Public Document Pack

AUDIT AND SCRUTINY COMMITTEE
MONDAY, 8 MARCH 2021

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held on MONDAY, 8 MARCH 2021 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.

J. J. WILKINSON,
Clerk to the Council,

1 March 2021

BUSINESS		
1.	**Apologies for Absence.**	
2.	**Order of Business.**	
3.	**Declarations of Interest.**	
4.	**Minute.** (Pages 3 - 8) Minute of Meeting of the Audit and Scrutiny Committee held on 15 February 2021 to be approved and signed by the Chairman. (Copy attached.)	5 mins
5.	**Action Tracker** (Pages 9 - 10) To note progress made on the Action Tracker (copy attached)	5 mins
6.	**Risk Management in Services** Verbal presentation by Service Director Young People, Engagement & Inclusion (copy to follow.)	20 mins
7.	**Treasury Management and Investment Strategy 2021/22** (Pages 11 - 64) Consider report by Executive Director Finance and Regulatory Services. (Copy to follow.)	20 mins
8.	**Counter Fraud Controls Assessment** (Pages 65 - 72) Consider report by Chief Officer Audit and Risk (Copy attached.)	15 mins
9.	**Internal Audit Work to January 2021** (Pages 73 - 82) Consider report by Chief Officer Audit and Risk. (Copy attached.)	15 mins
10.	**Audit Scotland- COVID-19: What is means for public audit in Scotland**	20 mins

	(Pages 83 - 90) Consider Update from Audit Scotland. (Copy attached.)	
11.	**External Annual Audit Plan 2020/21 for the Council (Audit Scotland)** (Pages 91 - 126) Consider Scottish Borders Council Annual Audit Plan 2020/21. (Copy attached.)	20 mins
12.	**External Annual Audit Plan 2020/21 for the Pension Fund** (Pages 127 - 140) Consider Scottish Borders Council Pension Fund Annual Audit Plan 2020/21. (Copy attached.)	20 mins
13.	**Internal Audit Charter** (Pages 141 - 152) Consider report by Chief Officer Audit and Risk. (Copy attached.)	15 mins
14.	**Internal Audit Strategy and Annual Plan 2021/22** (Pages 153 - 162) Consider report by Chief Officer Audit and Risk. (Copy attached.)	15 mins
15.	**Any Other Audit Items Previously Circulated.**	
16.	**Any Other Audit 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 (Vice-Chairman), E. Robson, H. Scott, E. Thornton-Nicol, S. Scott, Mr M Middlemiss and Ms H Barnett

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

MINUTE of Meeting of the AUDIT AND SCRUTINY COMMITTEE held Via Microsoft Teams on Monday, 15 February 2021 at 10.15 am

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

Apologies:- Ms H Barnett.

In Attendance:- Executive Director Finance & Regulatory, Service Director HR & Communications (para 3), Chief Officer Audit & Risk, Clerk to the Council, Democratic Services Officer (F. Walling); Ms G. Woolman and Mr J. Steen – Audit Scotland.

1. **MINUTE.**
There had been circulated copies of the Minute of the Meeting held on 14 January 2021.

DECISION
APPROVED for signature by the Chairman.

2. **ACTION TRACKER**
There had been circulated copies of the Action Tracker for the Audit and Scrutiny Committee.

DECISION
NOTED the updated Action Tracker.

3. **RISK MANAGEMENT IN SERVICES**

3.1 The Service Director HR & Communications, Clair Hepburn, was in attendance to give a presentation on the strategic risks facing her service and the internal controls and governance in place to manage/mitigate those risks, to demonstrate how risk management was embedded within services. With the aid of slides, which had been circulated to Members prior to the meeting, Ms Hepburn firstly gave a summary of the Corporate Risks which she managed for the Corporate Management Team. Included for each risk area was a description of the risk, detailed assessment, internal controls and scoring. The six Corporate Risks were identified as: Negative Media; Change Management; Staff Recruitment and Retention; Staff Behaviour; Transformation Programme; and a new Equality and Diversity Risk, which was in the process of being evaluated. In terms of communications and the risk of Negative Media, Ms Hepburn referred to the impact of Covid-19 and significant challenges facing the Council in that certain services had been placed under far greater scrutiny. This had led to an increase in social media and press interest which was difficult to manage. Additional measures were being introduced including the launch of Yammer - the Council's very own social media platform which would help to strengthen relationships with colleagues, work together more efficiently and improve work culture. In terms of change management, staff had adapted well to changes needed to cope with the pandemic and to homeworking in particular. In a survey, 70% staff would like a blended approach to office/home based working in the future. This linked into the opportunities and risks around the

Transformation Programme. Ms Hepburn moved on to summarise the Service Risk Registers which she oversaw within HR and Communications. An additional Risk Register which sat under her responsibility and which was in progress, related to the Fit for 2024 (FF2024) programme. A series of risks had been identified/formulated between December 2020 and February 2021, relating to effective governance, change management, communication, programme planning and adequate resourcing.

3.2 Members discussed the presentation. When asked for more information about the red risk identified within the FF2024 of inadequate/stretched resources, Ms Hepburn explained that this related to the provision of specific skills. For example, project support teams, currently deployed to the Covid-19 response, needed to be brought back into the FF2024 programme in order to deliver on outcomes and planned timescales. In terms of support for new employees in the circumstances of the move to home working and increased reliance on digital communication, Ms Hepburn gave assurance that for new employees there would be a blended approach with a proper induction programme in place to build team relationships. People Plans contained measures for succession planning, avoidance of Single Points of Failure and handover to new staff usually taking the form of hands-on shadowing. With regard to effective communication to staff and the fact that a large proportion of frontline staff still did not have access to the Council's IT network, Ms Hepburn advised that solutions were currently being looked at within the digital strand of FF2024. The Chairman thanked Ms Hepburn for her attendance and presentation.

DECISION
NOTED the presentation.

4. **BEST VALUE ACTION PLAN**

4.1 With reference to paragraph 6 of the Minute of 28 September 2020, Jason McDonald, Senior Manager Business Strategy & Resources, was in attendance to give a presentation and progress update relating to the Best Value Audit Implementation Plan. A copy of the presentation slides had been included with the papers circulated with the agenda. Mr McDonald explained that, as requested, the update focussed on actions by exception and presented 12 of the 40 actions which made up the Implementation Plan. Many of the officers responsible for progress of the Plan were heavily involved in the Council's Covid-19 response. Senior managers had noted where progress had been halted or delayed and would endeavour to move these forward quickly. Since the last update there had been completion of a further 3 actions with many more continuing to make progress. A pie-chart within the presentation illustrated the current progress of all 40 actions compared with the progress shown on 28 September 2020. Mr McDonald went on to summarise progress relating to each of the 12 actions under focus and as detailed within the slides, providing further information where requested by Members.

4.2 With regard to the actions under the audit recommendation to 'seek to improve partnership working with NHS Borders in order to support the strategic objectives of the Integration Joint Board (IJB)', Mr McDonald referred to the Covid-19 related crisis which had pulled people together within the locality hubs and that this had been used to progress actions. He advised that work was ongoing to determine local demand, resource requirements and structures. The next steps were to re-establish What Matters Hubs, standardise approach across localities and finalise staffing structure. A question was asked about accountability and transparency relating to IJB governance arrangements and specifically about how the Council and NHS IT systems could work more closely together. Mr McDonald explained that there was a new digital joint working group to look at information sharing between health and social care and that information around governance reporting would feature within that. In response to a question about the level of detail provided on the action relating to discussions within Area Partnerships and implementation of the Community Empowerment Act, Mr McDonald suggested that this action could be focussed on in the next update. With regard to Members' training, although the specific action to develop a Members' section of SBLearn had been delayed

Members development of digital skills had progressed through MS Teams training, as a result of remote working during the pandemic. As external auditor to the Council, Ms Woolman welcomed the detailed progress report. She reassured the Committee that Audit Scotland was conscious of the challenging context in terms of timescales and that an independent review would be provided at an appropriate time. The Chairman thanked Mr McDonald for his attendance and presentation.

DECISION
NOTED the update on progress with actions on the Best Value Audit Implementation Plan.

5. **INTERNAL AUDIT WORK TO DECEMBER 2020**

With reference to paragraph 6 of the Minute of 23 November 2020, there had been circulated copies of a report by the Chief Officer Audit & Risk providing details of the recent work carried out by Internal Audit and the recommended Audit actions agreed by Management to improve internal controls and governance arrangements. The report also provided the conclusions of the External Quality Assessment (EQA) of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS). The work Internal Audit had carried out in the period from 1 November to 31 December 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21 was detailed in this report. During this period, a total of 3 Final Internal Audit Reports had been issued, on the following subjects: Schools Financial and Business Administration Processes; Foster and Kinship Carer Payments; and Education Maintenance Allowances Process. There was a total of 5 recommendations made associated with 2 of the reports (4 Medium Risk; 1 Low 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 & Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was shown in Appendix 1 to the report. The report also detailed current Internal Audit Assurance work in progress. The Chief Officer Audit & Risk, Jill Stacey, drew attention to the section of the report explaining that the findings of the SBC EQA concluded by North Lanarkshire Council in early January 2021 assessed the function as 'fully conforms' in line with the SBC Internal Audit self-assessment 2019/20. A small number of recommendations had been raised, based on areas for further improvement. These had been accepted for implementation and had been included in the Quality Assurance and Improvement Plan (QAIP). In a discussion of the report Members asked for further information about the Internal Audit report on Education Maintenance Allowances Process where 3 Medium Risk recommendations had been made. Ms Stacey explained that the weaknesses identified related to some inconsistencies across the High Schools, which led to inefficiencies. It was recommended that a single set of guidance rules and structured procedures were developed across the schools. There were however examples of good practices and, with the recent appointment of a senior business manager, work was in progress to bring these together.

DECISION
AGREED to:-

(a) note the final assurance reports issued in the period from 1 November to 31 December 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21;

(b) note the Internal Audit Assurance work in progress and Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter;

(c) acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work; and

(d) note the conclusions and improvement actions from the External Quality Assessment of the Internal Audit service against the Public Sector Internal Audit Standards.

6. **DIGITAL PROGRESS IN LOCAL GOVERNMENT**

6.1 There had been circulated copies of a publication entitled 'Digital Progress in Local Government' prepared by Audit Scotland in January 2021. Audit Scotland Manager Jonny Steen gave an overview of the findings outlined within the document, which were based on case study work looking at the role that key national stakeholders played in supporting councils to transform. The report set out the six key characteristics of a Digital Council and provided examples that demonstrated how some councils were transforming, although councils were at different stages of digital transformation. The pace of change had increased as digital technologies had played a vital role in the public sector's response to the Covid-19 pandemic. Covid-19 had accelerated digital plans; provided recognition of the potential of digital technologies; prompted a review of digital plans and strategies; and encouraged adaptation of elected members to virtual tools including video-conferencing, virtual surgeries and virtual council meetings. Councils were adopting a 'digital first' strategy but it was emphasised that they must understand the needs of those experiencing digital exclusion and put in place a strategy to ensure equity in customer experiences. Attached to the report was a checklist to help Elected Members scrutinise and challenge digital progress within the council. A further supplement set out the Audit Methodology used to produce the report.

6.2 In discussion of the report, a question was asked about the Digital Maturity Assessment tool, developed by the Digital Office and referred to in the report, which could be used by councils to assess their progress and inform their digital plans. Mr Steen agreed to email this assessment tool to members of the Committee. The Chairman suggested that the report and supplements would be a useful reference for all Elected Members when discussing the Council's digital strategy and asked for a Members' briefing on Digital Transformation to promote a practical understanding of a Digital Council. The Executive Director Finance & Regulatory agreed that such a briefing could be provided, adding that Scottish Borders Council was in fact ahead, compared with other councils, in terms of digital transformation in relation to Education and Customer Access. It was agreed that there may be a lack of recognition amongst Elected Members about where the Council was in terms of digital progress and that a Members' briefing would be useful.

DECISION

(a) NOTED the report.

(b) AGREED that a Members' Briefing be provided to promote a practical understanding of a Digital Council and to provide an update on Scottish Borders Council's Digital Transformation Programme.

7. **LOCAL GOVERNMENT IN SCOTLAND FINANCIAL OVERVIEW 2019/20**

There had been circulated copies of two reports prepared by Audit Scotland, in June 2020 and January 2021 respectively, presenting a Financial Overview of Local Government in Scotland. Ms Woolman presented the overview, emphasising that the financial impact of the Covid-19 pandemic on public services was extreme. At the same time the country had seen the strength and resilience of many communities highlighted as they had worked with public service partners to provide support to those who needed it most. The report noted that more Councils added to their useable reserves than in previous years. Council reserves could be a key tool to manage the medium term financial impacts of Covid-19. Significant challenges were presented in 2020 to the preparation and audit of councils' pension funds although Ms Woolman noted the comparatively good performance of Scottish Borders Council's pension fund. Although there were no specific recommendations, the report outlined a number of key messages and summarised

councils' income, financial position and financial outlook. The overview also looked at the financial performance of Integration Joint Boards and the outlook moving forward. In a discussion of the report, attention was drawn to the wider consequences of Covid-19, which were noted in respect of delays in growth deals - in particular the impact of Covid-19 in delaying some of the progress in establishing governance structures and formal sign off of the Borderlands' Collaboration Agreement.

DECISION
NOTED the report

8. **FOLLOWING THE PUBLIC POUND CODE OF PRACTICE UPDATE**

There had been circulated copies of a report by the Executive Director Finance & Regulatory presenting the Council's updated Following the Public Pound code of practice for review ahead of the 16 March 2021 Executive Committee. As noted by Audit Scotland as part of the 2019/20 statutory audit, the Council's Following the Public Pound guidance had not been refreshed since 2006 resulting in a risk that the existing guidance was no longer relevant and the Council was not ensuring it was delivering value for money. The guidance had now been updated as attached in Appendix 1 to the report, as per the Audit Scotland national guidance on Following the Public Pound. Adherence to the guidance would ensure the Council followed the principles of good governance in expending public money. It was noted that in refreshing the guidance it was confirmed that current practices within Scottish Borders Council were in line with guidance and no operational changes would be required as a result of this update. On approval the guidance would be made available on the Council's intranet to ensure all staff had access to it. The Executive Director Finance & Regulatory summarised the principle changes included in the Code of Practice subsequent to its review. He confirmed that, whilst the update was overdue, no aspects of the previous Code were found to be deficient.

DECISION
AGREED that, following its review of the updated Code of Practice on Following the Public Pound, the Audit & Scrutiny Committee had no comments ahead of its presentation to the Executive Committee on 16 March 2021.

9. **LOANS CHARGES AND PRIVATE FINANCE ACCOUNTING TREATMENT**

With reference to paragraph 3.2 of the Minute of 23 November 2021, there had been circulated copies of a Briefing Paper by the Executive Director Finance & Regulatory providing the requested background and information on loans charges and the accounting treatment of the capital element of the Private Partnership (PPP)/Private Finance Initiative (PFI) funded schools. It was explained that the debt reflected in the Council's balance sheet was made up of two main separate elements. These were the external loans held directly by the Council and the outstanding debt element of the PPP/PFI contracts. The external loans costs held directly were charged against the loans charges budget in-year. The budget to fund PPP/PFI debt costs was included in the unitary charge budget within the Education revenue budget. The loans charges purpose was to recognise the cost of capital financed by external borrowing undertaken by the Council. The loans charges budget consisted of two main elements, these were payment of actual interest and notional charges representing the principle repayment calculated on a prudent basis. Scottish Borders Council calculated notional charges on an annuity basis over the asset life. The Council currently had 3 PPP/PFI contracts for 5 secondary schools. The funding for these was provided by third parties and recharged over the life of the contracts as part of the unitary charge held within the Education service. The asset value of the schools was included on the Council's balance sheet with a corresponding long term debt. The current guidance required Local Authorities to write the payment of this debt to be written down over the life of the PPP contract. This was undertaken as a technical adjustment as part of the year end accounting process. There was currently work ongoing with COSLA and Scottish Government to allow this guidance to be amended to bring PPP/PFI in line with the methodology used for the Councils loans charges. If the change to guidance was agreed, the repayment element of the unitary would be charged over the life of the asset

rather than the contract which would result in the period of charges moving from 25 years to 50 years. This would have significant benefits for Local Authorities at a time when budgets were under extreme pressure for costs of Covid-19 without directly affecting service provision. The Department of Finance was of the opinion that this change was within the powers of Scottish Ministers as it related to guidance issued by them in 2010. However to date a satisfactory solution to this issue had not been achieved.

DECISION
NOTED the briefing

The meeting concluded at 12.45 pm

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
28 September 2020				
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. 'Counter Fraud Controls Assessment' report included in agenda papers for A&SC on 8 March 2021. Complete
22 October 2020				
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	In hand.
23 November 2020				
Internal Audit Work to October 2020	**AGREED to request that the Executive Director Finance & Regulatory write to the Chief Executive NHS Borders to encourage sign-off at the earliest opportunity of the SLA relating to the Community Equipment Service.**	Finance & Regulatory	David Robertson	In hand.
15 February 2021				
Digital Progress in Local Government	**AGREED that a Members' Briefing be provided to promote a practical understanding of a Digital Council and to provide an update on Scottish Borders Council's Digital Transformation Programme.**	Finance & Regulatory	David Robertson	Digital Strategy presented to Council 25 February 2021.

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TREASURY MANAGEMENT STRATEGY 2021/22

Report by Executive Director, Finance & Regulatory

AUDIT AND SCRUTINY COMMITTEE

8 March 2021

1 PURPOSE AND SUMMARY

1.1 **This report is to enable the Audit and Scrutiny Committee to undertake their scrutiny role in relation to the Treasury Management activities of the Council. It presents the proposed Treasury Management Strategy for 2021/22 for consideration prior to Council approval.**

1.2 The Treasury Management Strategy is the framework which ensures that the Council operates within prudent, affordable limits in compliance with the CIPFA Code.

1.3 The Strategy for 2021/22 to be submitted to Council on 19 March 2021 is included in this report at Appendix 1 and reflects the impact of the financial; planning totals issued by the Council's management team for 2021/22 onwards on the prudential and treasury indicators for the Council.

2 RECOMMENDATIONS

2.1 **It is recommended that the Committee considers whether to make any comments or recommendations on the draft Treasury Management Strategy for 2021/22 prior to presentation to the Council for approval.**

4 BACKGROUND

4.1 The Audit and Scrutiny Committee is responsible for scrutinising the Treasury Management Strategy in line with recommended practice set out in the CIPFA (Chartered Institute of Public Finance and Accountancy) Code (i.e. Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes).

5 TREASURY MANAGEMENT STRATEGY 2021/22

5.1 Appendix 1 contains the draft Treasury Management Strategy for 2021/22 for consideration by the Audit and Scrutiny Committee.

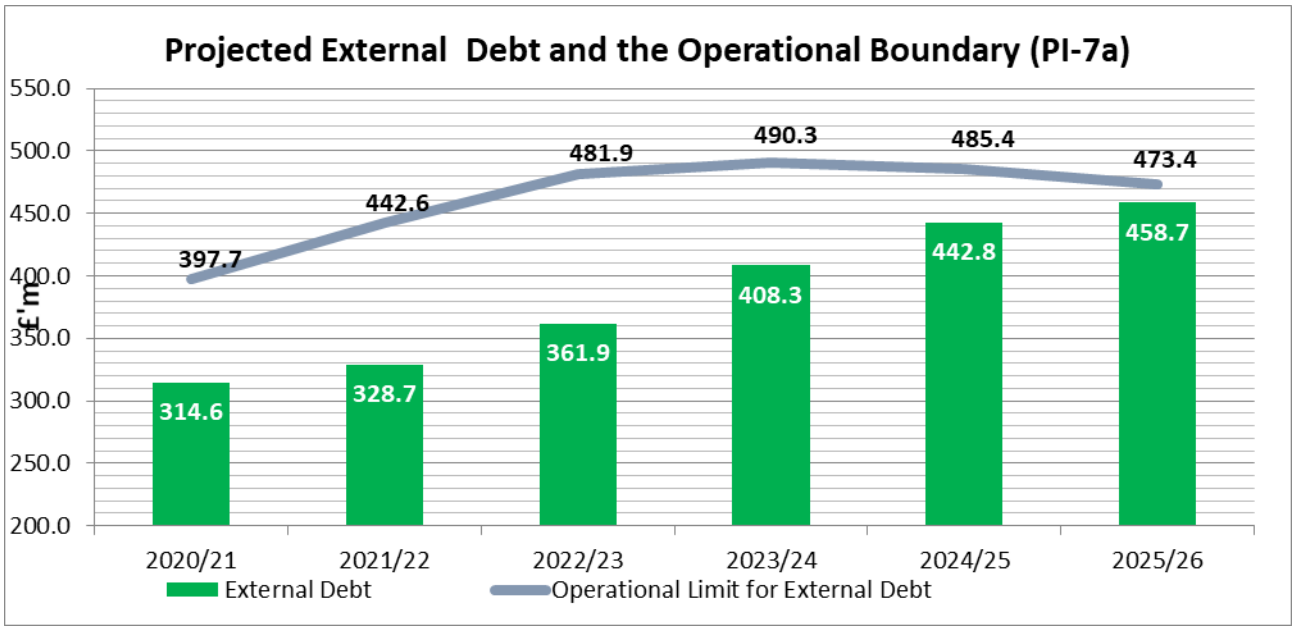
5.2 This is based on the draft Financial Capital Plans issued by the Council's management team for 2021/22 to 2030/31. The administration's plan is yet to be published and will be presented to Council for approval on 19 March 2021. The final version of this report which will be reported to Council will include a 30 year loans charges projection based on assumed future capital expenditure.

5.3 Appendix 1, Annex A contains a summary of the proposed indicators within the strategy. The significant changes from the 2020/21 strategy are:

(a) Decrease in the Capital Financing Requirement (CFR) in the first 2 years due to the re-phasing of 2 primary and 3 secondary schools. Also impacting on the CFR movement is the anticipated capital borrowing requirements associated with the re-phasing of projects from 2020/21 into future years as well as movements in the scheduled debt amortisation projections for the year.

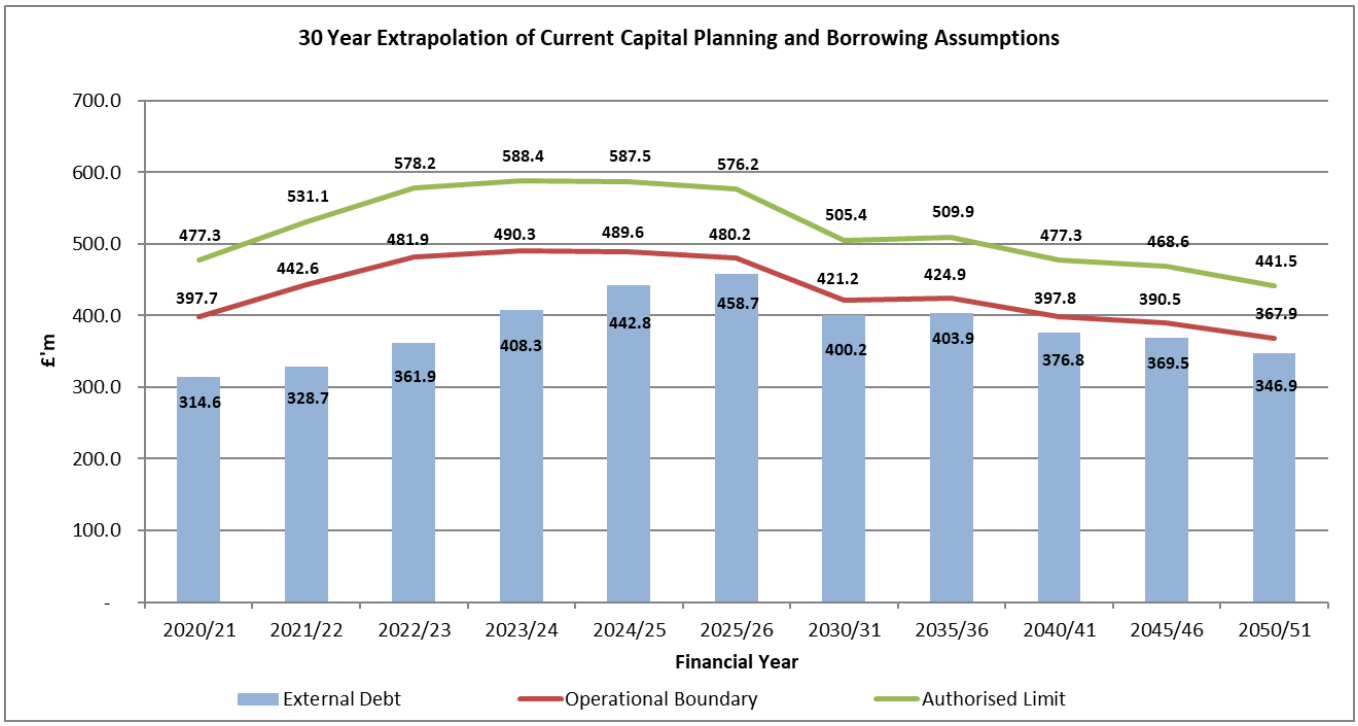
(b) Increase in the Authorised Limit from 2021/22 onwards is associated with the increase in external borrowing resulting from the capital plan.

5.4 The table overleaf shows the "Operational Boundary" against the anticipated levels of external borrowing. The external borrowing levels should not normally exceed the operational boundary limit, defined by the Prudential Framework. The gap between these two elements as seen in the table, consistently shows that the Council maintains an "under-borrowed" position for current and next 5 years. The gap however is reducing over the years due to the ambitious capital program and the profile of the notional loan charges.



5.5 The chart below details projected external borrowing for the next 5 financial years and then at each 5 year interval up to 2050/51. Alongside this, the Operational Boundary and Authorised Limit are also shown. The chart is designed to inform long term scenario planning in line with best practice.

It should be noted that from 2031-32, the first year outwith the current 10 year Capital Plan, a 10 year average capital expenditure, and annual borrowing requirement of £10.5m, has been assumed.



6 IMPLICATIONS

6.1 **Financial**
There are no additional financial implications in relation to this report its content specifically relating to the financing and investment activities of the Council.

6.2 **Risk and Mitigations**
The key purpose of presenting the Strategy to Audit and Scrutiny Committee scrutiny is to ensure that the members are satisfied with this element of the risk management framework for the treasury management function within the Council. The risks to delivering the Strategy have been identified within the Strategy itself at Appendix 1. Controls and mitigating actions have been implemented, monitored and reviewed in line with the Council's Risk Management Policy. The Strategy provides the parameters and guidance for the investment and borrowing decisions for the Council.

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 issues or consequences arising from this report which would affect the Council's carbon management.

6.6 **Rural Proofing**
There are no direct issues or consequences arising from this report which would affect the Council's rural proofing policy.

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 any comments received have been incorporated into the final report.

Approved by

David Robertson **Signature .....**
Executive Director, Finance & Regulatory

Author(s)

Name	Designation and Contact Number
Kirsty Robb Sara Halliday	Pension and Investment Manager – 01835 825249 Treasury Business Partner – 01835 824000, Ext 5854

Background Papers:
Previous Minute Reference: not applicable

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

Contact us at Capital & Investments Team, Finance, Scottish Borders Council, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA Tel: 01835 825249 Fax 01835 825166. email: mailto:treasuryteam@scotborders.gov.uk

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APPENDIX 1

SCOTTISH BORDERS COUNCIL

TREASURY MANAGEMENT STRATEGY (incorporating the Annual Investment Strategy) 2021/22

CONTENTS

1 Purpose and Scope

1.1 The Council is currently required to receive and approve, as a minimum, three main reports on treasury activity each year, which incorporate a variety of policies, estimates and actual figures.

a) **Treasury Management Strategy** (this report) – The first, and most important of the three reports, is forward looking and covers:

- The capital plans of the Council (including prudential indicators);
- A policy for the statutory repayment of debt, (how residual capital expenditure is charged to revenue over time);
- The treasury management strategy (how the investments and borrowings are organised), including treasury indicators, and
- A permitted investment strategy (the parameters on how investments are to be managed).

b) **Mid Year Treasury Management Report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) **Annual Treasury Report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2 Scrutiny
These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the **Audit and Srutiny Committee**.

1.3 The treasury management issues covered by this report are:

Capital Issues
- the capital expenditure plans and the associated prudential indicators;
- the loans fund repayment policy.

Treasury management issues
- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers

1.4 These elements cover the requirements of the Local Government in Scotland Act 2003, the CIFPA Prudential Code (the Prudential Code), the CIPFA Treasury Management Code (the Code) and Scottish Government loans fund repayment regulations and investment regulations.

1.5 The increased Member consideration of treasury management matters and the need to ensure that officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council will continue to address this important issue by:

a) Elected Members

- Working with members of the Audit and Scrutiny Committee to identify their training needs
- Working with Link Asset Services to identify appropriate training provision for elected members

b) Officers dealing with treasury management matters will have the option of various levels of training including:

- Treasury courses run by the Council's advisers
- Attendance at CIPFA treasury management training events
- Attendance at the CIPFA Scottish Treasury Management Forum and information exchanged via the Treasury Management Forum network
- On the job training in line with the approved Treasury Management Practices (TMPs).

1.6 Treasury Management Consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

1.7 The Treasury Management Strategy covers the treasury management activities for the Council (including any subsidiary organisations), the cash managed by the Council on behalf of the Scottish Borders Council Pension Fund, the Common Good and Trust Funds.

2 Background

2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans and strategy. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

2.3 The Prudential and Treasury Indicators (summarised in **Annex A**) consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. These Indicators have been developed in line with both the Prudential and Treasury Codes. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992. The Treasury Management Strategy therefore forms an integral part of the Council's overall Financial Strategy covering both its revenue and capital budgets.

2.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

2.5 Whilst any loans to third parties, commercial investment initiatives or other non-financial investments will impact on the treasury function, these activities are generally classed as non-treasury activities and are separate from the day to day treasury management activities.

2.6 CIPFA defines treasury management as:

"The management of the local authority's borrowing, 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. "

2.7 Revised reporting was introduced in the 2019/20 reporting cycle due to revisions to the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity if that is going to be undertaken. The capital strategy is being reported separately.

3 The Capital Prudential Indicators 2020/21 – 2025/26

The Council's Financial Strategy sets out financial resource and management parameters within which it will deliver its Corporate Vision and Priorities. The Financial Strategy brings together various elements of financial policy and strategy, including the Treasury Management Strategy, and establishes the financial planning framework for the Council in terms of Revenue Expenditure and Capital Investment. The output from this framework is the Council's Financial Plan, approved annually in February, presenting the financial proposals for delivering its services and objectives.

The Financial Strategy establishes that the Financial Principles underpinning the planning for the Council's future service delivery are to:

(i) Raise the funds required by the Council to meet approved service levels in the most effective manner;
(ii) Manage the effective deployment of those funds in line with the Council's corporate objectives and priorities; and
(iii) Provide stability in resource planning and service delivery as expressed through Corporate and Business Plans and the Revenue and Capital Financial Plan.

In order to adhere to these Principles, the Financial Strategy states that the Council will adopt Financial Objectives to:

"ensure capital borrowing is within prudential borrowing limits and sustainable in the longer term. In this regard it is important to recognise the capital investment decisions taken now have long term borrowing implications and these have the potential to place a significant burden on future tax payers".

The draft revenue budget sets loans charges associated with capital borrowing over the next 5 years at £19.5m in 2021/22, rising to £23.6m in 2025/26.

The Council's Capital Financial Plan is the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

3.1 Capital Expenditure (Prudential Indicator PI-1)

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this planning cycle. The Capital Financial Plan for 2021/22 – 2030/31 includes the following capital expenditure forecasts for the first five years. 2020/21 projected outturn figures are also shown:

Capital Expenditure (PI-1)	**Estimate**					
£m	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Assets & Infrastructure	38.0	45.6	34.4	26.3	15.8	13.6
Other Corporate Services	8.8	11.4	9.7	4.0	0.2	0.1
Children & Young People	7.2	8.3	38.5	55.9	43.0	27.0
Culture & Sport	0.8	2.9	0.6	0.6	0.6	2.0
Economic Regeneration	9.0	9.1	12.0	32.2	20.6	11.0
Housing Strategy & Services	0	0.5	0.5	0.5	0.5	0.5
Social Care Infrastructure	0	9.4	3.3	3.0	8.5	0.1
Emergency & Unplanned Schemes	0.5	0.2	0.2	0.2	0.2	0.2
Total	**64.3**	**87.4**	**99.2**	**122.7**	**89.4**	**54.5**

3.2 Capital Financing Assumptions

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a financing need.

Capital Expenditure £m	Estimate					
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Capital Expenditure – per plan	64.3	87.4	99.2	122.7	89.4	54.5
Other Relevant Expenditure	-	-	-	-	-	-
Total Expenditure	**64.3**	**87.4**	**99.2**	**122.7**	**89.4**	**54.5**
Financed by:						
Capital receipts	1.7	1.6	0.4	0	0	0
CFCR	0.7	4.0	4.0	0	0	0
Developer Contributions	0.2	0.2	0.1	0.1	0.1	0.1
Govt. General Capital Grants	10.7	11.1	11.1	11.1	11.1	11.1
Govt. Specific Capital Grants	16.2	21.4	12.4	8.6	1.7	1.4
Other Grants & Contributions	6.8	12.0	20.7	34.8	19.9	10.9
Plant & Vehicle / Infrastructure Fund	2.5	2.0	2.0	2.0	2.0	2.0
Synthetic Pitch Replacement Fund	0	0.1	0.4	0.4	0.4	1.1
Element of Net financing need for the year met by borrowing	**25.5**	**35.0**	**48.1**	**65.7**	**54.2**	**27.9**

3.3 The Council's Borrowing Need (the Capital Financing Requirement – Prudential Indicator PI-2)

a) The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure identified above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. The CFR does not increase indefinitely, as prudent annual repayments from revenue need to be made which reflect the useful life of capital assets financed by borrowing. From 1 April 2016, authorities may choose whether to use scheduled debt amortisation (loans pool charges), or another suitable method of calculation in order to repay borrowing.

b) The CFR includes any other long term liabilities (e.g. PPP schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council has £97.6m of liabilities relating to such schemes within the 2020/21 long term liabilities figure.

c) The Council is asked to approve the CFR projections on the page below:

Capital Financing Requirement (PI-2) £m	Actual	Estimate					
	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Total CFR (PI-2) *	**312.9**	**361.0**	**384.4**	**420.4**	**473.3**	**507.8**	**520.8**
Movement in CFR represented by:							
Net financing need for the year (above)		**25.5**	**35.0**	**48.1**	**65.7**	**54.2**	**27.9**
Less scheduled debt amortisation and other financing movements		22.6	(11.6)	(12.1)	(12.8)	(19.7)	(14.9)
Movement in CFR		**48.1**	**23.4**	**36.0**	**52.9**	**34.5**	**13.0**

* *The CFR for this calculation includes capital expenditure to 31 March of each financial year.*

d) A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 3.1, 3.2 and 3.3, and the details above, demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

3.4 Statutory Repayment of Loans Fund Advances

a) The Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

b) A variety of options are provided to Councils so long as a prudent provision is made each year. The Council is recommended to approve the following policy on the repayment of loans fund advances:-

For loans fund advances made before 1 April 2016, the policy will be to maintain the practice of previous years and apply the **Statutory Method (option 1)**, with all loans fund advances being repaid in equal instalments of principal/ by the annuity method.

For loans fund advances made after 1 April 2016, the policy for the repayment of loans advances will be the:-

1. **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method (option 3).

Under regulation 14 (2) of SSI 2016 No 123, the Council calculates the annuity rate based historic annuity rates to ensure that it is a prudent application and it is currently 4.01%.

4 Treasury Management Strategy

The capital expenditure plans set out in Section 3 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional Codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.1 Current Portfolio Position

a) The overall treasury management portfolio as at 31 March 2020 and for the position as at 31 December 2020 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual **31.3.20**	actual **31.3.20**	current **31.12.20**	current **31.12.20**
Treasury investments	£000	%	£000	%
banks	4,569	42%	4,568	29%
DMADF (H.M.Treasury)	0	0%	0	0%
money market funds	6,250	58%	11,000	71%
Total managed in house	**10,819**	**100%**	**15,568**	**100%**
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**10,819**	**100%**	**15,568**	**100%**
Treasury external borrowing				
local authorities	0	0%	0	0%
third party loans	600	0%	600	0%
PWLB	167,131	83%	166,369	83%
LOBOs	35,000	17%	35,000	17%
Total external borrowing	**202,731**	**100%**	**201,969**	**100%**
Net treasury investments / (borrowing)	**(191,912)**	**0**	**(186,401)**	**0**

b) The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

as at 31 March £m	**Estimate**				
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Borrowing	217.0	235.2	272.4	322.8	361.5
Other Long Term Liabilities	97.6	93.5	89.5	85.5	81.3
Total Gross Borrowing (Prudential Indicator PI-5)	**314.6**	**328.7**	**361.9**	**408.3**	**442.8**
Capital Financing Requirement*	**420.4**	**473.3**	**507.8**	**520.8**	**520.0**
(Under) / Over Borrowing (Prudential Indicator PI-6)	**(105.8)**	**(144.6)**	**(145.9)**	**(112.5)**	**(77.2)**

** The CFR for this calculation includes the current and two future years projected capital expenditure see 4.1b)*

c) Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these (PI-6) is that the Council needs to ensure that its gross debt figure (shown above) does not, except in the short term, exceed the total of the CFR

in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

d) The Council has complied with this prudential indicator in the current year and no difficulties are currently envisaged for the long term future. This view takes into account current commitments, existing plans, and the proposals in the Financial Plans for 2021/22.

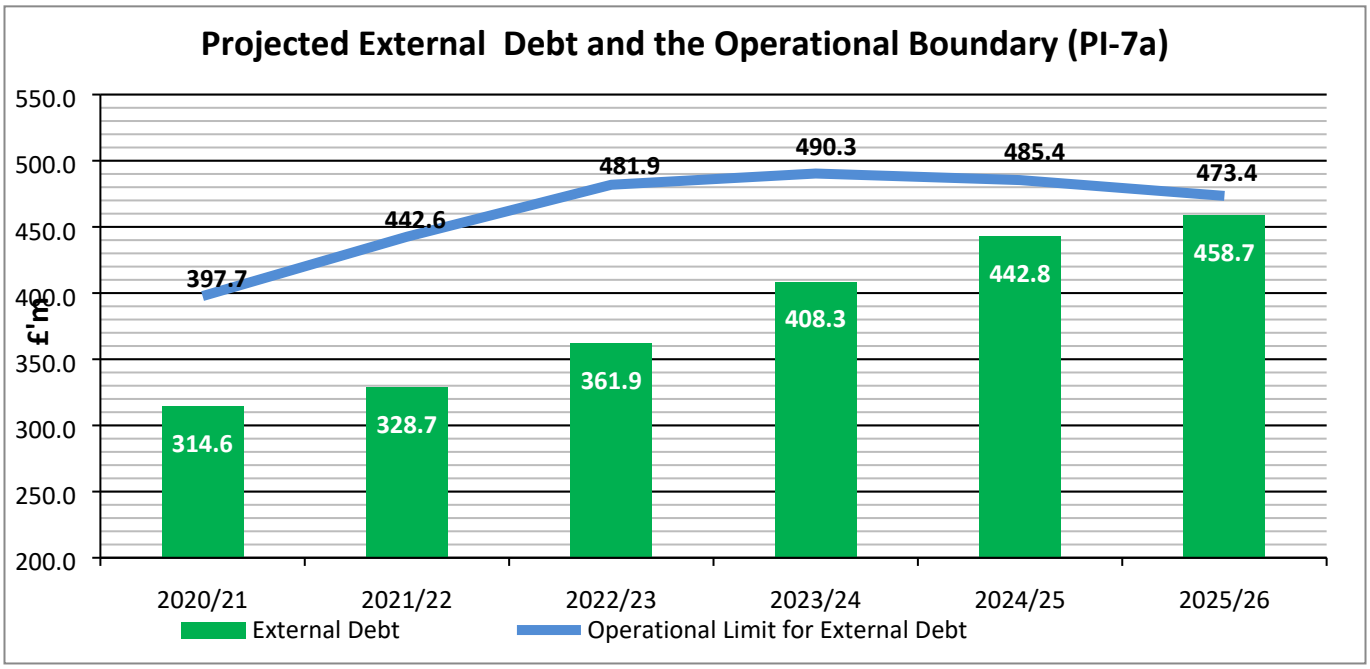
4.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary (Prudential Indicator PI-7)

a) This is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	Estimate					
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Total Operational Boundary (PI-7a)	**397.7**	**442.6**	**481.9**	**490.3**	**485.4**	**473.4**
Less: Other long term liabilities	(97.6)	(93.5)	(89.5)	(85.5)	(81.4)	(77.3)
Operational Boundary exc. Other Long Term Liabilities (PI-7b)	**300.1**	**349.1**	**392.4**	**404.8**	**404.0**	**396.1**

b) The following chart shows how the current and projected Operational Borrowing limit compare with the anticipated levels of actual debt.



The Authorised Limit for External Debt (Prudential Indicator PI-8)

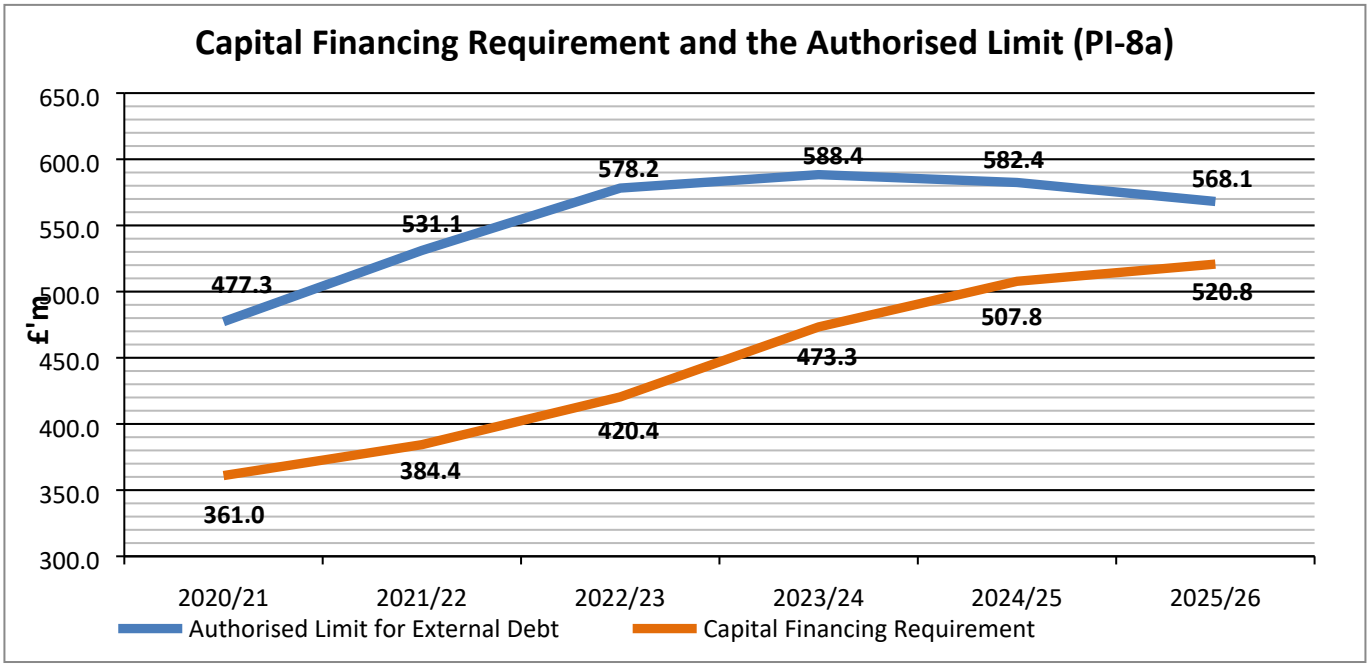
c) A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

d) The authorised limits for external debt for the current year and two subsequent years are the legislative limits determined under Regulation 6(1) of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.

e) The Council is asked to approve the following authorised limit:

Authorised Limit £m	Estimate					
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Total Authorised Limit (PI-8a)	**477.3**	**531.1**	**578.2**	**588.4**	**582.4**	**568.1**
Less: Other long term liabilities	(97.6)	(93.5)	(89.5)	(85.5)	(81.4)	(77.3)
Authorised Limit exc. Other Long-Term Liabilities (PI-8b)	**379.7**	**437.6**	**488.7**	**502.9**	**501.0**	**490.8**

f) The chart on the below shows how the current and projected Capital Financing Requirement compares to the Authorised Limit for External Debt



4.3 Prospects for Interest Rates

a) The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11.8.20. However, following the conclusion of the review of PWLB margins over gilt yields on 25.11.20, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View 8.2.21	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00

b) 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 subsequent meetings, including its last meeting on 4 February 2021, although some forecasters had suggested that a cut into negative territory could happen. However, at that last meeting, we were informed that financial institutions were not prepared for implementing negative rates. The Monetary Policy Committee (MPC), therefore, requested that the Prudential Regulation Authority require financial institutions to prepare for such implementation if, at any time in the future, the MPC may wish to use that as a new monetary policy tool. The MPC made it clear that this did not in any way imply that they were about to use this tool in the near future. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as it is unlikely that inflation will rise sustainably above 2% during this period so as to warrant increasing Bank Rate.

c) 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 a heightened expectation 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.

d) 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 was that bond prices were elevated as investors would have been 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.

e) Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up in March 2020, we have subsequently seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, 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. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

f) As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as government bond yields of major countries around the world are expected to rise little during this time in an environment where central bank rates are also expected to remain low for some years; this is the result of a change of inflation targeting policy of central banks to one based on average inflation over a number of years. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November 2020 when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

g) **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

h) **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to six years were negative during most of the first half of 2020/21; they jumped up after the Monetary Policy Report of 4th February 2021. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

i) On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The new margins over gilt yields are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **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)

j) **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are near to historic lows. The Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Although short-term interest rates are cheapest, longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile..

k) While this authority will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, there will be a *cost of carry*, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

4.4 Borrowing Strategy

a) The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

b) Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Executive Director Finance & Regulatory will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

• if it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.

• if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

c) Any decisions will be reported to Members at the next available opportunity.

4.5 Policy on borrowing in advance of need

a) Borrowing in advance of need is defined as any borrowing undertaken by the local authority which will result in the total external debt of the local authority exceeding the capital financing requirement (CFR) of the local authority for the following twelve month period. This twelve month period is on a rolling twelve month basis.

b) The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed.

c) Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

d) The Executive Director Finance & Regulatory has the authority to borrow in advance of need under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. The Executive Director Finance & Regulatory will adopt a cautious approach to any such borrowing and a business case to support the decision making process must consider:

- the benefits of borrowing in advance,
- the risks created by additional levels of borrowing and investment, and
- how far in advance it is reasonable to borrow considering the risks identified

e) Any such advance borrowing should be reported through the mid-year or annual Treasury Management reporting mechanism.

4.6 Debt Rescheduling

a) Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

b) All rescheduling will be reported to the **Executive** at the earliest meeting following its action.

4.7 New financial institurions as a source of borrowing and/or types of borrowing

a) Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

b) Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

5 Investment Strategy

5.1 Investment Objectives and Policy

a) The Council's investment policy implements the requirements of the following:-

- Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010);
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017, ("the Code");
- CIPFA Treasury Management Guidance Notes 2018.

b) The Council's primary investment objectives are as follows, in order of importance:

(i) The safeguarding or **security** of the re-payment of principal and interest of investments on a timely basis;
(ii) The **liquidity** of its investments;
(iii) The **returns on investments** that can be realised.

The Council will therefore aim to achieve the optimum return on its investments corresponding with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

c) Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

d) **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.

e) **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

f) This authority has defined the list of **types of investment instruments** that are permitted investments authorised for use in appendix D. Appendix F expands on the risks involved in each type of investment and the mitigating controls.

g) **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 5.3.

h) This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year

i) All investments will be denominated in **sterling.**

j) As a result of the change in accounting standards for 2021/22 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

k) This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 5.6). Regular monitoring of investment performance will be carried out during the year.

l) The above criteria are unchanged from last year.

5.2 Council Permitted Investments

The proposed criteria for permitted investments are shown in annex D approval.

5.3 Creditworthiness Policy

a) This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

b) This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

Creditworthiness Colour Banding	Maximum Investment Duration
Yellow	5 years*
Dark pink	5 years for Ultra short dated bond funds with a credit score of 1.25
Light pink	5 years for Ultra short dated bond funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi-nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used (ie don't invest)

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

c) The Link creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

d) Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

e) All credit ratings will be monitored on a real time basis. The Council is alerted to changes to ratings of all three agencies through its use of a creditworthiness service provided by the Link Group.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

f) Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.

g) 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%.

h) 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.

i) Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

5.4 Country and Sector Considerations

a) Due care will be taken to consider the country and sector exposure of the Council's investments.

Country Limits

b) If the institution is non-UK, then the country in which it is domiciled must have a minimum Sovereign long term rating of AA-.

c) No more than **10%** will be placed with any non-UK country at any time.

Institutional Sector Limits

d) These institutions must either be UK Local Authorities or UK Incorporated Institutions, UK Banks and Building Societies incorporated in the European Economic Area entitled to accept deposits through a branch in the UK. The Council may also use the UK Government including in the form of gilts and the Debt Management Account Deposit Facility (DMADF).

e) Limits will be applied to the overall amount lent out to any one sector at any one time in order to limit sector specific exposure risk, as follows:

UK Building Societies	**£25 m**
Banks	**£35 m**
UK Local Authorities	**£40 m**
UK Government Debt Management Office	**£unlimited**
UK Gilts and Treasury Bills	**£20 m**
Institutions covered by Government Guarantee	**£10 m**
Part Nationalised Banks	**£35 m**
Money Market Funds (AAA)	**£25 m**

These limits will be monitored regularly for appropriateness.

Group Limits

g) Limits will be applied to the overall amount lent out to institutions within the same group at any one time in order to limit group specific exposure risk, as follows, and subject to the parent company appearing on Link Groups' creditworthiness list:

Group of Banks	**£10m**

Council's Own Banker

h) The Council's own banker (currently Royal Bank of Scotland) will be maintained on the Council's counterparty list in situations where rating changes may mean this is below the above criteria. This is to allow the Council to continue to operate normal current account banking facilities and overnight and short-term investment facilities. However, in the event that the rating does change below the criteria, officers will review the situation carefully and identify any appropriate action required to manage the risk that this change creates for the Council.

5.5 Individual Institution Monetary Limits

a) The monetary limits for institutions on the Council's Counterparty List are as follows:

	Money Limit
UK Building Societies	£5m
Banks	£5m
UK Local Authorities (i)	£40m
UK Government Debt Management Office	Unlimited
UK Gilts & Treasury Bills	£20m
Government Guaranteed Institutions	£2m
AAA rated Money Market Funds	£5m
Council's Own Banker (ii)	£5m

(i) No individual limit will be applied on lending to a UK local authority, other than it must not exceed the relevant sector limit of £40m.

(ii) Further to Sections 5.4 and 5.5, in the event that the rating of the Council's own banker falls below the criteria, the time limit on money deposited with the bank will be reduced to an overnight basis.

b) As mentioned earlier, the treasury function manages the funds of the Council, any subsidiary organisations, the Pension Fund and the Common Good and Trust Funds. When applying the limits set out in the table above, these limits will apply to the cumulative investment with an institution from the Council, the Pension Fund and the Common Good Funds and Trust Funds.

5.6 Types of Investments

a) For institutions on the approved counterparty list, investments will be restricted to safer instruments (such as deposits). Currently this involves the use of money market funds, the DMADF and institutions with higher credit ratings than the minimum permissible rating outlined in the investment strategy, as well as the Council's own bank.

b) Where appropriate, investments will be made through approved brokers. The current list of approved brokers comprises:

- ICAP Securities Limited
- Sterling International Brokers Limited
- Tradition (UK) Limited

5.7 Investment Strategy and bank rate projections

In-house funds

a) Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations

b) Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

c) The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

d) The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.

e) 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, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

f) While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, 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 cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

g) As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted 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 surfeit 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 for investments at the very short end of the yield curve.

h) 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.

Investment Treasury Indicator and Limit (Treasury Indicator TI-5)

i) Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year end.

The Council is asked to approve the treasury indicator and limit:

Maximum principal sums invested for longer than 365 days (TI-5)					
£m	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Principal sums invested for longer than 365 days	20%	20%	20%	20%	20%

j) For positive cash balances and in order to maintain liquidity, the Council will seek to use overnight investment accounts, short term (< 1 month) notice accounts, money market funds and short-dated deposits (overnight to three months).

5.8 Investment Risk Benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

a) Security

The Council's **maximum** security risk benchmark for the current portfolio, when compared to historic default tables, is:

0.04% historic risk of default when compared to the whole portfolio.

b) Liquidity

In respect of this area the Council seeks to maintain:

- Bank Overdraft: £250,000
- Liquid short term deposits of at least £1,500,000 available with a week's notice.
- Weighted Average Life benchmark is **expected to be 0.5 years** (equivalent to an weighted average life of 6 months), with a **maximum of 1.00 years**

c) Yield

Local measures of yield benchmarks are:

Investments – **Internal returns above the 7 day LIBID rate**

The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.

d) At the end of the financial year, the Executive Director Finance & Regulatory will report on its investment activity as part of the Annual Treasury Report.

6 Performance Indicators

6.1 The CIPFA Code requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

6.2 Debt Performance Indicators

(i) Average "Pool Rate" charged by the Loans Fund compared to Scottish Local Authority average Pool Rate.

Target is to be at or below the Scottish Average for 2020/21.

(ii) Average borrowing rate movement year on year

Target is to maintain or reduce the average borrowing rate for the Council versus 2020/21.

6.3 **Investment Risk Benchmark Indicators** for Security, Liquidity and Yield, as set out in paragraph 5.8.

6.4 Loans Charges

a) Loans Charges for 2021/22 are expected to be at or below the Revenue Budget estimate contained in the Council's Financial Plans to be approved in February 2021, which are estimated as follows:

£m	2021/22	2022/23	2023/24	2024/25	2025/26
Interest on Borrowing	12.0	13.1	14.2	13.8	13.0
Investment income	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Capital Repayments	7.6	8.0	8.8	9.9	10.7
Total Loan Charges *	**19.5**	**21.0**	**22.9**	**23.6**	**23.6**

**The Loan Charges exclude the capital element of PPP repayments.*

b) The above budget excludes the revenue impact of funding the cost of the NHT and the lending to RSLs and lending in respect of the Council-led house building programme with the Scottish Futures Trust, as these are assumed to be revenue neutral overall.

6.5 The indicators, based on actual performance for the year, will be included in the Treasury Management Annual Report for 2021/22.

ANNEXES

ANNEX A
SUMMARY OF PRUDENTIAL AND TREASURY INDICATORS

Indicator Ref.	Indicator	Page Ref.	2020/21	2021/22	2022/23	2023/24	2024/25
PRUDENTIAL INDICATORS							
Capital Expenditure Indicator							
PI-1	Capital Expenditure Limits (£m)	6	64.3	87.4	99.2	122.7	89.4
PI-2	Capital Financing Requirement (CFR) (£m)	8	361.0	384.4	420.4	473.3	507.8
Affordability Indicator							
PI-3	Ratio of Financing Costs to Net Revenue (inc. PPP repayment costs)	24	8.9%	8.7%	9.2%	9.8%	9.9%
PI-4	Incremental (Saving)/Cost Impact of Capital Investment Decisions on Council Tax	24	£(0.03)	£0.01	£0.01	£0.01	£0.01
External Debt Indicators							
PI-5	Actual Debt (£m)	9	314.6	328.7	361.9	408.3	442.8
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	10	397.7	442.6	481.9	490.3	485.4
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	10	300.1	349.1	392.4	404.8	404.0
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	11	477.3	531.1	578.2	588.4	582.4
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	11	379.7	437.6	488.7	502.9	501.0
Indicators of Prudence							
PI-6	(Under)/Over Gross Borrowing against the CFR (£m)	9	(105.8)	(144.6)	(145.9)	(112.5)	(77.2)
TREASURY INDICATORS							
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)	25	397.7	442.6	481.9	490.3	485.4
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)	25	139.2	154.9	168.6	171.6	169.9
TI-3	Maturity Structure of Fixed Interest Rate Borrowing 2020/21	25	**Lower**		**Upper**		
	Under 12 months		0%		20%		
	12 months to 2 years		0%		20%		
	2 years to 5 years		0%		20%		
	5 years to 10 years		0%		20%		
	10 years and above		20%		100%		
TI-5	Maximum Principal Sum invested greater than 365 days	20	20%	20%	20%	20%	20%

Further prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The updated indicators are as follows:

Ratio of financing costs to net revenue stream (Prudential Indicator PI-3)

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs, net of investment income) against the net revenue stream.

%	Actual	Estimate				
	19/20	20/21	21/22	22/23	23/24	24/25
Ratio of Financing Costs to Net Revenue Stream (PI-3) *(inc. PPP repayment costs)*	8.8%	8.9%	8.7%	9.2%	9.8%	9.9%

The estimates of financing costs include current commitments and the proposals in the Financial Plans for 2021/22. The movements in the above ratio from 2020/21 onwards reflect a real-time reduction in overall financial resources available to the Council.

Incremental impact of capital investment decisions on council tax (Prudential Indicator PI-4)

This indicator identifies the revenue costs associated with the operational three year capital programme detailed in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	Estimate				
	2021/22	2022/23	2023/24	2024/25	2025/26
Incremental (Saving)/Cost Impact of Capital Investment Decisions on the Band D Council Tax (PI-4)	£(0.03)	£0.01	£0.01	£0.01	£0.01

Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

(i) Upper limits on fixed interest rate exposure (Treasury Indicator TI-1)

This identifies a maximum limit for borrowing exposure to fixed interest rates, based on the debt position net of investments.

(ii) Upper limits on variable interest rate exposure (Treasury Indicator TI-2)

This identifies a maximum limit for borrowing exposure to variable interest rates based upon the debt position net of investments.

(iii) Maturity structure of borrowing (Treasury Indicator TI-3)

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

(iv) The following table highlights the proposed treasury indicators and limits:

£m	2020/21	2021/22	2022/23	2023/24	2024/25
Interest rate exposures					
	Upper	**Upper**	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt (TI-1)	397.7	442.6	481.9	490.3	485.4
Limits on variable interest rates based on net debt (TI-2)	139.2	154.9	168.6	171.6	169.9
Maturity Structure of fixed interest rate borrowing 2020/21 (TI-3)					
		Lower		**Upper**	
Under 12 months		0%		20%	
12 months to 2 years		0%		20%	
2 years to 5 years		0%		20%	
5 years to 10 years		0%		20%	
10 years and above		20%		100%	

ANNEX B: INTEREST RATE FORECASTS 2020-24

The PWLB rates below are based on the new margins over gilts announced on 26th November 2020.

[PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.]

Link Group Interest Rate View 8.2.21	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
Bank Rate													
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate													
Link	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
Capital Economics	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.00	-	-	-	-	-
10yr PWLB Rate													
Link	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate													
Link	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate													
Link	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

Source: Link Asset Services, December 2020

ANNEX C
Economic Background

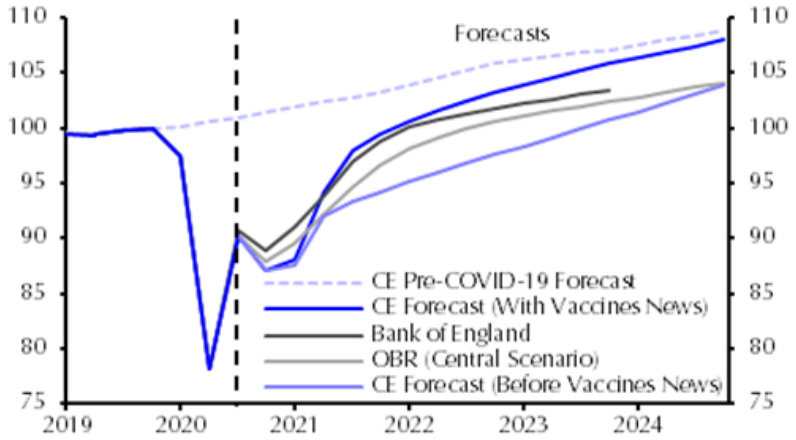
- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022
    - The Bank also expected there to be excess demand in the economy by Q4 2022.
    - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance in August** 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. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor due to base effects from twelve months ago falling out of the calculation, and so is not a concern. Looking further ahead, it is also unlikely to be a problem for some years as it will take a prolonged time for spare capacity in the economy, created by this downturn, to be used up.
- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. While the one month second national lockdown that started on 5th November caused a further contraction of 5.7% m/m in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level.

- **Vaccines – the game changer.** The Pfizer announcement on 9th November of a successful vaccine has been followed by approval of the Oxford University/AstraZeneca and Moderna vaccines. The Government has a set a target to vaccinate 14 million people in the most at risk sectors of the population by 15th February; as of mid-January, it has made good, and accelerating progress in hitting that target. The aim is to vaccinate all adults by September. This means that the national lockdown starting in early January, could be replaced by regional tiers of lighter restrictions, beginning possibly in Q2. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines have radically improved the economic outlook so that it may now be possible for GDP to recover to its pre-virus level as early as Q1 2022. These vaccines have enormously boosted confidence that **life could largely return to normal during the second half of 2021**. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for when life returns to normal.

- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant risk is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development, and vaccine production facilities are being ramped up around the world.

Chart: Level of real GDP (Q4 2019 = 100)

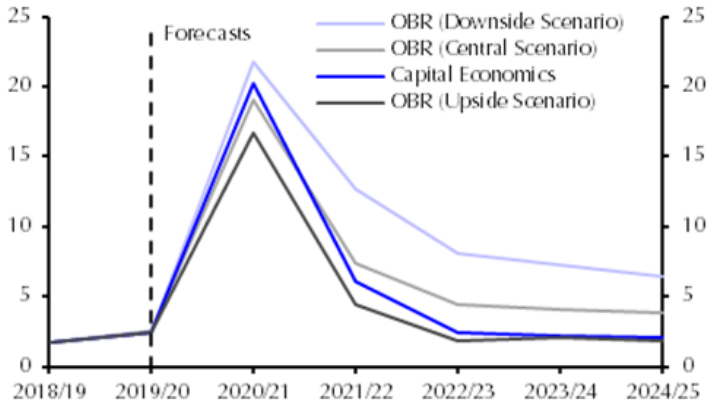


(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade, would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics

forecasts assumed that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (As a % of GDP)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

- There will still 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, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a **reversal of globalisation** as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, **digital services** are one area that has already seen huge growth.

- **Brexit.** The final agreement of a trade deal on 24.12.20 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, "Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case." So, while vaccines are a positive development, in the eyes of the MPC at least, the economy is far from out of the woods in the shorter term. The MPC, therefore, voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed).

- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy:-
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March to the end of April.
  - The Budget on 3.3.21 will lay out the "next phase of the plan to tackle the virus and protect jobs". This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery.

- The **Financial Policy Committee** (FPC) report on 6.8.20 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 Democrats gained the presidency and a majority in the House of Representatives in the November elections: after winning two key Senate seats in Georgia in elections in early January, they now also have a very slim majority in the Senate due to the vice president's casting vote. President Biden will consequently have a much easier path to implement his election manifesto. However, he will not have a completely free hand as more radical Democrat plans may not be supported by all Democrat senators. His initial radical plan for a fiscal stimulus of $1.9trn, (9% of GDP), is therefore likely to be toned down in order to get through both houses.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, individual states might feel it necessary to return to more draconian lockdowns.

The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and declining in December, and retail sales dropping back. The economy is set for further weakness into the spring. **GDP growth** is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was 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, (and this year), 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 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.

The Fed's meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that **inflation** will only get back to 2.0% in 2023, the vast majority expect the Fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

EU. In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q

leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has seriously affected many countries. The €750bn 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 the countries most affected by the first wave.

With **inflation** expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. 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 in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

World growth. World growth will has been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half. 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.

Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse

to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand and the pace of recovery in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- 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 government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand and the pace of recovery of the economy.
- **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 agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. 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. Angela Merkel has stepped down from being the CDU party leader but she will 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.** Italy, Spain, Austria, Sweden, 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, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. 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.

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

- **UK -** a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- 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 rapid series of increases in Bank Rate to stifle inflation.

Annex D
TREASURY MANAGEMENT PRACTICE: PERMITTED INVESTMENTS, ASSOCIATED CONTROLS AND LIMITS

This Council approves the following forms of investment instrument for use as permitted investments

Treasury risks
All the investment instruments are subject to the following risks: -

1. **Credit and counter-party risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

2. **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer.

3. **Market risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long term increase in value.

4. **Interest rate risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report.

5. **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Controls on treasury risks

1. **Credit and counter-party risk:** this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See paragraphs 5.3 and 5.4.

2. **Liquidity risk:** this authority has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

3. **Market risk:** this authority does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value.

4. **Interest rate risk**: this authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing.

5. **Legal and regulatory risk:** this authority will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations. All types of investment instruments

Unlimited investments

Regulation 24 states that an investment can be shown as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category. The authority has given the following types of investment an unlimited category: -

1. **Debt Management Agency Deposit Facility.** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

Annex E

Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

[Ratings provided by Link Group as at 20 January 2021]

Annex F

Scheme of Delegation

(i) Full board/council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Boards/committees/council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 95 OFFICER

The S95 (responsible) officer

- Take and/or authorise all operational decisions regarding the Council's investments and borrowing, in accordance with approved Treasury Management Policy and Strategy.
- Responsible for execution and administration of treasury management decisions in accordance with the Council's Treasury Management policy statement and Treasury Management Practice, and if (s)he is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- In terms of Treasury Management, from time to time, formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and construct a lending list defining appropriate limits.
- Borrow, in advance of need, where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Adopt a cautious approach to any such borrowing, and a business case to support the decision-making process must consider:
    - the benefits of borrowing in advance,
    - the investment risks created by the existence of investments at the same time as additional borrowing being outstanding; and
    - how far in advance it is reasonable to borrow, considering the risks identified. Any such advance borrowing shall be reported through the mid-year or annual Treasury Management reporting mechanism.
- Take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast contained in the Treasury Management Strategy.
- Maintain a counterparty list consistent with the Investment Counterparty Selection Criteria and revise the criteria and submit them to Committee for approval as necessary, and in addition, set out the types of investment to be made (Permitted Investments).

Annex G

Credit and Counterparty Risk Management
Permitted Investments, Associated Controls and Limits for Scottish Borders Council, Common Good and Trust Funds and In-house Managed Pension Fund

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
Cash type instruments					
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments	£unlimited, maximum 6 months.	£unlimited, maximum 6 months.	£unlimited, maximum 6 months.
b. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	£40m, maximum 1 year.	£5m, maximum 1 year.	£40m, maximum 1 year.
c. Money Market Funds (MMFs) **(Very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	£5m per fund/£25m overall	£5m per fund/£25m overall	£5m per fund/£25m overall

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
d. Ultra short dated bond funds **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where they have a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	N/A	N/A	N/A
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.
f. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
g. Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	£20m, maximum 1 year.	£5m, maximum 1 year	£20m, maximum 1 year.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good & Trust Fund Limits	Pension Fund In-House Limits
Other types of investments					
a. Investment properties	These are non-service properties which are being held pending disposal or for a longer term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	£30m	£25m	N/A
b. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£25m	£1m	N/A
c. Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£25m	N/A	N/A
d. National Housing Trust **(Very Low Risk due to Scottish Government Underwriting)**	These are loans to a Special Purpose Vehicle to allow it to purchase new homes under the NHT umbrella. These loans represent either 65% or 70% of the purchase price, the remainder being funded by the developer. The loan is redeemed after a 5 to	Loan redemption arises when the homes are sold. Interest payments are made to the Council by the SPV from rental payments in the intervening period. Both the loan amount and associated interest payments are underwritten by Scottish Government.	£8m	N/A	N/A

	10 year period when the properties are sold.				
e. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	£1m	N/A	N/A
f. Investment in the Subordinated Debt of projects delivered via the 'HubCo' model **(Very Low Risk)**	These are investments that are exposed to the success or failure of individual projects and are highly illiquid.	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project's term. These projects are based on robust business cases with a cashflow from public sector organisations (i.e. low credit risk)	£600,000	N/A	N/A

The Monitoring of Investment Counterparties

The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Link Group, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the executive Director Finance & Regulatory, and if required new counterparties which meet the criteria will be added to the list.

Use of External Fund Managers

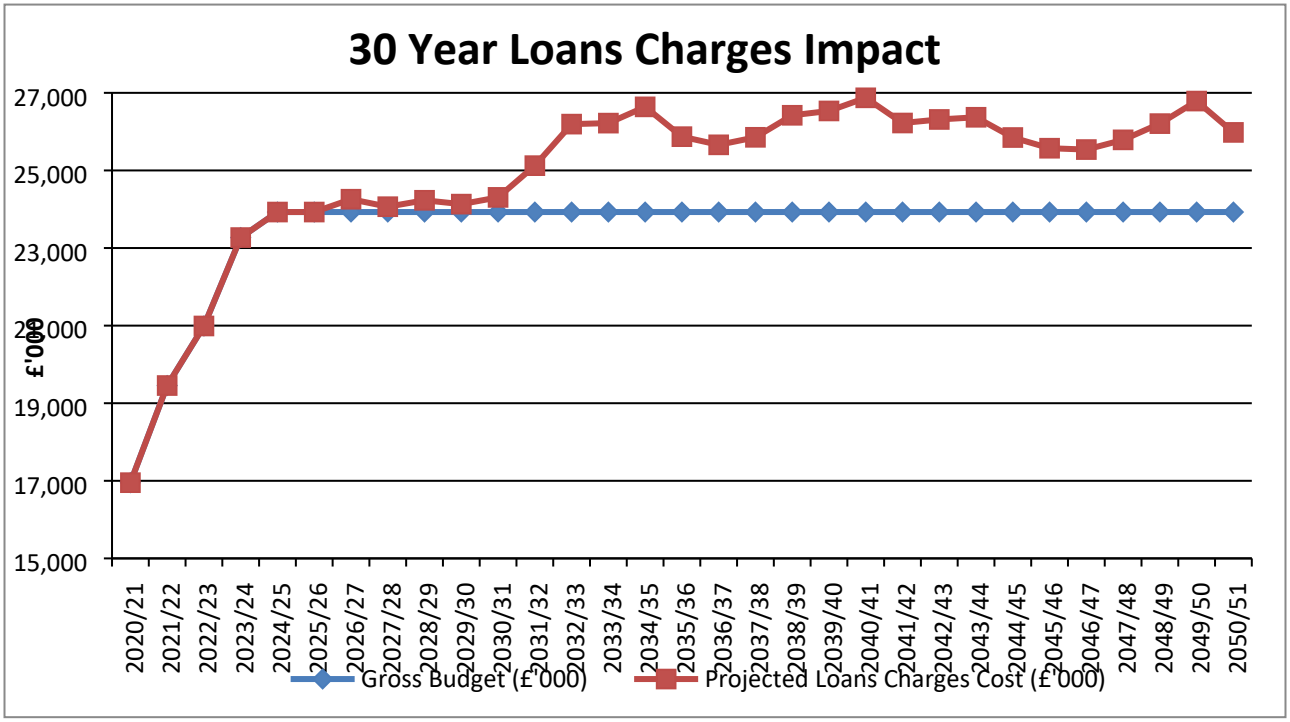
It is the Council's policy to use external fund managers to manage the investment portfolios of the Scottish Borders Council Pension Fund and the pooled investment fund of the Common Good and Trust Funds. This Annex reflects the approved policies around the Common Good and Trust Fund Investment Strategy but specifically excludes, as allowed by regulations, the work undertaken by External Fund Managers in relation to the Scottish Borders Council Pension Fund.

ANNEX H

Long Term (30 Yr) Loans Charges Analysis

Current capital and revenue plans have been extrapolated over a 30 year period in order to assess the impact on the revenue Loans Charges budget. In line with assumptions made when assessing external debt and associated limits as described in paragraph 5.3 of the covering report, long term capital planning will cause a pressure on the loans charges budget from financial year 2026/27, as detailed in the chart below. Movements in notional loans charges associated with internal borrowing also impact on these figures.

It should be noted that from 2031-32, the first year outwith the current 10 year Capital Plan, a 10 year average capital expenditure, and annual borrowing requirement of £10.5m, has been assumed.



ANNEX I

Credit Ratings

Long and Short Term Credit Ratings

Audit Commission Grading#	Fitch		Moody's		Standard and Poor's	
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
Extremely strong grade	AAA	F1+	Aaa	P-1	AAA	A-1+
Very strong grade	AA+ AA AA-	F1+ F1+ F1+	Aa1 Aa2 Aa3	P-1 P-1 P-1	AA+ AA AA-	A-1+ A-1+ A-1+
Strong grade But susceptible to adverse conditions	A+ A A-	F1+ / F1 F1 F1	A1 A2 A3	P-1 P-1 / P-2 P-1 / P-2	A+ A A	A-1+ / A-1 A-1 A-1 / A-2
Adequate Grade	BBB+ BBB BBB-	F2 F2 / F3 F3	Baa1 Baa2 Baa3	P-2 P-2 / P-3 P-3	BBB+ BBB BBB-	A-2 A-2 / A-3 A-2
Speculative Grade	BB+ BB BB-	B B B	Ba1 Ba2 Ba3	NP * NP NP	BB+ BB BB-	B-1 B-2 B-3
Very Speculative Grade	B+ B B-	B B B	Ba1 Ba2 Ba3	NP NP NP	B+ B B-	- - -
Vulnerable Grade	CCC CCC CCC CC C	C C C C C	Caa1 Caa2 Caa3 - Ca	NP NP NP NP NP	CCC+ CCC CCC- CC C	C C C C C
Defaulting Grade	D	D	C	NP	D	D

for the purpose of standardisation based on Standard and Poor's credit rating definitions.
* NP – Not Prime

Source: Audit Commission adaptation of information from Fitch, Moody's and Standard & Poor's

Benchmarking and Monitoring Security, Liquidity and Yield

The consideration and approval of security and liquidity benchmarks are also part of Member reporting. These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons, in the annual treasury report.

Yield
These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are:

- Investments – **Internal returns above the 7 day LIBID rate**

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. Benchmarks for the cash type investments are below. In the other investment categories, appropriate benchmarks will be used where available.

Liquidity
This is defined as an organisation "having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice). In respect of liquidity, the Council seeks to maintain:

- Bank overdraft - £250,000
- Liquid short term deposits of at least £1,500,000 available with a week's notice.

The availability of liquidity in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – shorter WAL would generally embody less risk. In this respect, the proposed benchmark to be used is:

- **WAL benchmark is expected to be 0.5 years, with a maximum of 1.00 years**.

Security of the investments
In the context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of the Creditworthiness service provided by Capita Asset Services. Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy.

The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

- **0.04% historic risk of default when compared to the whole portfolio.**

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Annual Treasury Management Report. As this data is collated, trends and analysis will be collected and reported.

GLOSSARY OF TERMS

CIPFA	Chartered Institute of Public Finance and Accountancy
CIPFA Code	Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes
CFR	Capital Financing Requirement is the estimated level of borrowing or financing needed to fund capital expenditure.
Consent to Borrow	Para 1 (1) of Schedule 3 of the Local Government (Scotland) Act 1975 (the 1975 Act) effectively restricts local authorities to borrowing only for capital expenditure. Under the legislation Scottish Ministers may provide consent for local authorities to borrow for expenditure not covered by this paragraph, where they are satisfied that the expenditure should be met by borrowing.
Gilts	A gilt is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange. The term "gilt" or "gilt-edged security" is a reference to the primary characteristic of gilts as an investment: their security. This is a reflection of the fact that the British Government has never failed to make interest or principal payments on gilts as they fall due.
LIBID	London Interbank Bid Rate The rate at which banks bid on Eurocurrency Deposits, being the rate at which a bank is willing to borrow from other banks.
MPC	Monetary Policy Committee
NHT	National Housing Trust initiative undertaken in partnership with the Scottish Futures Trust.
Other Long Term Liabilities	Balance sheet items such as Public Private Partnership (PPP), and leasing arrangements which already include borrowing instruments.
PPP	Public-Private Partnership.
Prudential Indicators	The Prudential Code sets out a basket of indicators (the Prudential Indicators) that must be prepared and used in order to demonstrate that local authorities have fulfilled the objectives of the Prudential Code.
QE	Quantitative Easing
Treasury Indicators	These consist of a number of Treasury Management Indicators that local authorities are expected to 'have regard' to, to demonstrate compliance with the Treasury Management Code of Practice.

You can get this document on tape, in Braille, large print and various computer formats by contacting the address below.

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COUNTER FRAUD CONTROLS ASSESSMENT

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

8 March 2021

1 PURPOSE AND SUMMARY

1.1 **The purpose of the report is to make the Audit and Scrutiny Committee aware of the findings and necessary actions arising from the Integrity Group's assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks.**

1.2 The Council is committed to minimising the risk of loss due to fraud, theft or corruption and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.

1.3 The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Corporate Fraud and Compliance Officer. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. Part of the Audit and Scrutiny Committee's role is to oversee the framework of internal financial control including the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.

1.4 The Audit and Scrutiny Committee at its meeting on 28 September 2020 requested that the Corporate Fraud Steering Group (Integrity Group) of officers consider all three Audit Scotland counter fraud 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. This report fulfils that decision.

1.5 Assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud can be taken from the outcomes contained within this report.

2 RECOMMENDATIONS

2.1 I recommend that the Audit and Scrutiny Committee:

a) Acknowledge the findings from the Integrity Group's assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks; and

b) Endorse the necessary actions to enhance the Council's resilience to fraud, as set out in the relevant sections in the body of the report and summarised in the Action Plan in Appendix 1.

3 BACKGROUND

3.1 The size and nature of the Council's services, as with other large organisations, puts the Council at risk of loss due to fraud, theft or corruption. The Council's Counter Fraud Policy states the roles and responsibilities in tackling fraud; the primary responsibility for the prevention, detection and investigation of fraud rests with Management.

3.2 Establishing a counter fraud culture is fundamental to ensuring an effective response to fraud, theft, corruption or crime and the leadership part played by Corporate Management Team and Senior Management is key to establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.

3.3 The Corporate Fraud Steering Group (Integrity Group) is a forum which has representatives from across the Council's Services to support Management to fulfil their responsibilities in tackling fraud. Its purpose is to improve the Council's resilience to fraud, corruption, theft and crime. It oversees the counter fraud policy framework, agrees and monitors the implementation of counter fraud improvement actions, raises awareness as a method of prevention, and performs self-assessment checks against best practice.

3.4 Tackling fraud is not a one-off exercise; it is a continuous process across all parts of the Council because the service delivery processes it underpins are continuous. Tackling fraud is an integral part of good governance within the Council and demonstrates effective financial stewardship and strong public financial management.

3.5 Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud.

3.6 Part of the Audit and Scrutiny Committee's role is to oversee the framework of internal financial control including the assessment of fraud vulnerabilities and to monitor counter fraud strategy, actions and resources.

3.7 The Audit and Scrutiny Committee at its meeting on 28 September 2020 considered three counter fraud reports published by Audit Scotland in June and July 2020, including one on Covid-19 emerging fraud risks:

https://www.audit-scotland.gov.uk/report/covid-19-emerging-fraud-risks

The Audit and Scrutiny Committee requested that the Corporate Fraud Steering Group (Integrity Group) of officers consider all three Audit Scotland counter fraud 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.

4 SELF-ASSESSMENT FINDINGS AND NECESSARY ACTIONS

4.1 The Audit Scotland report on emerging public sector fraud risks due to Covid-19 was structured within categories. The findings of the Integrity Group's assessment of Scottish Borders Council's counter fraud controls and necessary actions are set below using those categories.

4.2 **General governance risk**

Existing controls in the Council's main business applications, including the Business World ERP system, remained applicable with the shift to remote working.

Supervision and training was provided by host Services for deployed staff.

Internal Audit staff working from home; none were redeployed. Audits were added to the Plan to carry out assurance work on new risks associated with the Covid-19 emergency response. Adjustments to the Internal Audit Plan were discussed with SMTs then CMT and approved by the Audit and Scrutiny Committee 24 November 2020, covering sufficient range and breadth of audit activity to provide the statutory audit opinion.

4.3 **Procurement risk**

Processes to update supplier bank details remain the same as pre-Covid with verifiable evidence direct from supplier necessary in advance of making any changes, with a minor adjustment used on a few occasions where companies have no physical presence at offices (digital rather than paper-based, in consultation with Internal Audit). Payments team staff are aware of increased risk and are extra vigilant.

Business World ERP system and associated invoice approval workflows provides a digital route from the ordering of goods and services through to payment of suppliers. Internal controls are inbuilt into the systems and associated workflows.

Procurement team worked closely with suppliers, Scotland Excel and other public sector colleagues to protect the supply chain. Use made of the provisions in Regulation 72 of the Public Contracts (Scotland) Regulations 2015 and the Council's waiver procedure to modify and extend existing contracts, where appropriate, to avoid disrupting the supply of goods and services.

Internal controls are inbuilt into the Business World ERP system and associated workflows, including checks to both prevent and identify duplicate payments. Receipting of goods and services is part of the workflow prior to payment of suppliers. Duplicate payments are detected through participation in the National Fraud Initiative exercise using data matches from a variety of data sets.

Required Procurement procedures were maintained and monitored. There has been extra vigilance by the Trading Standards team on product supplies in the area.

Further actions in this area include:

- A development, as part of improvements to the Council's contract management arrangements, is the roll-out of the Supplier Relationship Management module in the Business World system which will allow suppliers to access the portal to update their bank and other details.
- Internal Audit carry out annual review of Business World key controls.

4.4 **Covid-19 funding**

The legislation surrounding the Business Support Grants was very complex and intricate and introduced over a number of phases which brought about changes that had to be incorporated into processes quickly to allow payments to be made in a timely manner. Procedures and policies were documented and updated as legislation changed. Staff reacted quickly to a unique, fast changing situation to allow payments to be made to businesses in need. Staff are vigilant in applying checks to prevent fraudulent payments being made.

Community Councils were provided with funds to assist households in immediate need to buy food and essential items.

Weekly reporting of stats were submitted to Scottish Government.

Further actions in this area include:

- Learning lessons from initial phases to apply to new specific Covid-19 grant funding being administered on behalf of the Scottish Government.
- Ongoing staff vigilance on checks and controls.
- Ongoing engagement by Internal Audit in SLAIG to keep up to date on areas of fraud, and with Services administering new funds.

4.5 **Payroll/recruitment risk**

Interviews are carried out virtually. Recruiting Manager verification of the person notified by email. Virtual verification of documents is carried out when preferred candidate is selected prior to commencement of employment. Disclosure Scotland brought forward the implementation for online PVG requests.

No changes in the process for payroll checking and reconciliation. E-forms and workflows were already in place for contractual change notifications, sickness absence notification and COVID related special leave. The process for the submission and processing of timesheets not changed (paper-based for some Services).

Further action in this area include:

- Internal Audit carry out annual review of Business World key controls.

4.6 **IT/Cybercrime risk**

There are periodic emails reminding staff of their responsibilities on data and information security, of the MyIT Self Service Portal to raise system issues with CGI, and about phishing emails and how to report them.

USB devices need to be on the Anti-Virus whitelist to work. Once on the whitelist, staff only have read access until Bitlocker encrypts the USB.

The Council employs a defence in depth approach that includes a series of technical and organisational controls to prevent such a cyber attack (PSN and Cyber Essentials accreditation).

SBC/CGI receive Crew notices/threat intelligence relating to public sector potential and actual cyber crime attacks. Staff can be made aware quickly about emerging threats.

The Information Governance Group meets quarterly to monitor and review information risks, policies and procedures, data breaches and security incidents, and the completion of e-learning including GDPR, to ensure actions are taken in response to issues. There are periodic emails reminding staff of their responsibilities. A number of business applications maintain audit trails of access that can be reviewed by Managers.

Further actions in this area include:

- Continued periodic emails reminding staff of their responsibilities, and guidance on what to do.
- Ongoing monitoring of the effectiveness of the technical and organisational controls. Ransomware attacks are becoming extremely sophisticated; delivery mechanisms (such as email) are bypassing technical and filtering controls by using Morse code to create malicious URL links. More focus is required on staff/user security awareness/education.

4.7 Health and wellbeing risk

Staff communications include weekly staff update emails that provide guidance, support and information on the response and recovery activity, remote working, and other safe systems of work.

A range of wellbeing supports includes provision of a mix of formal and informal offerings to support the wellness of its employees, ranging from occupational health, people policies, themed events, training, helplines and other support. Supervision and training provided by host Services for deployed staff.

Message to staff on their responsibilities for Protecting the Public Purse as well as information on how to raise concerns via the whistleblowing process.

Further action in this area includes:

- Ongoing staff and other stakeholder communications to remind them of the wellness supports that are available, and ongoing supervision and training.

4.8 Wider risks

Public awareness campaigns from the Scottish Government, Action Fraud, NCSC and others alert people to the dangers. These will continue alongside Covid-19 response and recovery phases.

Further action in this area includes:

- Ongoing cascading of public awareness campaigns via staff and other stakeholder communications.

5 IMPLICATIONS

5.1 Financial

Effective internal control systems are designed to prevent and detect fraud and this contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. Any additional costs arising from enhanced fraud risk mitigation will have to be considered and prioritised against other pressures in the revenue budget.

5.2 Risk and Mitigations

The process of identifying fraud risks is based on the principles of the Corporate Risk Management Policy and Framework. Evaluation and monitoring of fraud risks and mitigations are facilitated through the Corporate Fraud Steering Group (Integrity Group), and regular communications and training are offered. Oversight is provided by the Audit and Scrutiny Committee.

The Integrity Group's assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks contained in this report is designed to provide assurance to Management and the Audit and Scrutiny Committee on the efficacy of Scottish Borders Council's arrangements, and sets out the actions that are ongoing or required to enhance the Council's resilience to fraud.

5.3 **Integrated Impact Assessment**

Equality, diversity and socio-economic factors are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation. This is a routine good governance report for assurance purposes, not a new or revised policy or strategy for decision and, as a result, completion of an Integrated Impact Assessment is not an applicable consideration.

5.4 **Acting Sustainably**

There are no direct economic, social or environmental issues with 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 a 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 Fraud Steering Group (Integrity Group) has carried out the counter fraud controls self-assessment and has been consulted on this report as part of fulfilling its role in enhancing the Council's resilience to fraud.

6.2 This report has been presented to the Corporate Management Team, who play a key leadership role in establishing counter fraud behaviours within the organisation, its partners, suppliers and customers. Notably requesting the inclusion of the summary Action Plan in the Appendix 1.

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

Approved by

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

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036

Background Papers: Scottish Borders Council's Counter Fraud Policy Statement and Counter Fraud Strategy
Previous Minute Reference:

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

Contact us at fraud@scotborders.gov.uk

Appendix 1

Risk Area	Action required to enhance existing Fraud Risk Controls	Integrity Group Action Owner	Target Date
Procurement	The roll-out of the Supplier Relationship Management module in Business World system will allow suppliers to access portal to update their bank and other details.	Commercial & Commissioned Services Manager	April 2021
	Internal Audit carry out annual review of Business World key controls.	Chief Officer Audit & Risk	March 2021
Covid-19 Funding	Learning lessons from initial phases to apply to new specific Covid-19 grant funding being administered on behalf of the Scottish Government.	Service Director Customer & Communities	Ongoing in new phases
	Ongoing staff vigilance on checks and controls.	Service Director Customer & Communities	Ongoing in new phases
	Ongoing engagement by Internal Audit in SLAIG to keep up to date on areas of fraud, and with Services administering new funds.	Chief Officer Audit & Risk	September 2021
Payroll-Recruitment	Internal Audit carry out annual review of Business World key controls.	Chief Officer Audit & Risk	March 2021
IT-Cyber Crime	Continued periodic emails reminding staff of their responsibilities, and guidance on what to do.	IT Client Manager	Monthly/quarterly
	Ongoing monitoring of the effectiveness of the technical and organisational controls. Ransomware attacks are becoming extremely sophisticated; delivery mechanisms (such as email) are bypassing technical and filtering controls by using Morse code to create malicious URL links. More focus required on staff/user security awareness/education.	IT Client Manager	Ongoing
Health & Wellbeing	Ongoing staff and other stakeholder communications to remind them of the wellness supports that are available, and ongoing supervision and training.	Service Director HR & Communications	Fortnightly
Wider Risk	Ongoing cascading of public awareness campaigns from the Scottish Government, Action Fraud, NCSC and others to alert people to the dangers via staff and other stakeholder communications.	Service Director HR & Communications	Monthly/quarterly

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INTERNAL AUDIT WORK TO JANUARY 2021

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

8 March 2021

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 January to 19 February 2021 associated with the delivery of the approved Internal Audit Annual Plan 2020/21 is detailed in this report. A total of 5 final Internal Audit reports have been issued. There were no recommendations though some identified areas of improvement are being addressed through Management actions associated with 3 of the reports.

1.3 An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.

1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

2 RECOMMENDATIONS

2.1 I recommend that the Audit and Scrutiny Committee:

a) Notes the final assurance reports issued in the period from 1 January to 19 February 2021 associated with the delivery of the approved Internal Audit Annual Plan 2020/21;

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; and

d) Approves the Internal Audit planned activity proposed to be deferred from 2020/21 to 2021/22 for inclusion in Internal Audit Annual Plan 2021/22.

3 PROGRESS REPORT

3.1 The Internal Audit Annual Plan 2020/21 was approved by the Audit and Scrutiny Committee on 9 March 2020 and the re-assessed Plan approved on 23 November 2020. Internal Audit has carried out the following work in the period from 1 January to 19 February 2021 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:

- Corporate Transformation Programme - Fit for 2024
- Integrated People, Financial and Business Planning
- Revenues (Council Tax and NDR)
- Physical Disabilities Services (Adults and Children)
- ICT Operational Computer Systems

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
Learning Disabilities Services Financial Management	Drafting the Report
Business World Key Controls	Testing Underway
Information Governance	Testing Underway

Jedburgh / Hawick Conservation Area Regeneration Scheme (CARS)	Defer to 2021/22 - funders agreed to audit covering two financial year ends
Community Justice	Defer to 2021/22 – align with developments / improvements
Sustainable Environment	Defer to 2021/22 – align with developments / improvements

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:

a) 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, Contract and Supplier Management Implementation Group, Social Work Performance Board, and Social Work Review Delivery Group).

b) 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. This period included a quarterly meeting of the SLACIAG Computer Audit Sub Group and IIA forums for Local Authorities on the topics of HIA Annual Opinion and of Independence and Objectivity.

c) Preparation of the annual Internal Audit plans for Scottish Borders Council, Scottish Borders Council Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board.

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	7
Total	**7**

Recommendations agreed with action plan	7
Not agreed; risk accepted	0
Total	**7**

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 has been consulted on this report to outline the assurance on controls and governance relating to these audits to assist them in discharging their roles and responsibilities.

5.3 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 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 15 February 2021

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

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Corporate Governance Subject: Corporate Transformation Programme Fit for 2024 No: 010/018 Date issued: 22 February 2021 Draft; 26 February 2021 Final Level of Assurance: Substantial	The purpose of the review was to follow-up on Management's implementation of recommendations made during the previous year's Internal Audit review of the Fit for 2024 corporate transformation programme. The Covid-19 response and recovery phases have adversely affected the delivery of the Fit for 2024 programme in 2020/21 due to reduced Management capacity to drive forward change and deployment of some support staff to other priorities. There has continued to be appropriate monitoring and reporting of the delivery of the Fit for 2024 programme, including evidence of appropriate scrutiny and oversight by Elected Members. The focus on what implementation plans there are within Fit for 2024 for future years is captured within the integrated financial, people and business planning process (see separate report). The three prior year recommendations have been implemented: • The Fit for 2024 transformation programme risk register has recently been developed, to enable its quarterly review by the Fit for 2024 Board; • The dependencies on resource capacity or technology solutions are evaluated within implementation plans and during ongoing delivery; and • Monitoring business benefits other than financial savings are evidenced through the Service Review and Project Highlight Reports that are presented to the Fit for 2024 Board. Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place.	0	0	0	Management have accepted these findings and conclusions.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Corporate Governance Subject: Integrated People, Financial and Business Planning No: 035/008 Date issued: 22 February 2021 Draft; 26 February 2021 Final Level of Assurance: Substantial	The purpose of the review was to ensure that financial, people and business plans are aligned to Council priorities, that processes and procedures for preparing, monitoring and controlling the budget, including efficiency savings, are robust, and that the approach to workforce development enables the provision of the skills, knowledge and competency requirements for service delivery to meet the Council's objectives. CMT reviewed the timetable in September 2020. The Financial, People and Business planning process for 2021/22 has been carried out via a series of workshops and meetings with Services. The structure of both the Financial Planning and People Planning templates allows the planning process to be applied consistently across Services utilising these templates to aid and prompt discussions, capture relevant information and develop implementation/action plans where appropriate. Collaborative working between Service Managers, Finance Business Partners, HR Business Partners, Performance Officers and the FF2024 Transformation team provides the necessary support for Executive/Service Directors and Managers, and allows for more integrated and coherent planning throughout this process. Member Briefings have been provided at various stages during the process. A public consultation exercise was also launched early November 2020 which closed on 31 January 2021. Internal Audit are able to provide substantial assurance for the integrated Financial, People and Business planning process. Whilst the process has progressed, detailed Service Plans have not yet been produced to complete the links from the Corporate Plan to the individuals' PRDs that have been missing in recent years. There are Management actions underway to address this; therefore we made no recommendations. Progress on this will continue to be monitored during 2021/22.	0	0	0	Management have accepted the factual accuracy of the report and its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Financial Governance Subject: Revenues (Council Tax and NDR) No: 084/013 Date issued: 22 February 2021 Draft; 26 February 2021 Final Level of Assurance: Substantial	The purpose of the review was to ensure that the billing, collection and recovery processes and procedures for Council Tax and NDR are robust and adequately applied. The following examples of good practice were found: • There were good processes for ensuring that staff were aware of how information received from customers was to be treated. There was a manual, guidance notes and online prompts within the Civica system. • Recovery and billing processes were in line with legislation and Council policy. • There were good processes for ensuring that Management are aware of emerging fraud vulnerabilities. The Customer Advice and Support Service's risk register was last reviewed in February 2020. Council policy is that risk registers should be reviewed each quarter. A further review was held during the w/c 08 February 2021. The Service is introducing a process for e-billing in April 2021. Customers will be able to view and settle bills on the internet. We propose to examine these processes once they are introduced. Internal Audit are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. We made no recommendations.	0	0	0	Management have accepted the factual accuracy of the report and its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Internal Controls Subject: Physical Disabilities Services No: 177/007 Date issued: 22 February 2021 Draft; 01 March 2021 Final Level of Assurance: Substantial	The purpose of the review was to 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, and to ensure there is sound budgetary control. The following good practice was found: • There are suitable processes for identifying and communicating changes to relevant legislation and guidance. • Budget monitoring was found to work effectively. There was good engagement between service staff and finance staff. • There are good processes for reviewing the suitability of suppliers in terms of delivering agreed outcomes and securing best value. • There was evidence of compliance with the Council's risk management and information management policies. The Group Manager had started in post in 2019. He explained that the Covid-19 pandemic has had a severe impact on the work of the service. Much work in developing the service has been delayed with the focus being on identifying what services can be delivered under current restrictions. One of the areas which has been delayed is a review of policies that relate to the service; a team leader has now been recruited with a specific remit to complete a review of policies. Furthermore, Management are working with Project Support staff to improve planning processes in the area of transition of children to adults. Internal Audit are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There are Management actions underway on the review of the policy framework and on planning for transitions as areas of improvement. We therefore made no recommendations.	0	0	0	Management have accepted the factual accuracy of the report and its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Subject: ICT Operational Processes No: 233/025 Date issued: 18 February 2021 Draft; 26 February 2021 Final Level of Assurance: Substantial	The purpose was to review the change request processes in place, the security controls for employees working from home, and the leavers' process to ensure they are fit for purpose to support service delivery. The following examples of good practice were found: • The same security is in place for home workers as if working from the office. • Leavers are reported weekly to the system administrators of cloud-based applications. There is assurance that change requests are fit for service delivery and are appropriately approved. The Council were well placed to respond to the Covid-19 pandemic in terms of IT devices and already established secure remote access. 'DirectAccess' provides the same security for remote access to the network for home workers. Leavers were removed from cloud-based applications in the main. However, this does place reliance on the previous 2 Internal Audit recommendations made in the 2019/20 report (ICT Security) around leavers' forms being completed timeously and inactive user accounts being removed. Internal Audit are able to provide substantial assurance and no recommendations have been made. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement such as system administrators ensuring leavers are removed as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse. There are Management actions underway re this; therefore we made no recommendations.	0	0	0	Management have accepted the factual accuracy of the report and its findings.

Covid-19

What it means for public audit in Scotland

Update

AUDIT SCOTLAND

Prepared by Audit Scotland
January 2021

Our approach

Context

- During 2020, public bodies came under exceptional pressure as they managed the impact of the Covid-19 pandemic.
- In late December 2020 and early January 2021, significant restrictions have been reimposed across Scotland. At this stage it is unclear how long these will be in place.
- Our experience during 2020 was that the pandemic has impacted significantly on the timelines for producing annual accounts at public bodies and for audit work due to pressures on capacity and productivity in all organisations.
- The reimposition of restrictions is likely to continue and potentially exacerbate these pressures during 2021.
- In 2020, guidance and deadlines for financial reporting and audit were amended in light of the pandemic. We are keeping the situation this year under review.
- Public bodies have now adapted how they work in response to Covid-19. Further challenges are likely to emerge as we move to recovery from the acute phase of pandemic. It will also be some time before we fully understand the longer-term impact on public services and finances.

Audit Scotland's principles

- During the initial phase of Covid-19, along with the Auditor General and the Accounts Commission, we adopted a set of key principles setting out how we would respond to the pandemic. During 2020, they proved to be both effective and appropriate. They will continue to be our guiding principles through the next phase of the Covid-19 crisis:
  - Our approach to audit will be flexible, pragmatic and consistent.
  - Sound financial management and effective governance are more important than ever.
  - Audit has a key role in providing assurance and aiding scrutiny during these difficult circumstances, and we will prioritise quality and independence.
  - Our work needs to reflect the impact of Covid-19 on public services but also maintain a focus on the other key challenges facing Scotland's public sector.
  - We will prioritise the health and wellbeing of our colleagues at all times.

What we have delivered during the pandemic so far

- With the Auditor General and Accounts Commission, we have published more than 260 reports in the past year. This includes:
  - annual financial audits of 215 public bodies
  - performance audits on matters including affordable housing, local government performance, and digital progress in local government
  - statutory reports on issues arising from the audits of public bodies, including the Scottish Government's Consolidated Accounts
  - Covid-19 impact reports on fraud risk, public finances in Scotland, public audit and how Audit Scotland is responding
  - Covid-19 guidance documents to auditors and public bodies on issues such as audit committees, balancing the budget and going concern
  - the National Fraud Initiative and corporate performance reports
  - joint documents with the local government Strategic Scrutiny Group.
- We continued to support the Scottish Parliament to carry out its scrutiny role.
- We have supported the Accounts Commission to meet virtually twice a month.
- We reviewed and consulted on the forward work programme we deliver for the Auditor General and Accounts Commission. We are renewing it to address the emerging impacts of Covid-19 alongside the other key issues Scotland's public sector faces.
- We continued to meet virtually with our fellow audit and inspection agencies across Scotland's public services.

Financial audit

- In 2020, to reflect the pressure on public bodies, the deadlines for preparing public bodies' accounts for the 2019/20 year were extended. These impacted on timings for audit work and reporting.
- While almost all audits were completed within the revised deadlines, the extensions mean that the planning work required for audits of the 2020/21 year has started later than in previous years.
- The reintroduction of restrictions will affect capacity for audit work.
- We are monitoring developments and guidance which may affect the timelines and scope of 2020/21 accounts. We will issue guidance to auditors as required in due course.
- During 2020, the impact on individual bodies' capacity for reporting and engaging with audit varied widely. Prior to the second wave of the pandemic it could have been expected that uncertainty and volatility would settle, but the full impacts of the second wave and the renewed restrictions are still unclear.
- There has been significant additional public spending in response to Covid-19. A key focus of audit is the governance and outcomes of this funding, as far as they are becoming apparent, or 'following the pandemic pound'.

- We will work with colleagues, including appointed audit firms, to promote consistency of judgement on complex issues.

- We will maintain audit quality while continuing to be flexible about timelines.

Performance audit

- During 2020, we paused and reframed our programme of performance audits.

- This was in part in order to understand the emerging impacts of Covid-19, what new work is required and how existing planned work needed to be reshaped.

- This decision was also to avoid placing additional scrutiny burdens on public bodies at a time when they were trying to address the significant impact of the pandemic on public services. We resumed our performance audit programme when we judged it appropriate, and have published audits, briefings and statutory reports (see page 3), as well as consulted with key stakeholders on our refreshed programme.

- We are publishing the refreshed programme shortly. More detail can be found on pages 6-7.

Best Value auditing

- We have continued the programme of Best Value reporting on councils for the Accounts Commission during the pandemic. These audits have provided early indications of how councils are responding to the many challenges caused by the pandemic.

- The reporting timetable and audit approach for some Best Value reports was reviewed during 2020 to reflect the pressures on councils and remote auditing. The remaining seven reports planned for 2021 will now be published across 2021 and 2022.

- We’ve continued developing the integrated Best Value audit approach for councils and integration joint boards.

Overview reporting

- We have continued to prepare sectoral overview reports (eg, NHS and local government) during the pandemic. A key feature of this work is considering how public bodies are responding to the short, medium and longer-term impact of Covid-19. We adjusted the timetable to reflect the altered audit timelines.

Our resources

- Over the past year we have needed to be flexible with our resources to manage the changing timescales and priorities. For example, while the performance audit programme was being refreshed during 2020, we redeployed appropriately qualified colleagues to allow us to meet the revised statutory deadlines for financial audits.

- The world we audit has changed. We are changing to ensure we can continue to deliver high-quality, independent public audit at a time when Scotland’s public sector will face greater challenges than at any point since devolution.

- We are increasing our capacity, infrastructure and skills, and investing in realising the capabilities in areas such as digital audit.

- When necessary, we will be flexible about deadlines in order to safeguard quality.
- The Auditor General for Scotland and the Accounts Commission have extended the current audit appointments until 2022 to provide continuity and stability in a challenging environment.

Our future Covid-19 work

Overview

Audit Scotland is committed to helping the Parliament, the public sector and the people of Scotland understand how public money has been used during this crisis and ensure lessons are learned for the future. While we will keep a dynamic approach as the pandemic progresses and the impacts become clearer over time, key focuses of our work will include issues such as the effect on inequalities in health, economic security and opportunities, and what public money has achieved in helping Scotland recover. We will also consider how innovations, such as using digital technology to deliver services and engage with communities, can be shared.

Covid-19 will be a key aspect of all financial audit work for the foreseeable future. Through the performance audit programme, we will address the pandemic through specific Covid-19 audits and in audits on other areas of public service provision and planning. The table below outlines some of the themes and the areas we will address on behalf of the Auditor General and Accounts Commission.

Theme	What we'll look at	Key areas
Economic recovery and growth	How public money is being used to support the economy and its response to, and recovery from, Covid-19	Public finances including new devolved financial powers Supporting jobs, business and enterprise How funds have been distributed across the public and third sectors and communities Skills and training Infrastructure investment and low carbon economy Impact of EU withdrawal
Policy priorities	Progress on key policy commitments and public services' ability to deliver on long-term strategic priorities and outcomes	Early learning and childcare School education Community empowerment Health and social care integration Community justice Climate change
Inequalities	The impact of Covid-19 on different groups in society, with a focus on the risk of exacerbation of existing inequalities	Child poverty Children and young people with additional needs Care experienced children and young people Mental health Social security Digital inclusion

Theme	What we'll look at	Key areas
Innovation and transformation	How public bodies are learning lessons and innovating and transforming public services	Digital transformation Service re-design Workforce planning
Governance and accountability	How public bodies are ensuring the proper and effective use of public money across the public sector and within individual bodies	Fraud risks Effective scrutiny Collaborative leadership Following the pandemic pound

Covid-19

What it means for public audit in Scotland Update

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

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Scottish Borders Council

Annual Audit Plan 2020/21

AUDIT SCOTLAND

Prepared for Scottish Borders Council
March 2021

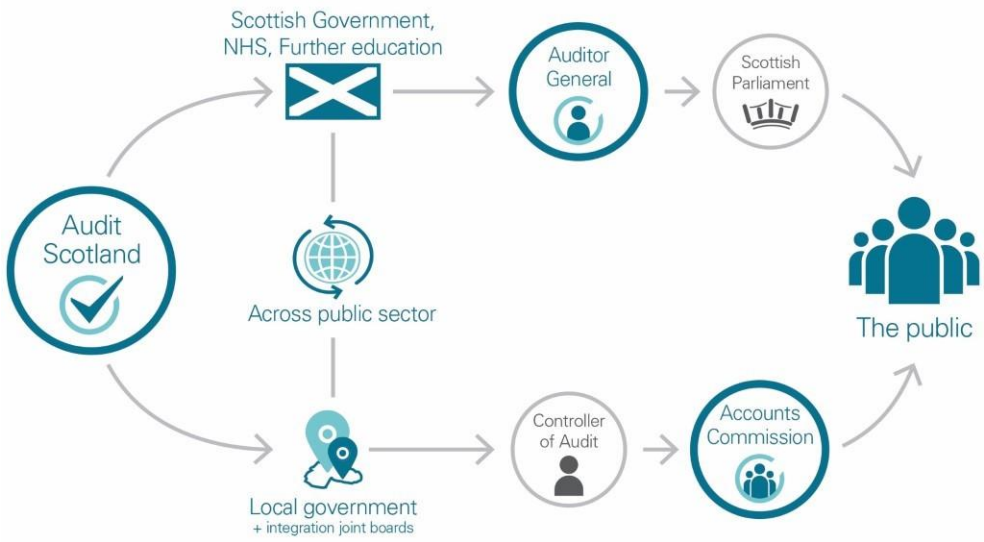
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice, and guidance on planning the audit. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

3. The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The wellbeing of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

5. We aim to add value to Scottish Borders Council ("the council") through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

6. Based on our discussions with management, attendance at committee meetings and a review of supporting information we have identified the following significant risks for Scottish Borders Council. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in Exhibit 1.

Exhibit 1
2020/21 Significant audit risks

	Audit Risk	Source of assurance	Planned audit work
Financial statements risks			
1	**Risk of material misstatement due to fraud caused by management override of controls** Although we have not identified any specific risks of management override relating to the council, International Standard on Auditing (ISA) 240 requires that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls in order to change the position disclosed in the financial statements.	Owing to the nature of this risk, assurances from management are not applicable.	• Detailed testing of journal entries. • Review of accounting estimates and accounting policies. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
2	**Risk of material misstatement caused by fraud over income and expenditure** The council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is a risk of fraud. This relates to various fees and charges, service income, council tax and non-domestic rates income. Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA 240 assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.	• Regular budget monitoring and reporting. • Effective internal controls in financial systems to mitigate risks of error or manipulation. • Internal audit coverage of internal financial controls. • Participation in the National Fraud Initiative. • The council's Counter Fraud Steering Group agrees and monitors counter fraud improvement actions.	• Analytical procedures on material income and expenditure streams. • Detailed substantive testing of income transactions focusing on the areas of greatest risk. • Detailed substantive testing of expenditure including housing benefit transactions. • Review of internal audit work on systems of internal control.
3	**Risk of material misstatement due to estimations and judgements** There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pension liabilities and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.	• Valuation and impairment review of non-current assets by professional valuer in line with 5 year rolling programme. • Actuary reports provide pension valuations and state assumptions used. • Confirmation from legal services of all potential litigation	• Completion of 'review of the work of an expert' for the professional valuer and actuary. • Focused substantive testing of key areas; such as detailed review of provisions and contingent liabilities, valuation and impairment of non-current assets

	Audit Risk	Source of assurance	Planned audit work
		cases together with an assessment of potential liability and likelihood of settlement.	and triennial valuation from the actuary. • Review the appropriateness of the council's accounting policies in these areas.
4	**Risk of misstatement due to Covid-19 disclosure requirements** During 2020/21 the council has administered significant Covid-19 support grants on behalf of the Scottish Government in excess of £40 million to date. Under IFRS 15, these payments are made on an 'agency basis' and will therefore not be recognised in the council's Comprehensive Income and Expenditure Statement in the annual accounts. Instead, additional disclosures are expected to be required in the 2020/21 annual accounts to report these grant payments accurately, and to promote transparency for users of the accounts. There is a risk of disclosure misstatement for this new area of agency expenditure. This will need to be separated from the Covid-19 funding the council has received to support its own budget.	• The council finance team will liaise with LASAAC on this matter and follow agreed local government practice.	• Review further technical guidance when available and discuss with the council's finance team. • Review Covid-19 disclosures in the 2020/21 annual accounts for accuracy and completeness.
Wider dimension risks			
5	**Financial sustainability** The pandemic has had significant impact on the council's revenue and capital financial plans. Budget pressures amounting to £28m have been identified for the 2020/21 financial year. Additional funding from Scottish Government and re-allocated resources have been used to offset these pressures, with the council forecasting a break-even position for 2020/21. The council, like other public sector bodies, will need to continue reviewing the ongoing impact and response to the pandemic. Capital plans are also having to be continually revised. Any further financial implications and uncertainties will require to be carefully managed leading into 2021/22. This may lead to a risk of budget shortfalls and achievement of planned savings, affecting the delivery of the 'Fit for 2024' programme. Shortfalls may require to be	• Regular budget monitoring and reporting. • Monthly financial reporting and regular discussions with the Scottish Government. • Regular scrutiny of financial plans at governance committees.	• Review of budget reports and updated financial plans as and when available. • Focused cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial period. • Review of management commentary in annual report and accounts to ensure financial risks are adequately explained.

	Audit Risk	Source of assurance	Planned audit work
	funded from reserves which is only a short-term solution.		
6	**Cyber security and disaster recovery** The council, together with its partner CGI, have accelerated its digital plans and improvements to the ICT infrastructure. For example, the roll out of working from home arrangements for staff and 'Inspire Learning' (online learning) for school children and teachers. A number of risks continue to be managed: • **Cyber security risk:** The council is currently undertaking cyber essentials plus (CE+) re-accreditation (last certification was achieved in September 2019). • **Disaster recovery arrangements:** A move to the new Waterton data centre back up facility in Wales (which will be managed by CGI) has been postponed for over a year, in part due to the pandemic. This is now scheduled for March 2021. Full disaster recovery (DR) testing has not recently taken place due to this delay. This places the council at risk of cyber-attack and business continuity failure.	• The new Digital Strategy is currently being developed in partnership with CGI. • The CE+ review is underway and any recommendations will be reviewed and actioned as appropriate. • As part of the applications migration process to the new Waterton Data Centre, limited DR testing is taking place on an application by application basis.	• Discuss ongoing ICT arrangements with the council's IT Client Manager. • Review the refreshed Digital Strategy and related ICT policies to assess their appropriateness. • Review the council's progress with recommendations contained in the recent Audit Scotland report 'Digital Progress in Local Government' (January 2021).

Source: Audit Scotland

Reporting arrangements

7. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in Exhibit 2, and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

8. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to relevant officers to confirm factual accuracy.

9. We will provide an independent auditor's report to Scottish Borders Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide the council and Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2
2020/21 Audit outputs

Audit Outputs	Latest target date	Audit & Scrutiny Committee timings
Annual Audit Plan	30 April 2021	8 March 2021
Interim Management Report (if required)	30 June 2021	29 June 2021
Signed Independent Auditor's Report	31 October 2021	21 October 2021
Annual Audit Report	31 October 2021	21 October 2021

Audit of common good funds, trust funds and group arrangements

10. The Charities Accounts (Scotland) Regulations 2006 require charities to prepare annual accounts and require an accompanying auditor's report where legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. The council administers six trusts and common good funds with charitable status.

11. The council prepares group accounts which incorporate four subsidiaries. In addition to the audit of Scottish Borders Council we deem the following bodies to be significant in the context of the group audit:

- Charitable Trust Funds
- Common Good Funds
- Bridge Homes LLP
- Live Borders.

12. The council also recognises a joint venture in its group accounts – Scottish Borders Health & Social Care Partnership. In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process. To support our audit work on the council's group accounts, we seek to place reliance on the work of the auditors of the significant components. We will liaise with the auditor of each of the bodies to obtain assurance over the component figures included in the consolidation.

13. We will perform the audit of the council's charitable trusts and group accounts in parallel with the audit of Scottish Borders Council's financial statements.

Audit fee

14. The audit fee for the 2020/21 audit of Scottish Borders Council and its group is £287,500, which includes £6,000 for the audit of the trusts (2018/19: £280,360 including £6,000 for the audit of the trusts). In determining the audit fee we have taken account of the risk exposure of Scottish Borders Council, the planned management assurances in place and the level of work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts with a complete working papers package on 30 June 2021.

15. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit & Scrutiny Committee and Section 95 Officer

16. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

17. The audit of the annual accounts does not relieve management or the Audit & Scrutiny Committee, as those charged with governance, of their responsibilities.

Appointed auditor

18. Our responsibilities as independent auditors are established by the 1973 Act for local government and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

19. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the council to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

20. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the councilScottish Borders Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

21. We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2021 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.

Statutory other information in the annual accounts

22. We review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor’s report.

23. We also review the content of all narrative sections for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

24. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

25. We calculate materiality at different levels as described below. The calculated materiality values for the council and its group are set out in Exhibit 3.

Exhibit 3
Materiality values

Materiality	Council	Group
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure per the latest 2019/20 audited accounts.	£3.8 million	£3.9 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£2.3 million	£2.34 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality.	£95,000	£98,000

Source: Audit Scotland

Timetable

26. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an indicative timetable at Exhibit 4.

Exhibit 4
Annual accounts timetable

Key stage	Date
Consideration of unaudited annual report and accounts by Audit & Scrutiny Committee	29 June 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2021
Confirmation of audited figures for components included in the group accounts	31 August 2021
Latest date for final clearance meeting with Section 95 Officer	30 September 2021
Issue of Letter of Representation and proposed independent auditor's report to management	7 October 2021

Key stage	Date
Issue of Annual Audit Report to Audit & Scrutiny Committee	October 2021 (tbc)
Agreement of audited unsigned annual report and accounts	October 2021 (tbc)
Independent auditor's report signed	October 2021 (tbc)
Latest date for signing of WGA return	October 2021 (tbc)

Internal audit

27. Internal audit is provided by a team of council staff overseen by the Chief Officer Audit & Risk. We carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA (UK) 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

28. Internal audit have also recently been subject to an External Quality Assessment reviewing their work against the PSIAS. We will take this into consideration and report any significant findings from our review to management as required.

Using the work of internal audit

29. International Standards on Auditing require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

30. From our initial review of internal audit plans we plan to use the work of internal audit for our audit of the financial statements in the following areas:

- Financial governance: Business World ERP system key internal controls

31. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work under the following themes:

- Corporate governance
- ICT governance
- Asset management.

Audit dimensions

32. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 5.

Exhibit 5
Audit dimensions

Source: Code of Audit Practice

33. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

Financial sustainability

34. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as short term (up to two years), medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

35. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control systems in communicating accurate and timely financial performance

- how the council has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

36. We are also required to assess the risk of fraud and corruption in the procurement function and report, where relevant, on the arrangements to counter the risk in either our 2020/21 or 2021/22 audits. We aim to carry out this work this year and any issues will be reported in our 2020/21 Annual Audit Report.

Governance and transparency

37. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

38. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the council can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

39. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments (since extended to six-years due to Covid-19 pressures). Auditors started using the framework for their audit work from October 2016.

40. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the revised six-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- The Annual Audit Report for each council that will provide a rounded picture of the council overall
- An annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports.

- A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in the revised six-year period.

41. The four councils on which a BVAR will be published during the fifth year of the new approach are listed in Exhibit 6. Reports will be considered by the Accounts Commission in the period between March and November 2021.

Exhibit 6
2020/21 Best Value Assurance Reports

Aberdeen City Council

South Ayrshire Council

East Dunbartonshire Council

Falkirk Council

Source: Audit Scotland

42. Scottish Borders Council was the subject of a BVAR in 2018/19 and the BVAR report was published in October 2019. Our follow up work of this report was postponed last year due to the impact of Covid-19. Our work planned this year will focus on the council's progress towards implementing the recommendations made in the 2018/19 BVAR, noting the recent update provided to the Audit & Scrutiny Committee in February 2021.

43. We will also assess the council's arrangements for demonstrating good Governance & Transparency, in light of some revised governance arrangements implemented in 2020/21 as a result of the pandemic. The work will be integrated with that described above. It will involve us gaining an understanding of how effective the council's self-evaluation processes are in driving improvement across the council. The results of this work will be reported in our Annual Audit Report.

Independence and objectivity

44. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

45. The engagement lead (i.e. appointed auditor) for Scottish Borders Council is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Scottish Borders Council.

Quality control

46. International Standard on Quality Control 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide

reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

47. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

48. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Scottish Borders Council

Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or **info@audit-scotland.gov.uk**

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Scottish Borders Council Pension Fund

Annual Audit Plan 2020/21

AUDIT SCOTLAND

Prepared for Scottish Borders Council as the administering authority for the Pension Fund

March 2021

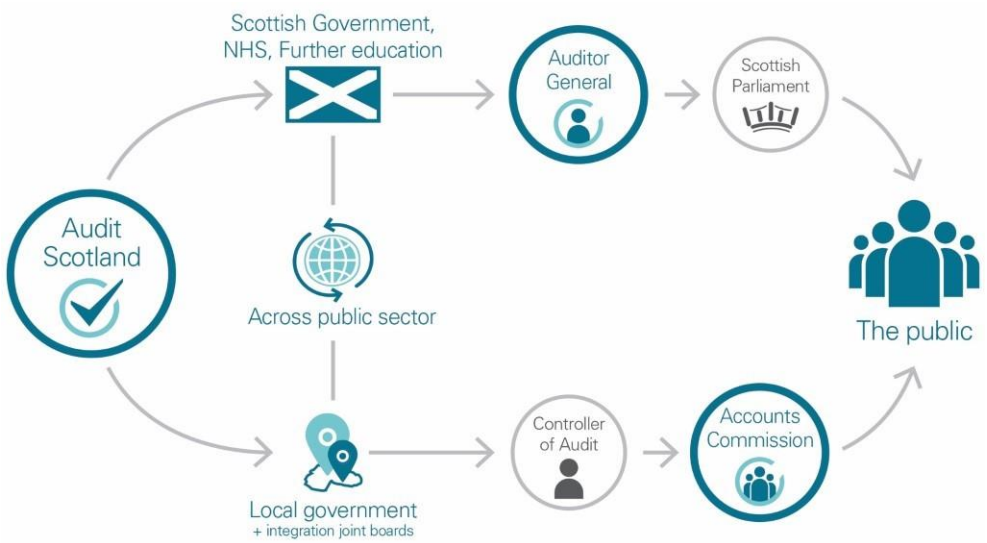
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Risks and planned work

1. Our audit of the Scottish Borders Council Pension Fund (the Fund) is carried out in accordance with the Code of Audit Practice, International Standards on Auditing (ISAs), and guidance on planning the audit. This plan contains an overview of the planned scope and timing of our audit. It sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and to meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency, and value for money.

3. The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

5. We aim to add value through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Fund promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

6. Building on our knowledge from previous years, discussions with officers, attendance at committee meetings and a review of supporting information we have identified a number of significant financial statement and wider dimension audit risks. These risks are detailed in Exhibit 1.

Exhibit 1
2020/21 Significant audit risks

	Significant Audit Risk	Source of assurance	Planned audit work
Financial statement risks			
1	**Risk of material misstatement caused by management override of controls** Although we have not identified any specific risks of management override of controls relating to the Fund, Auditing Standards require that audits are planned to consider the risk of material misstatement due to fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that result in fraudulent financial statements.	Owing to the nature of this risk, assurances from management are not applicable.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
2	**Estimations, Judgements and Classifications** There is a significant degree of subjectivity in the measurement and valuation of investments and the actuarial valuation. Investments include level 3 investments such as unquoted equities, where valuations involve the application of considerable judgement in determining appropriate amounts. The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. This subjectivity gives rise to a risk of misstatement in the financial statements.	Most investments are listed and traded on public stock exchanges which provide frequent valuations. Unquoted investments are valued by third parties including investment managers and independent valuers who follow detailed professional, accounting and industry codes and guidelines. Use of an experienced and respected Actuary to provide actuarial valuations.	Completion of 'review of the work of an expert' in accordance with ISA 500, for the actuary. Review of investment manager valuation reports. Review of user entity controls in relation to the use of service organisations.

Source: Audit Scotland

7. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risks of material misstatement caused by fraud in income recognition in 2020/21 for the following reasons:

- The split of responsibilities between the Fund, its fund managers, its custodian and the bank provide a clear separation of duties reducing the risks relating to investment income.

- Further controls are in place around contribution income which is paid over from employers.

8. In line with Practise Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2020/21 for the following reasons:

- Investments are managed by external investment managers and recorded by the Fund's custodian.
- Pension benefits are the Fund's main expenditure stream. There is no real incentive for the Fund to manipulate the amount of benefits paid.
- Controls are in place to ensure the proper amounts of benefits paid.

9. Although we have rebutted these presumed risks of material misstatement arising from fraud, we will still undertake standard audit procedures around journal testing and cut-off for both income and expenditure.

Reporting arrangements

10. Audit reporting is the visible output for the annual audit. All annual audit plans, and the outputs as detailed in Exhibit 2 and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

11. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to management to confirm factual accuracy.

12. At the end of our audit we will provide the Scottish Borders Council, as administering authority of the Fund, and the Accounts Commission with an annual audit report containing observations and recommendations on significant matters which have arisen during the audit. We will also issue an independent auditor's report containing our opinion on the financial statements.

Exhibit 2
2020/21 Audit outputs

Audit Output	Latest Target date	Committee Date
Annual Audit Plan	30 April 2021	8 March 2021
Annual Audit Report	31 October 2021	16 September 2021
Independent Auditor's Report	31 October 2021	16 September 2021

Source: Audit Scotland

Audit fee

13. The audit fee for the 2020/21 audit of the Fund is £21,510 (2019/20: £21,040). In determining the audit fee, we have taken account of the risk exposure of the Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 30 June 2021.

14. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Scottish Borders Council and the Executive Director Finance and Regulatory

15. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance that enable them to successfully deliver their objectives.

16. The audit of the annual accounts does not relieve management or the Council as those charged with governance, of their responsibilities.

Appointed auditor

17. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

18. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the Fund body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual report and accounts

19. The audit of the annual report and accounts, including the financial statements, will be the foundation and source for most of the work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the Fund and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Fund will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free from material misstatement.

20. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the Fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Statutory other information in the annual report and accounts

21. We also review and report on statutory other information published within the annual report and accounts including the management commentary, annual governance statement and the governance compliance statement. We give an opinion on whether these statements have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

22. We also review the content of the pension fund annual report for consistency with the financial statements and with our knowledge. We consider whether the information is otherwise materially misstated. We report any uncorrected material misstatements in statutory other information.

Materiality

23. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

24. We calculate materiality at different levels as described below. The calculated planning materiality values for the Fund are set out in Exhibit 3.

Exhibit 3
Materiality values

Materiality	
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross assets based on the latest investment adviser reports for assets valued as at 30 September 2020 for 31 March 2021.	£8.1 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£4.8 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality.	£245,000

Source: Audit Scotland

Lower specific materiality

25. In addition to planning materiality we set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the accounts.

26. We recognise that transactions with members and payments to pensioners are areas of importance to the users of the accounts and we set specific materiality levels as shown in Exhibit 4.

Exhibit 4
Lower specific materiality values

Materiality	
Specific materiality – It has been set at 10% of benefits paid for the year ended 31 March 2021 based on the latest audited accounts for 2019/20.	£2.36 million
Specific performance materiality – Using our professional judgement we have calculated performance materiality at 60% of the specific materiality.	£1.4 million

Source: Audit Scotland

Timetable

27. To support the efficient use of resources it is critical that an annual report and accounts timetable is agreed with us to produce the unaudited accounts. We have included an indicative agreed timetable at Exhibit 5. As per paragraph 4, we will adopt a pragmatic and flexible approach. While our intention is to work to the target

dates set out below, these are subject to potential changes due to uncertainty and additional challenges associated with the impact of Covid-19.

Exhibit 5
Annual accounts indicative timetable

Key stage	Date
Consideration of unaudited annual report and accounts by those charged with governance	10 June 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2021
Latest date for final clearance meeting with management	1 September 2021
Issue of Letter of Representation (ISA 580) and proposed independent auditor's report	2 September 2021
Issue of Annual Audit Report to those charged with governance	9 September 2021
Agreement of audited unsigned annual report and accounts	28 October 2021
Independent auditor's report signed	28 October 2021

Source: Audit Scotland

Internal audit

28. Internal audit is provided by Scottish Borders Council Internal Audit section, overseen by the Chief Officer Audit & Risk. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

29. We are in the process of reviewing the internal audit function and will report any significant findings to management on a timely basis.

Using the work of internal audit

30. We do not plan to use the work of internal audit for our 2020/21 financial statements audit. The scope of the internal audit work will not reduce the level of our audit testing in support of our audit opinion on the financial statements. We will however take account of internal audit's findings to inform our wider Code responsibilities.

Audit dimensions

31. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 6.

Exhibit 6
Audit dimensions

Source: Code of Audit Practice

Financial sustainability

32. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the Fund's financial sustainability. We define financial sustainability as having medium term (two to five years) and longer term (greater than five years) financial plans in place. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of funding arrangements and the investment strategy in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

33. Financial management in the context of a pension fund is complex and includes not just investment and funding strategy, but also arrangements for contract management, performance review, budget setting, forecasting and the financial control environment. We will review, conclude and report on:

- the Fund's financial performance and funding levels for the year, including performance against its investment strategy
- whether arrangements are in place to ensure systems of internal control are operating effectively

- the effectiveness of budgetary control system in communicating accurate and timely financial performance
- the Fund's arrangements in place that has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

34. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information. The knowledge and skills of pension committee and pension board members is key to this process. We will review, conclude and report on:

- the governance disclosures in the annual report and accounts
- whether the Fund can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision making and on the financial and performance reporting
- the quality and timeliness of financial and performance reporting on the Fund's administration and investments
- consistency of the annual governance statement and the governance compliance statement with the disclosures made in the financial statements.

Value for money

35. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the Fund can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Independence and objectivity

36. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. These arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

37. The engagement lead (i.e. appointed auditor) for the Fund is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Fund.

Quality control

38. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

39. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. The Institute of Chartered Accountants of Scotland (ICAS) have also been commissioned to carry out external quality reviews of our work.

40. As part of our commitment to quality and continuous improvement Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Scottish Borders Council Pension Fund

Annual Audit Plan 2020/21

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INTERNAL AUDIT CHARTER

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

8 March 2021

1 PURPOSE AND SUMMARY

1.1 **This report provides the Audit and Scrutiny Committee with the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.**

1.2 The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

1.3 In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Officer Audit & Risk, as the Chief Audit Executive at Scottish Borders Council, must periodically review the Internal Audit Charter and present it to senior management (Corporate Management Team) and the board (Audit and Scrutiny Committee) for approval.

1.4 The Internal Audit Charter as shown in Appendix 1 to this report has been updated by the Chief Audit Executive (SBC's Chief Officer Audit & Risk) in conformance with the PSIAS for approval by the Audit and Scrutiny Committee to ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice.

2 RECOMMENDATIONS

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

3 BACKGROUND

3.1 The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

3.2 The SBC Internal Audit function follows the professional standards as set out in the PSIAS which came into effect on 1 April 2013 (amended 2017), along with the CIPFA Local Government Application Note for the United Kingdom. The PSIAS have been developed by the standard setters (CIPFA for local government) through the Internal Audit Standards Advisory Board (IASAB) and have been based on the Institute of Internal Auditors International Standards of Professional Practice.

3.3 In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Audit Executive at Scottish Borders Council (the Chief Officer Audit & Risk) must periodically review the Internal Audit Charter and present it to 'senior management' (Corporate Management Team) and the 'board' (Audit and Scrutiny Committee) for approval.

3.4 The Internal Audit Charter as shown in Appendix 1 to this report: establishes the Internal Audit activity's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.

3.5 Within the PSIAS a Public Sector requirement states the Internal Audit Charter must also:

- define the terms 'board' and 'senior management' for the purposes of Internal Audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of Internal Audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if Internal Audit undertakes non-audit activities.

4 INTERNAL AUDIT CHARTER

4.1 The Internal Audit Charter, since its previous approval by the Audit and Scrutiny Committee on 9 March 2020, has been updated in response to enhancements highlighted during the PSIAS annual self-assessment and External Quality Assessment (EQA) processes. The following explicit references have been added to ensure full conformance with PSIAS:

- The Mission Statement of Internal Audit and the Core Principles within the section 'Introduction';
- The Council's statutory officers within the section 'Position of Internal Audit within Scottish Borders Council'; and

- The Internal Audit team's compliance with the Seven Principles of Public Life, the professional qualifications and competences of the Chief Audit Executive, the aims of the Internal Audit Strategy, and the risk-based Internal Audit planning process within the section 'Audit Resources and Work Prioritisation';
- Arrangements to ensure Internal Audit independence and objectivity is not impaired within the section 'Non-Audit Activities'

4.2 The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2021/22. The Internal Audit Strategy sets out the Council's assurance framework within which Internal Audit operates, and the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions to the Council, the Pension Fund and the IJB. The Internal Audit Charter and Strategy are applicable to these organisations. There are separate Plans for each organisation, which set out the range and breadth of audit activity.

5 IMPLICATIONS

5.1 Financial

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment. Internal Audit resources are set out in the Internal Audit Strategy and Plan 2021/21.

5.2 Risk and Mitigations

The authority for Internal Audit to operate in Scottish Borders Council is contained in the Local Code of Corporate Governance and in the Financial Regulations. This Internal Audit Charter expands upon that framework.

Approval of the Internal Audit Charter (Appendix 1), as recommended in this report, will ensure that Internal Audit is tasked to carry out its role in accordance with PSIAS and best Corporate Governance practice.

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. The work of Internal Audit (including its opinion on the control environment) shall contribute to the Council's review of its corporate governance arrangements the outcome of which is published in the Annual Governance Statement.

At all times, Management's responsibilities (led by the Corporate Management Team) include:

- Designing and maintaining proper risk management, governance and internal control processes and systems for which they have responsibility to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. These evolve as the Council changes.
- Checking that these governance arrangements and internal controls are operating effectively, and obtaining assurances from internal compliance, risk, inspection, quality, and control functions.

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

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

Applying the framework of the PSIAS will give the Audit and Scrutiny Committee assurance that the Internal Audit function is compliant with legislative requirements and current best practice.

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.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance.

5.4 **Acting Sustainably**

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

5.5 **Carbon Management**

It is anticipated that there are no carbon management issues associated with 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 are required to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals in this report.

6 CONSULTATION

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

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

Approved by

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

Author(s)

Name	Designation and Contact Number
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Background Papers: Local Code of Corporate Governance; Financial Regulations
Previous Minute Reference: Audit and Scrutiny Committee 9 March 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

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SBC Internal Audit Section

INTERNAL AUDIT CHARTER

INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) requires that the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing* (Standards) detailed in the PSIAS.

The Council has adopted from the PSIAS[1]: the definition of Internal Auditing

> *Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*[2].

the Mission Statement of Internal Audit "*To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight*" and the Core Principles.

OBJECTIVES OF INTERNAL AUDIT

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

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

As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:

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

[1] Public Sector Internal Audit Standards (PSIAS) (2017)
[2] Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

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

POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

In terms of the PSIAS, the status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The Chief Audit Executive (CAE) should have "sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation[3]"

The CAE within the Council (the Chief Officer Audit & Risk) has full access to those charged with governance for each organisation, specifically the elected members or board members and the 'senior management' team. The latter includes the Council's statutory officers: head of paid service (Chief Executive), s95 finance officer (Executive Director Finance & Regulatory), monitoring officer (Chief Legal Officer) and chief social work officer (Chief Social Work and Public Protection Officer). The CAE has free and unfettered access to the Chair of each organisation's 'board' (audit committee or equivalent) to discuss any matters the committee or auditors believe should be raised privately.

In terms of accountability and independence to ensure conformance with PSIAS, the CAE reports functionally to Scottish Borders Council's Audit and Scrutiny Committee. In this context functional reporting[4] means the Audit and Scrutiny Committee will:

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

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

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

[3] Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)
[4] Chartered Institute of Internal Auditors (CIIA) – International Standards for Professional Practice of Internal Auditing

RIGHTS OF ACCESS

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

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

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

SCOPE OF INTERNAL AUDIT ACTIVITY

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

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

Internal Audit's work covers:

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

AUDIT RESOURCES AND WORK PRIORITISATION

The CAE ensures that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of qualifications, knowledge, skills and other competencies needed to perform the plan such as compliance with the Code of Ethics set out in the PSIAS and with the Nolan principles established in the Seven Principles of Public Life. This is of particular importance and relevance for the profession of Internal Audit, founded as it is on trust placed in its objective assurance about risk management, internal control and governance. The CAE holds a professional qualification (BA (Hons) ACMA CGMA) and is suitably experienced. Sufficient refers to the quantity of resources needed to accomplish the plan. Effectively deployed refers to when they are used in a way that optimises the achievement of the approved plan.

The Internal Audit Strategy, as approved by the Audit and Scrutiny Committee, outlines the strategic direction for how Internal Audit will achieve its objectives in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to the Council, the Pension Fund and the IJB.

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

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

The Plan has within it provision of resources for Internal Audit 'critical friend' consultancy that are valued by Management to support them in delivering innovation, change and transformation. Requests are considered and approved by the CAE subject to any consultancy activity being deliverable within the boundaries of the role of Internal Audit and the resources available.

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

NON AUDIT ACTIVITIES

The Internal Audit service preserves its independence and objectivity by ensuring that: staff are free from any conflicts of interest when undertaking assurance audits by following the requirements of relevant professional bodies and HR policies; and providing clarity on duties undertaken during audit consultancy engagements to ensure these do not impact on assurance audits and do not impair its independence and objectivity.

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

APPROVAL

The Internal Audit Charter was reported to and approved by the Audit and Scrutiny Committee at its meeting on *8 March 2021* and will be subject to regular review by the CAE and the Audit and Scrutiny Committee.

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INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2021/22

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

8 March 2021

1 PURPOSE AND SUMMARY

1.1 The purpose of this report is to gain approval to the proposed Internal Audit Strategy and Internal Audit Annual Plan 2021/22 to enable the Chief Officer Audit & Risk to prepare annual opinions on the adequacy of the overall control environment for Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board.

1.2 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 (updated 2017) which requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation's goals. The plans also require to be sufficiently flexible to reflect the changing risks and priorities pertaining to each organisation.

1.3 A fundamental role of the Council's Internal Audit function is to provide senior management and members with independent and objective assurance which is designed to add value and improve the organisation's operations. In addition, the CAE is also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment.

1.4 The report presents the background to the Internal Audit Strategy at Appendix 1 that outlines the strategic direction for how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to the Council, Pension Fund and IJB.

1.5 The Chief Officer Audit & Risk and the Principal Internal Auditor have developed the proposed Internal Audit Annual Plan 2021/22 at Appendix 2. It sets out the range and breadth of audit activity and sufficient work within the audit programme of work to enable the CAE to prepare an Internal Audit annual opinion. Key components of the audit planning process include a clear understanding of the organisation's functions, associated risks, and assurance framework.

2 RECOMMENDATION

2.1 I recommend that the Audit and Scrutiny Committee approves the Internal Audit Strategy (Appendix 1) and Internal Audit Annual Plan 2021/22 (Appendix 2).

3 BACKGROUND

3.1 The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require Internal Audit to have suitable operational independence from the organisation.

4 INTERNAL AUDIT STRATEGY

4.1 The key standards within the PSIAS which relate to Managing the Internal Audit Activity are summarised below:

"The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.
The internal audit activity is effectively managed when:

- The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and
- The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes."

4.2 The Internal Audit Strategy at Appendix 1 outlines the strategic direction for how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to the Scottish Borders Council, Pension Fund and IJB.

4.3 The Internal Audit Strategy:

- Outlines the assurance framework, providing clarity of the respective responsibilities of Management for designing and monitoring governance and control systems and of the role of Internal Audit in providing independent assurance thereon;
- States how the key themes which are integral to the assurance gathering process across the organisation's activities will be covered to inform the annual Internal Audit opinion statement;
- Describes the approach to the development of the risk based Internal Audit annual plan;
- Sets out the relative allocation of Internal Audit resources;
- Outlines how the Internal Audit programme of work will be delivered to add value; and
- Describes the monitoring and reporting of the Internal Audit findings from its work and progress with its plans to the relevant organisation's audit committee/board.

4.4 The Internal Audit Strategy reflects the following enhancements identified during the External Quality Assessment process: prioritising planned work which would ensure that those areas of greatest risk are covered during the audit year; including explicit references to other sources of assurance relied upon as part of the audit planning process and plans; and more formally documenting the annual risk assessment undertaken to assist the planning process.

5 INTERNAL AUDIT ANNUAL PLAN 2021/22

5.1 The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:

- No. 2010 – Planning which states that "the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals"
- No. 2020 – Communication and Approval which states that "the chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations."

5.2 The CIPFA Audit Committees guidance states that "The audit committee should seek to make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to provide an annual internal audit opinion that can be used to inform the Annual Governance Statement. Specific activities will include:

- Approving (but not directing) the risk-based plan, considering the use made of other sources of assurance."

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

5.4 The Chief Officer Audit & Risk and the Principal Internal Auditor have developed the proposed Internal Audit Annual Plan 2021/22 at Appendix 2. It sets out the range and breadth of audit activity and sufficient work within the audit programme of work to enable the CAE to prepare an Internal Audit annual opinion. The proposed reviews, grouped into key themes as set out in the Internal Audit Strategy at Appendix 1. There is a brief commentary for each review.

5.5 As part of the Internal Audit planning process it was necessary to consider each organisation's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation's goals, as follows:

- Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage;
- The Corporate, Service and Programme/Project Risk Registers were checked to confirm coverage on key strategic risks; and
- Account was taken of known external audit and inspection activities to avoid duplication of assurance work.

5.6 The plan should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities. Any amendments relating to the Council will be brought to Corporate Management Team and the Audit and Scrutiny Committee for approval.

5.7 The Non SBC days reflect the Council's commitment to provide Internal Audit assurance resources to the Pension Fund and to the Health and Social Care Integration Joint Board (IJB). Separate Internal Audit annual plans will be presented to their respective Board/Audit Committee for approval.

6 IMPLICATIONS

6.1 Financial

The Internal Audit staff resources comprise Chief Officer Audit & Risk (50% recharged to Midlothian Council for the shared services provision which brings the opportunity for sharing best practice), one Principal Internal Auditor, one Senior Internal Auditor, and three Internal Auditors. These staff resources is for the provision of Internal Audit Services to Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board in a collaborative way with the Corporate Risk Officer and the Corporate Fraud & Compliance Officer (current vacancy).

The Revenue Financial Plans which will be presented to the Council on 19 March 2021 for approval reflect this arrangement and resources, though it should be noted that this includes budget reduction for staff turnover adjustment of 4% in accordance with corporate policy.

6.2 Risk and Mitigations

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

Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. To capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risks and mitigations on corporate and operational risk registers have been considered.

6.3 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.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance.

6.4 Acting Sustainably

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

6.5 Carbon Management

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

6.6 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.

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

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

7 CONSULTATION

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

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

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

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

Author(s)

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Background Papers: Audit Universe; Risk Registers
Previous Minute Reference: Audit and Scrutiny Committee 9 March 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

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INTERNAL AUDIT STRATEGY Appendix 1

1. AIM OF STRATEGY

1.1. The aim of this strategy is to guide SBC Internal Audit function in delivering a high quality internal audit service to Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board, which is capable of:

- providing the statutory annual assurance and audit opinion on the adequacy of each organisation's risk management, internal control and governance arrangements to the relevant organisation's senior management and board/audit committee;
- carrying out all other objectives contained in the Internal Audit Charter; and
- adding value to each organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to their strategic priorities.

2. STRATEGY OBJECTIVES

2.1. The objectives of this strategy are to:

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

3. ASSURANCE FRAMEWORK

3.1. It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. These are known as the first and second lines. Internal Audit, as the third line, is the review function which will provide independent assurance on the effectiveness of the first and second lines, challenge current practices, recommend best practice and improvements to lead to a strengthening of the control environment and management of risks.

3.2. The organisation's assurance framework is the means by which the relevant organisation's Senior Management and Audit Committee/Board ensures that they are properly informed on the risks of not meeting objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of systems in place to mitigate those risks.

3.3. The assurance framework comprises assurances from within the organisation (from Management and from compliance/service support functions such as health and safety, IT client, information management, finance and procurement, HR, business continuity, and independent assurance from Internal Audit) and from external providers of assurance. For example, Accounts Commission, External Audit (Audit Scotland - for SBC, Pension Fund, and IJB), Education Scotland, Care Inspectorate, Scottish Housing Regulator, etc.

3.4. The assurances are considered during the annual review of the effectiveness of each organisation's overall governance framework carried out by officers of each organisation and supported by Internal Audit. The output is the Annual Governance Statement which is included within their respective Annual Report and Accounts.

3.5. Where audit assurance is required on Services that are delivered by public sector joint working arrangements which include the organisation as a partner, these assurances will be sought as appropriate from partners' Internal Audit service providers and Management.

4. KEY THEMES INTEGRAL TO INTERNAL AUDIT ASSURANCE

4.1. Each organisation is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Fundamentally corporate governance is about the systems and processes, and cultures and values that are used by each organisation to discharge those responsibilities in a timely, inclusive, open, honest and accountable manner. This includes: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law; Ensuring openness and comprehensive stakeholder engagement; Defining outcomes in terms of sustainable economic, social, and environmental benefits; Determining the interventions necessary to optimise the achievement of the intended outcomes; Developing the entity's capacity, including the capability of its leadership and the individuals within it; Managing risks and performance through robust internal control and strong public financial management; Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

4.2. Each organisation's statutory financial officer, Section 95 Officer or equivalent, i.e. Executive Director Finance & Regulatory (roles relevant to the Council and Pension Fund) and Chief Finance Officer of the IJB) is responsible for the proper administration of each organisation's financial affairs. Under their direction, each organisation's system of internal financial control is based on a framework of Financial Regulations (rules and regulations for financial management or administration arrangements linked to other key financial documents that set out the policy framework, associated strategy, and the more detailed procedures and guidelines), regular Management Information, administrative procedures (including segregation of duties), Management Supervision, and a system of Delegation and Accountability.

4.3. The continued use of and investment in technology to support service delivery, and digital change and transformation to improve operations is a key part of the vision for each organisation, underpinned by the Council's ICT service delivery outsource contract with CGI. The overarching framework of the ICT security policy is designed to ensure that computer systems are secure, reliable and conform to nationally agreed standards, and the Digital Strategy is designed to support effective and modern service delivery to meet corporate objectives.

5. APPROACH TO PERIODIC PLANNING

5.1. The Internal Audit Strategy and the Internal Audit Annual Plan 2021/22 have been prepared in conformance with the Public Sector Internal Audit Standards (PSIAS) to fulfil the requirement to produce the statutory annual assurance and audit opinion for each organisation.

5.2. As part of the Internal Audit planning process it was necessary to consider each organisation's objectives, priorities, strategies, plans, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with each organisation's goals, as follows:

- Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage;
- Risk Registers were checked and discussions were held with the Corporate Risk Officer to confirm coverage on key corporate risks, as reliance is placed on the risk assessments carried out by the corporate risk owners taking account of the risk rating and mitigations; and
- Account is taken of known external audit and inspection activities to avoid duplication of assurance work. For example: Discussions are held to agree which Internal Audit assurance work will be relied upon by External Audit for its annual audit; the schools Internal Audit work on internal financial controls is designed to complement inspections carried out by Education Scotland; and any matters raised by other inspection and regulatory bodies, including Care Inspectorate and Scottish Housing Regulator, are considered.

5.3. The audit planning process involves consultation with key stakeholders including discussions with Senior Management, compliance/service support functions such as health and safety, IT client, information management, finance and procurement, HR, business continuity, and the External Auditors of each organisation to capture potential areas of risk and uncertainty more fully. This is of particular importance during a period of change and transformation as each organisation responds to new legislation or service delivery arrangements.

6. ALLOCATION OF INTERNAL AUDIT RESOURCES

6.1. The Internal Audit staff resources comprise Chief Officer Audit & Risk (shared with Midlothian Council and recharged), one Principal Internal Auditor, one Senior Internal Auditor, and three Internal Auditors with a mix of qualifications, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS) needed to perform the plan. The Available Audit Days reflects the Internal Audit resources after consideration of annual leave, public holidays, absence (estimated), learning and development, management and supervision.

6.2. It is estimated that 70% of Internal Audit's available days will be spent on *assurance,* and *legislative and other compliance* activities combined. The Assurance work includes sufficient work across a range and breadth of audit areas within the key themes of *Corporate Governance*, *Financial Governance*, *ICT Governance*, *Internal Controls* and *Asset Management* which assure those processes that are currently in place and which Management rely on to deliver services, and to enable preparation of the statutory annual audit opinion on the adequacy of the organisation's overall control environment.

6.3. An estimated 14% of Internal Audit's available days will be utilised on *Other* activities in support of the Internal Audit function meeting its other objectives in the Internal Audit Charter.

6.4. An estimate of 10% of Internal Audit's available days will be utilised on consultancy activities which support Management in delivering innovation, change and transformation through Internal Audit 'critical friend' challenge and quality assurance of change programmes and projects. Management seek this added value activity though this allocation reflects a reasonable estimate of what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.

6.5. It is estimated that 6% of Internal Audit's available days will be spent on the provision of Internal Audit services to non-SBC organisations i.e. Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board. This reflects the Council's contribution of corporate support resources to partner organisations.

7. APPROACH TO DELIVERY OF PROGRAMME OF WORK

7.1. To facilitate operational delivery an Internal Audit Programme of Work will be developed which provides an indication of when work will be scheduled during the year, taking account of discussions with Senior Management and the availability of Internal Audit resources. The audit activity deferred from 2020/21 will be scheduled in the first half of the year, as well as planned work with the greatest risk to ensure these are covered during the audit year.

7.2. For each *assurance* audit within the key themes of *Corporate Governance*, *Financial Governance*, *ICT Governance*, *Internal Controls* and *Asset Management,* in line with recognised good practice an Audit Assignment detailing the scope, objectives and timing will be prepared and agreed with the relevant Executive/Service Director and Manager prior to commencement of the Internal Audit fieldwork. Internal Audit will:

- Within the *Corporate Governance* and *Internal Control* assurance work, use the organisation's Local Code of Corporate Governance (Council/IJB) or Business Plan (Pension Fund) as an integrated toolkit to test the extent of compliance;
- Within the *Financial Governance* and *Asset Management* assurance work, undertake end-to-end reviews of financial management and administration processes to test the extent of compliance (an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably), carry out substantive testing of transactions and balances to ensure completeness and accuracy of data in core systems, and review Plans to deliver the organisation's objectives and priorities against best practice standards;
- Within the themed *ICT Governance* assurance work, test the ICT arrangements in place to protect each organisation's computer systems from attack in relation to data security, integrity and availability and to conform to nationally agreed standards, and review Digital Strategy and Plans to confirm they are designed to support modern service delivery and each organisation's objectives and priorities;
- During the course of all *assurance* work consider fraud risk and prevention and detection controls, and other appropriate cross-cutting risks and controls (such as performance

management, community engagement, equalities, and health and safety), and highlight examples of effective internal controls and share good practice across Service areas; and

- Consider and apply National Reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies. Engage proactively with, assist, and advise Management on best practice to evidence improvements.

7.3. The *Legislative and Other Compliance* work will include testing in accordance with the terms of the funders' service level agreements or legislative requirements.

7.4. Within *Consultancy* activities Internal Audit will continue to add value to each organisation as it transforms its service delivery models, re-designs its business processes, and utilises technology to automate processes by influencing and offering ways to enhance the governance and internal control environment. Internal Audit in its 'critical friend' role will provide internal challenge as part of strategic and service reviews, advise on effective controls for new systems and activities, highlight opportunities to reduce costs through greater economy and efficiency, provide quality assurance on a sample of projects involving major change and systems development, and provide an independent assessment of the evidence to support self-evaluation and improvement.

7.5. *Other* work will include: performing potentially high risk *Contingency* audits of issues highlighted during the year that may be the result of a weakness in internal controls or that may be requested by Management or the relevant organisation's Audit Committee/Board; carrying out *Follow-Up* to monitor progress with implementation of Audit recommendations and ensure these have been timeously and effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement (Audit recommendations will be input to the Pentana performance management system to assist relevant Management in tracking and recording their implementation in a consistent way); and responding to *Counter Fraud* data sharing requests from Police Scotland, Audit Scotland (National Fraud Initiative), and other partners as part of the wider assurance framework on counter fraud and crime controls.

8. MONITORING AND REPORTING THE WORK OF INTERNAL AUDIT

8.1. The Public Sector Internal Audit Standards (PSIAS) require periodic reporting on the Internal Audit activity to the relevant organisation's Senior Management and Audit Committee/Board.

8.2. Internal Audit work completed and work in progress for the Council within regular reports to its Audit and Scrutiny Committee will include an Executive Summary of the audit objective, good practice, findings, recommendations, and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management in the period.

8.3. Regular reports to the Council's Audit and Scrutiny Committee, and the IJB Audit Committee will provide progress updates on implementation by Management of relevant Audit recommendations for each organisation.

8.4. Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plan, and outcomes of assessment(s) against PSIAS will be considered by the CAE on a regular basis and formally reported every six months to the Council's Corporate Management Team and the Audit and Scrutiny Committee, within a Mid-Term Report and the Annual Assurance Report.

8.5. The Internal Audit Annual Assurance Report for each organisation (Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board) to their respective Senior Management and Audit Committee/Board will provide the statutory annual audit opinion on the levels of assurance based on Internal Audit findings and conclusions over the year to inform each organisation's Annual Governance Statement.

8.6. The PSIAS also require an annual Internal Self-Assessment and an External Quality Assessment (EQA) each five years to assess conformance with the Definition of Internal Auditing and Standards and the application of the Code of Ethics. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) implemented a "peer review" framework, in which SBC participates, as a cost effective means of complying with the EQA requirement. Reporting on outcomes include a statement on conformance with PSIAS and the quality assurance and improvement plan (QAIP) to enable an evaluation of conformance with the PSIAS, and to identify opportunities for improvement.

AUDIT	2021/22 (Days)	COMMENTARY
Corporate Governance		
Corporate Governance	**35**	Prepare an Annual Assurance Report for Management and the Audit and Scrutiny Committee summarising the work undertaken by Internal Audit during the year and forming an opinion on adequacy of the Council's arrangements for risk management, governance and internal control. Continuous audit approach on progress with areas of improvement. Annual evaluation of compliance with Local Code of Corporate Governance covering the corporate whole and Directorates/Services. Engagement in the review of the associated code of governance documents e.g. Scheme of Delegation, Scheme of Administration, Procedural Standing Orders, Financial Regulations, and Codes of Conduct for Councillors and for Employees.
Information Governance	**20**	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).
Performance Management	**40**	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services, specifically to ensure accuracy of data submitted for either Local Government Benchmarking Framework or Corporate Priorities PIs. Assess progress of the review and revision of the Performance Management Framework.
Corporate Transformation Programme - Fit for 2024	**10**	Review the governance and accountability arrangements, including processes for benefit (financial and other) identification, tracking and realisation (return on investment and value for money), and evaluation of outcomes and lessons learned.
HR Policy Framework	**15**	Assess the HR Policy Framework (including Gifts & Hospitality and Register of Interests) and evaluate whether there is a comprehensive programme in place to review, update and develop relevant policies, procedures and guidelines, including the rollout to employees.
Business Continuity	**15**	Review the process for setting, testing, reviewing and updating Business Continuity plans (including ICT disaster recovery strategies and plans) to ensure the delivery of business critical (and other) services across the Council, that they are aligned with requirements and that they are fit for purpose (i.e. no critical single points of failure).
Risk Management	**10**	Progress on the implementation of corporate risk management improvement actions including policy, strategy, training and toolkits.
	145	

AUDIT	2021/22 (Days)	COMMENTARY
Financial Governance		
Financial Policy Framework	**10**	Assess the Financial Policy Framework, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant Financial Regulations, Policies, Procedures, Guidelines, and any associated Codes of Practice, including the rollout to employees.
Grants incorporating Following the Pulbic Pound	**10**	Review of authorisation and monitoring procedures including criteria to evaluate grant applications and monitoring compliance with conditions of grant. Assess process against Following the Public Pound code of practice in support of securing best value.
Payroll	**25**	Compliance testing of controls at Service level, including Business World assurance work on Payroll processes.
Sales to Cash	**10**	Review of income management controls in place throughout the Council to set fees and charges for services, raise invoices promptly, and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable. Business World assurance work on Sales to Cash processes.
Procurement to Payment	**25**	Review of purchase to payment processes at Service level including authorisation to test compliance. Business World assurance work on Procure to Pay processes.
Record to Report	**15**	Assurance work on Record to Report processes to determine if expected improved internal financial controls via the Business World ERP system are being achieved. Key controls work relating to core General Ledger and Management Reporting.
	95	

AUDIT	2021/22 (Days)	COMMENTARY
ICT Governance		
Digital Strategy (b/f from 2020/21)	**20**	Ensure that the Digital 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.
	20	

AUDIT	2021/22 (Days)	COMMENTARY
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.
Mental Health Services (Adults & Children) (b/f from 2020/21)	**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.
Justice (b/f from 2020/21)	**20**	Assess the adequacy of internal controls, administrative procedures and resources in place to meet statutory obligations.
Homelessness - Temporary Accommodation (b/f from 2020/21)	**15**	Review the rent accounting processes and procedures in place, including collection and recovery of rents for temporary accommodation, including the provision, funding and costs associated with providing accommodation for homeless clients. Review progress with Self-Evaluation assessment.
Waste & Recycling Services (b/f from 2020/21)	**25**	Ensure there are adequate operational and financial controls in place for the effective delivery of waste and recycling services.
Parks & Environment (b/f from2020/21)	**10**	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.
Assessors	**10**	There are adequate controls to ensure that responsibilities are discharged appropriately to provide and maintain the valuation roll and to ensure timely and correct value assessment of properties to meet required standards and practices.
Scottish Government Business Support Grants	**20**	Assess the adequacy of operational processes in place to administer the payment of Scottish Government Business Support Grants to ensure that they are appropriate and consistent.
Registration Service	**10**	Assess compliance with the relevant legislation and the adequacy of controls in place for registration fees and charges income.
Central Schools	**10**	Review the processes and procedures for the provision of non-contact Teacher time in Primary Schools, including peripatetic and supply staff, to ensure the efficient and effective use of resources.
Community Safety	**10**	Review of operational and financial controls in place for the effective delivery of services and use of resources.
	185	

AUDIT	2021/22 (Days)	COMMENTARY
Asset Management		
IT Asset Management	**10**	Review of systems, processes and controls that are in place to ensure complete and accurate records of all IT assets that underpin the IT Asset Management Plan to deliver the Council's strategies, plans and priorities.
Capital Investment	**10**	Review the governance arrangements in place for capital planning and investment inlcuding strategic asset management plans to ensure these are aligned to Council priorities and business requirements.
Economic Development Industrial Property	**15**	Assess the corporate governance and financial governance arrangements relating to Industrial property estate, including: strategy; end to end processes; income management; lease agreements; voids; divestment decisions; demand; changes to business rates rules impact; performance.
Roads Asset Management (b/f from 2020/21)	**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.
	55	

AUDIT	2021/22 (Days)	COMMENTARY
Legislative & Other Compliance		
Jedburgh / Hawick Conservation Area Regeneration Scheme (CARS) (b/f from 2020/21)	**20**	Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.
EU Funded Programmes (LEADER and European Maritime Fisheries Fund)	**10**	Annual audits of EU grant-funded programmes under the terms of Service Level Agreements (SLAs) to assess compliance with the requirements of the SLAs and the relevant EC Regulations.
Sustainable Environment (b/f from 2020/21)	**20**	Assess progress with the development of new governance arrangements and actions plans to meet obligations regarding sustainable environmental programmes, including corporate and social responsibility.
	50	

AUDIT	2021/22 (Days)	COMMENTARY
Consultancy		
Advice	**10**	Provision of ad-hoc Internal Audit advice and assistance on internal controls, risk management and governance in response to requests.
Critical Friend Consultancy	**75**	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.
	85	

AUDIT	2021/22 (Days)	COMMENTARY
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.
Follow-Up	**20**	Monitor progress with implementation of Internal Audit recommendations and ensure that Management Actions have been timeously and effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement in internal control and governance.
Counter Fraud	**40**	Provide intelligence via data sharing requests from Police Scotland, and submission of data sets and case management of data matches arising from the Cabinet Office / Audit Scotland-led National Fraud Initiative (NFI) exercise.
PSIAS Self-Assessment	**10**	Undertake annual self-assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS) and report findings to CMT and the Audit and Scrutiny Committee.
Audit and Scrutiny Committee Self-Assessment	**5**	Provide assistance to Chair of the Audit and Scrutiny Committee in undertaking a self assessment of the committee against the CIPFA best practice guidance.
Integrity Group and Serious Organised Crime Group	**5**	Attend and provide support to the Integrity Group and the Serious and Organised Crime Group.
Attendance at Boards / Committees	**10**	Prepare for and attend Audit and Scrutiny Committee meetings and other Boards / Committees as relevant.
Audit Planning for 2022/23	**8**	Develop and consult on proposed coverage within the Internal Audit Annual Plan 2022/23.
Administration of Audit Scotland Reports	**2**	Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the Audit and Scrutiny Committee or other Committees as relevant.
	115	
	750	

AUDIT	2021/22 (Days)	COMMENTARY
Non Scottish Borders Council		
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.
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.
	50	
Total Audit Days	**800**	