITTEE MEETING DATE
4.	Child Poverty	<p>Scope: An evaluation of the actions the Council is taking to tackle Child Poverty including Pupil Equity Fund, free school meals, etc.</p> <p>Approach: Initial Scrutiny hearing to determine best methodology and reporting</p>	Jenni Craig Service Director Customer & Communities; Lesley Munro, Service Director Young People, Engagement & Inclusion	14 January 2021
5.	Common Ridings and Festivals In-kind support	<p>Scope: 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>Approach: Scrutiny information briefing</p>	John Curry, Service Director Assets & Infrastructure	8 February 2021
6.	Grass Cutting Regime & Biodiversity	<p>Scope: Receive information on the existing grass cutting regime and the effectiveness of biodiversity plans.</p> <p>Approach: Scrutiny information briefing</p>	John Curry, Service Director Assets & Infrastructure	10 May 2021
7.	Recycling and Waste Policy	<p>Scope: An evaluation of the effectiveness of the Recycling and Waste Policy</p> <p>Approach: Scrutiny hearing</p>	John Curry, Service Director Assets & Infrastructure	3 June 2021

	SUBJECT	SCOPE & APPROACH	LEAD OFFICER	COMMITTEE MEETING DATE
8.	Public transport and communities	<p>Scope: An evaluation of the current situation and future plans</p> <p>Approach: Initial Scrutiny hearing to determine best methodology and reporting</p>	Rob Dickson, Executive Director	3 June 2021
9.	Responsible Dog Ownership Policy	<p>Scope: Review the implementation of the policy and establish its level of success</p> <p>Approach: Scrutiny hearing</p>	David Robertson, Executive Director (Finance & Regulatory)	29 June 2021
10.	Income Management Policy	<p>Scope: Review the Income Management Policy established in 2012 and benchmark current charges against other areas of Scotland.</p> <p>Approach: Initial Scrutiny hearing to determine best methodology and reporting</p>	David Robertson, Executive Director (Finance & Regulatory)	
11.	Rural Proofing Policy	<p>Scope: Review of the effectiveness of the current Rural Proofing Policy.</p> <p>Approach: Scrutiny hearing</p>	Rob Dickson, Executive Director	

	SUBJECT	SCOPE & APPROACH	LEAD OFFICER	COMMITTEE MEETING DATE
12.	Council resources on Roads, including white lining	<p>Scope: 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.</p> <p>Approach: Scrutiny hearing</p>	John Curry, Service Director Assets & Infrastructure	
13.	Following the Public Pound – grant evaluations	<p>Scope: An evaluation of the process for grant monitoring and evaluation</p> <p>Approach: Scrutiny hearing</p>	Jenni Craig, Service Director Customer & Communities	
14.	Management and Maintenance of Public Halls	<p>Scope: An evaluation of the community contribution to the management and maintenance of public halls, including those managed by Live Borders.</p> <p>Approach: Scrutiny hearing</p>	Rob Dickson, Executive Director	