

Public Document Pack



AUDIT AND SCRUTINY COMMITTEE MONDAY, 20 SEPTEMBER 2021

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held VIA MICROSOFT TEAMS on MONDAY, 20 SEPTEMBER 2021 at 10.15 am

J. J. WILKINSON,
Clerk to the Council,

14 September 2021

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
4.	Minute. (Pages 3 - 6) Minute of Meeting of the Audit and Scrutiny Committee held on 19 August 2021 to be approved and signed by the Chairman. (Copy attached.)	5 mins
5.	Action Tracker (Pages 7 - 8) To note the progress made on the Action Tracker. (Copy attached.)	5 mins
6.	Risk Management in Services Verbal Presentation by Director Infrastructure & Environment.	20 mins
7.	Progress Update on LDS Financial Management recommendation Verbal presentation by LDS Manager	20 mins
8.	Annual Treasury Management Report 2020-21 (Pages 9 - 26) Consider report by Director Finance & Corporate Governance. (Copy attached.)	15 mins
9.	Internal Audit Work to August 2021 (Pages 27 - 34) Consider report by Chief Officer Audit & Risk. (Copy attached.)	10 mins
10.	Audit Scotland Fraud and Irregularity Update 2020-21 (Pages 35 - 66) Consider report by Chief Officer Audit & Risk. (Copy attached.)	20 mins
11.	Any Other Audit Items Previously Circulated.	

12.	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

Please direct any enquiries to William Mohieddeen
Tel: 01835 826504, Email: william.mohieddeen@scotborders.gov.uk

SCOTTISH BORDERS COUNCIL AUDIT AND SCRUTINY COMMITTEE

MINUTES of Meeting of the AUDIT AND SCRUTINY COMMITTEE held via MS Teams on Thursday, 19 August 2021 at 10.00 am

Present:- Councillors S. Bell (Chairman), H. Anderson, J. Greenwell, N. Richards (Vice-Chairman), H. Scott and E. Thornton-Nicol

Apologies:- Councillors J. A. Fullarton, E. Robson and S. Scott

In Attendance:- Executive Director (Finance & Regulatory), Principal Regulatory Services Officer – Trading Standards & Animal Health (Bethany Lloyd), Clerk to the Council, Democratic Services Officer (W. Mohieddeen).

1. MINUTE.

There had been circulated copies of the Minute of the meeting held on Tuesday, 29 June 2021.

DECISION
APPROVED for signature by the Chairman.

2. RESPONSIBLE DOG OWNERSHIP STRATEGY REVIEW

- 2.1 There had been circulated copies of a presentation on the Responsible Dog Ownership Strategy Review 2018-2022 along with the original Update report and appendices on the Responsible Dog Ownership Strategy & Measures to Control Dog Fouling, which was considered and approved at the meeting of full Council on 31 May 2018. The Principal Regulatory Services Officer – Trading Standards & Animal Health, Ms Lloyd gave the presentation and confirmed that the 2018 recommendations to Council had all been completed. This included securing the supply of dog bags from The Dogs Trust. However, this supply had now ceased due to the impact of the COVID-19 pandemic on The Dogs Trust and a new supplier of dog bags at a low or zero cost was being sought. It was further noted that the post of Information and Education Officer was currently being advertised.
- 2.2 Ms Lloyd gave details of the progress made on the key objectives of the Strategy. The key objectives outlined were:
- To educate dog owners in the principles of responsible dog ownership.
 - To raise awareness of the legal responsibilities associated with dog ownership.
 - To reduce the number of dog fouling instances through education, partnership working and enforcement.
 - To improve the use of information and intelligence and share this with key partners.
 - To clarify and raise awareness of the roles and responsibilities of Scottish Borders Council and those of our key partners including Police Scotland.
 - To improve and simplify the way in which members of the public can report instances of dog fouling.
 - To work more closely with communities on developing local solutions.
 - To ensure that robust enforcement action is taken, where appropriate.
- 2.3 Alongside the progress made on the Responsible Dog Ownership Strategy, Ms Lloyd also spoke of the impact of the objectives. Campaign materials aimed at children were

produced as part of the education programme on safe behaviour with dogs and keeping dogs safe. Visits were made to events in communities alongside poster campaigns to promote responsible dog ownership. Work was undertaken with PDSA at community events to provide a free basic health check for dogs. Community events visits were ceased due to the onset of the COVID-19 but work in this objective area led to Scottish Borders Council winning the Dogs Trust Partnership Scheme 2018-19. The legal responsibility of dog owners was highlighted. Where dogs were found not to be under control, Scottish Borders Council's dedicated control officer could enforce relevant legislation to serve a dog control notice including a mandate requiring dogs to be walked on a lead, wear a muzzle or only to be walked in certain areas. It was noted that to support compliance with legislation that Scottish Borders Council had a free programme to implant dog microchips. A stencil and poster campaign was used to pursue a reduction in dog fouling instances. In highlighting work on improving the use of information and intelligence, it was noted that legislation was under review to determine if a dog control database was required. Ms Lloyd added that a new procedure for dog barking complaints had also been introduced. It was noted that there had been a drop in complaints due to the onset of the COVID-19 pandemic. A small proportion of complaints were referred to police due to people not willing to act as a witness or being unable to identify owners.

- 2.4 Members discussed the presentation. In response to questions, Ms Lloyd clarified that dogs were not explicitly banned from certain parks and playing fields, however the Land Reform (Scotland) Act allowed for restrictions to be placed on public access on certain recreational spaces although there was not specific reference to dogs. The Dog Education Officer and the Enforcement Officer were full-time positions. Training could be targeted for certain groups of people which could include staff of Registered Social Landlords if they wished to participate. Members discussed the confidentiality of complaints and noted that the Control of Dogs Act prevented information to be released of sanctions, including to the complainer as they were also protected by the General Data Protection Regulations. Members also discussed the work on responsible dog ownership and communicating progress with Community Councils. The work of Innerleithen Community Council, that had been granted £5,000 to secure 20 bins with dog waste bag dispensers and surveyed the community to determine positions of bins, was highlighted as an example of community involvement. The Community Council had worked with the Council's Neighbourhood Services team to uplift from these additional bins. It was suggested that the Education Officer make contact with Innerleithen Community Council to find out further details if this had not already happened. Ms Lloyd advised that often it was not the siting of bins, but having them emptied which was sometimes an issue. Members also discussed activity in Newtown St Boswells through its Dog Friendly Newtown campaign that had seen an 88% drop in incidences of unlifted dog waste in 3 months. The major issue was the placement of bins and their emptying. Newtown had also provided bio-degradable dog waste bags. It was noted that with The Dogs Trust no longer supplying bags, there was an opportunity to source a supplier of bio-degradable dog bags but funding would need to be found for this, although opportunities to look for partners could also be explored. The Executive Director (Finance & Regulatory) also raised the issue of what happened to dog poo once it was collected, with the current solution to put it into landfill. This was a huge challenge for society and needed to be addressed in a holistic way. Cllr Thornton-Nicol commented on systems whereby poo in biodegradable bags could be composted or used to generate heat for electricity. The Chairman thanked Ms Lloyd for the work carried out on the Strategy and her excellent presentation.

DECISION
AGREED to:

- (a) **request that the Head of Waste Services and Head of Neighbourhood Services attend a future meeting of the Committee to discuss options for the Council on the collection and processing of dog waste;**

- (b) request the Principal Regulatory Services Officer – Trading Standards & Animal Health engage with Registered Social Landlords to discuss training of related issues to responsible dog ownership;
- (c) to request the Principal Regulatory Services Officer – Trading Standards & Animal Health addressed further communication issues with communities, by providing short presentations for Community Councils and Area Partnerships, with a focus on communities and what they could do in partnership on an individual, social and material basis to help prevent dog fouling and establish responsible dog ownership;
- (d) to request the Service Director Young People, Inclusion and Engagement consider how best to raise the issue with children of responsible dog ownership and what material could be provided for schools, perhaps through the Inspire Learning Ipads; and
- (e) to endorse the exploration of options for provision of bio-degradable dog bags from a third party supplier.

3. **ANY OTHER SCRUTINY ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT.**

Councillor Greenwell raised the matter of the Scottish Borders Autism Strategy which had been launched in 2015 and needed to be reviewed to assess its effectiveness and whether this could be included in the Scrutiny Work Programme. Members heard that the Scottish Borders Autism Strategy was owned by the H&SC Integrated Joint Board and not by Scottish Borders Council so may be better reviewed through the Integrated Joint Board and undertook to check on the most appropriate process for a review of the Scottish Borders Autism Strategy. Members were supportive of the Committee reviewing the effectiveness of the Strategy if possible.

DECISION

AGREED that the Clerk to the Council would update the Audit and Scrutiny Committee at its next meeting on an appropriate process to review the Scottish Borders Autism Strategy.

The meeting concluded at 11.25 am

This page is intentionally left blank

SCOTTISH BORDERS COUNCIL

ACTION SHEET MASTER COPY

AUDIT and SCRUTINY COMMITTEE 2021/22

Notes:-

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

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
23 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 progress. Budget agreed by NHS Borders and SBC.
10 May 2021				
Minute 8 March 2021	AGREED to add Treasury Management refresh training on 22 November 2021 to the Action Tracker.	Finance & Regulatory	David Robertson	In progress; 22 November 2021 agreed with Treasury Management Advisor
Internal Audit Work to March 2021	AGREED that, in respect of the Learning Disabilities Service Financial Management recommendation, an update with detail of progress be presented to the Audit and Scrutiny Committee in four months' time.	Learning Disabilities Service	Simon Burt	20 September 2021 proposed for update on progress
Internal Audit Annual Assurance Report 2020/21	AGREED that an ICT Cyber security update report be brought back to the Audit and Scrutiny Committee.	Finance & Regulatory	David Robertson	Verbal update on progress with ICT Cyber Security check at 20 September 2021
Counter Fraud Annual Report 2020/21	AGREED TO RECOMMEND to Council that as the Counter Fraud Officer post has been vacant since December 2020 that the Chief Executive takes the appropriate urgent action to fill this role.	Audit & Risk	Jill Stacey	A&SC 29 June 2021 Action Tracker: Chief Officer Audit & Risk explained proposal under development. A&SC Agreed the revised approach to delivering the counter fraud function and that an update be provided to the Committee on 22 November 2021.
Annual Assurance Statement 2020/21 to the Scottish Housing Regulator	AGREED that an update report be presented to Audit and Scrutiny Committee outlining progress in the areas set out in Appendix B to the report in six months' time.	Customer & Communities	Jenni Craig	22 November 2021 proposed for Update report on progress

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
29 June 2021				
Unaudited Report and Accounts 2020/21 for Scottish Borders Council	<p>AGREED that in respect of the three re-organised trusts: SBC Welfare Trust; SBC Education Trust; and SBC Community Enhancement Trust:</p> <ul style="list-style-type: none"> (i) to express concern at the lack of significant activity in terms of their promotion and dispersal of funding; (ii) to ask officers to review the operation and governance of these Trusts with a view to better publicising and promoting their aims and objectives; (iii) to ask the Service Director for Young People Engagement & Inclusion to engage with Finance staff to facilitate the consolidation of the remaining SBC Charity Funds; and (iv) to ask the Chief Executive to present a follow-up report on these funds to the Executive Committee within the next 3 to 6 months. 	Resilient Communities Education & Lifelong Learning Chief Executive	Jenni Craig Lesley Munro Netta Meadows	In progress

ANNUAL TREASURY MANAGEMENT REPORT 2020/21

Report by Director Finance & Corporate Governance **AUDIT & SCRUTINY COMMITTEE**

20 September 2021

1 PURPOSE AND SUMMARY

- 1.1 **This report presents the annual treasury management activities undertaken during the 2020/21 financial year.**
- 1.2 The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) requires an annual report on treasury management to be submitted to Council following the end of each financial year. This report highlights the Council's treasury activity undertaken in the year ended 31 March 2021 and the performance of the Treasury function.
- 1.3 Appendix 1 is the annual report of treasury management activities for 2020/21 and contains an analysis of performance against targets set in relation to Prudential and Treasury Management Indicators. The performance comparisons reported are based on the revised indicators agreed as part of the mid-year report approved on 23 November 2020.
- 1.4 The Appendix shows the Council's borrowing requirement to fund the capital investment undertaken during 2020/21, how much the council actually borrowed against the sums budgeted and the level of external debt within approved limits.
- 1.5 During the year the Council has again, where possible, deferred borrowing using surplus cash rather than undertaking new borrowing. However, the Council did undertake temporary borrowing for cash flow purposes during the year, amounting to £15m.
- 1.6 Treasury management activity for the year has been undertaken in compliance with approved policy and the Code. The Council remains under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2021.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Members:**
 - (a) **note that treasury management activity in the year to 31 March 2021 was carried out in compliance with the approved Treasury Management Strategy and Policy as detailed in this report and in Appendix 1.**

3 BACKGROUND

- 3.1 The Council approved the Treasury Management Strategy (the Strategy) for 2020/21 at the Council meeting on 27 February 2020. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management in the Public Services (the Code) and CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 3.2 The Council received a mid-year report on 23 November 2020 and approved the revised Prudential and Treasury Management Indicators for 2020/21 following the updating of assumptions, in particular capital expenditure estimates.
- 3.3 As set out in the Strategy, the Audit and Scrutiny Committee has a role to scrutinise the Annual and Mid-Year Reports before submission to Council for final approval.

4 ANNUAL TREASURY MANAGEMENT REPORT TO 31 MARCH 2021

- 4.1 The Annual Treasury Management Report for 2020/21 is shown in Appendix 1.
- 4.2 Appendix 1 shows the Council's borrowing requirement to fund capital investment undertaken during 2020/21, how much the Council actually borrowed against the sums budgeted and the level of external debt carried on the Council's balance sheet within approved limits.
- 4.3 In addition, Appendix 1 contains an analysis of the performance against the targets set in relation to Prudential and Treasury Management Indicators. All of the 2020/21 target indicators reported are based on the revised indicators agreed as part of the mid-year report on 23 November 2020.
- 4.4 The key Prudential Indicators (PI) and Treasury Management Indicators (TI), detailing the impact of capital expenditure activities during the year to 31 March 2021, with comparators, are as follows:

	2020/21 Actual £m	2020/21 Estimate* £m	Variance £m
Actual Capital Expenditure (PI-1)	54.8	68.2	(13.4)
Total Capital Financing Requirement (CFR) (PI-2)**	350.1	362.4	(12.3)
(Under)/Over Gross Borrowing against the CFR (PI-6) ***	(104.8)	(138.4)	33.6

*Revised estimate, approved by Council 23 November 2020 as part of the mid-year report

** The CFR for this calculation is based on expenditure to 31 March 2021 only

*** The CFR for this calculation includes the current year and projected movement for the next two subsequent years.

(a) PI-2 Total Capital Financing Requirement

The year-end total CFR decreased in comparison to that projected as a result of the underspend in capital expenditure during the year.

(b) PI-6 (Under)/Over Gross Borrowing against the CFR

The reason for the decrease in the level of under-borrowing, compared to that projected, is due to the re-phasing of future years capital plan.

(c) **Investments**

Investments held on 31 March 2021 amounted to £27.9m. This is an increase from the £8.6m at 31 March 2020 as a result of the delays in the capital program, and the Scottish Government re-determination of 2021-22 funding at the end of the financial year.

- 4.5 Treasury management activity for the year has been undertaken in compliance with the approved policy and the Code and the Council remains under-borrowed against its Capital Financing Requirement (CFR) at 31 March 2021.

5 INVESTMENT STRATEGY

- 5.1 The Investment Objectives and Policy states that 'the Council will aim to achieve the optimum return on its investments corresponding with proper levels of security and liquidity'.
- 5.2 The current Sector Limit for Money Market Funds (AAA) is £25m, with an individual Counterparty Limit of £5m for AAA rated Money Market Funds.
- 5.3 Due to high levels of cash held at certain times of the year, the £25m limit on Money Market Funds are fully used and excess funds are placed with the DMO. The rates available from DMO are less than the Money Market Funds.

6 IMPLICATIONS

6.1 Financial

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

6.2 Risk and Mitigations

This report is an account of the outcomes arising from the tightly controlled risk management work that the Council's Treasury staff have carried out. The report is an important element of the overall risk management environment but has no specific risk implications of its own.

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 Sustainable Development Goals

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

6.5 Climate Change

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

6.6 Rural Proofing

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

6.7 Data Protection Impact Statement

There are no personal data implications arising from the proposals contained in this report.

6.8 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, Director People Performance & Change, Communications and the Clerk to the Council have been consulted and their appropriate comments have been incorporated into this report.

Approved by

David Robertson

Director Finance & Corporate Governance

Signature

Author(s)

Name	Designation and Contact Number
Kirsty Robb	Pension & Investment Manager - Tel 01835 825249
Sara Halliday	Treasury Business Partner - Tel 01835 824000 ext 5854

Background Papers:

Previous Minute Reference: Scottish Borders Council 27 February 2020 and 23 November 2020.

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

Contact us at Pension and Investment Team, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA Tel: 01835 825249 Fax 01835 825166. email:

T&Cteam@scotborders.gov.uk

SCOTTISH BORDERS COUNCIL

ANNUAL TREASURY MANAGEMENT REPORT YEAR TO 31 MARCH 2021

CONTENTS

	Page
1 EXECUTIVE SUMMARY	3
2 COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2020/21	4
2.1 Capital Expenditure	4
2.2 Financing the Capital Programme	4
2.3 Capital Financing Requirement and External Debt	5
3 TREASURY MANAGEMENT ACTIVITY	6
3.1 Gross Borrowing and the CFR	6
3.2 Operational Boundary and Authorised Limit	6
3.3 Maturity Profile of External Debt	7
4 INTEREST RATE MOVEMENTS AND EXPECTATIONS	7
4.1 Investment Rates in 2020/21	7
4.2 Borrowing Rates in 2020/21	8
5 INVESTMENT STRATEGY FOR 2020/21	11
5.1 Investment Objectives	11
5.2 Investment Activity	11
5.3 Current Investment Position	11
6 TREASURY PERFORMANCE INDICATORS	11
6.1 Debt Performance Indicators	12
6.2 Investment Performance Indicators	12
6.3 Impact on Revenue Budget	12
6.4 Treasury Management Indicators	13
Annex A SUMMARY OF PRUDENTIAL & TREASURY INDICATORS	14

1. EXECUTIVE SUMMARY

- 1.1 This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

This paper highlights activity in relation to the treasury management function during 2020/21, the Council's strategy with regard to interest rates and future expectations and how the capital expenditure incurred by the Council in 2020/21 was funded. The investment strategy for 2020/21 is summarised in Section 5 and Members are provided with details of how well the treasury function has performed in relation to a set of standard performance indicators.

- 1.2 During 2020/21, the Council complied with its legislative and regulatory requirements.
- 1.3 Key Prudential (PI) and Treasury Management Indicators (TI), detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Table 1	2020/21 Actual £m	2020/21 Estimate* £m	Variance £m
Actual Capital Expenditure (PI-1)	54.8	68.2	(13.4)
Total Capital Financing Requirement (CFR) ** (PI-2)	350.1	362.4	(12.3)
(Under)/Over Gross Borrowing against the CFR (PI-6) ***	(104.8)	(138.4)	33.6

* Revised estimate, approved by Scottish Borders Council on 23 November 2020 as part of the Mid Year Treasury report 2020/21

** The CFR for this calculation includes current capital expenditure to 31 March 2021

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

- 1.4 Temporary borrowing for the purpose of cash flow was undertaken during 2020/21 amounting to £15m. The statutory borrowing limit (the authorised limit) was not breached.
- 1.5 The economic environment during the 2020/21 financial year continued to remain challenging, with low investment returns.

2. COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2020/21

2.1 CAPITAL EXPENDITURE (*Prudential Indicator 1*)

- a) The Council undertakes capital expenditure on long-term assets. These activities may either be:
 - Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need, or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- b) The final capital expenditure for 2020/21 was lower than projected as a result of delays in expenditure on a number of projects, including Hawick Flood Protection (£2.1m), Energy Efficiency Works (£0.9m), Roads & Bridges (£1.0m), School Estate (£2.2m), Town Centre Regeneration (£2.1m) and Residential Care Homes (£1.7m).

The specific drivers for each of the movements have been disclosed in the regular monitoring reports to the Executive throughout 2020/21 and in the out-turn report presented on 8 June 2021.

2.2 FINANCING THE CAPITAL PROGRAMME

- a) Capital Expenditure may either be financed:
 - (i) Immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which does not impact on the Council's borrowing need, or
 - (ii) If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- b) **Table 2** below summarises the main funding elements of the 2020/21 capital expenditure.

Table 2	2020/21 Actual £m	2020/21 Estimate £m	Variance £m
Capital Expenditure	54.8	68.2	(13.4)
Other Relevant Expenditure *	0.0	0.0	(0.0)
Total Expenditure	54.8	68.2	(13.4)
Financed by:			
Capital Grants & Other Contributions	(30.8)	(35.2)	4.4
SBC Revenue Funding	(2.5)	(0.6)	(1.9)
Capital Fund/Capital Receipts	(2.0)	(3.5)	1.5
Plant & Vehicle Fund	(2.0)	(2.5)	0.5
Total identified finance	(37.3)	(41.8)	4.5
Net Financing Need for the Year	17.5	26.4	(8.9)

The decrease in unfinanced capital expenditure compared with the estimate in the mid-year report resulted principally from timing movements as detailed in paragraph 2.1 b).

2.3 CAPITAL FINANCING REQUIREMENT AND EXTERNAL DEBT (Prudential Indicators 2 and 5)

- a) The Council's underlying need to borrow for capital expenditure is termed the **Capital Financing Requirement (CFR)** and is a key prudential indicator. The CFR results from the capital activity of the Council and the resources that have been used to pay for the capital spend. It represents the 2020/21 unfinanced capital expenditure (see **Table 2** in section 2.2 (b)), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- b) Depending on the capital expenditure programme, the treasury function organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, such as the Public Works Loan Board or the money markets, or utilising cash resources within the Council.
- c) **Reducing the CFR** – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the scheduled debt amortisation (or loans fund repayment), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. The total CFR can also be reduced by:
 - the application of additional capital financing resources (such as unapplied capital receipts); or
 - charging more than the scheduled debt amortisation for loans repayment.

The Council's borrowing activity is constrained by prudential indicators, including those comparing gross borrowing, the CFR and the authorised limit.

- d) The extent to which the Council is under/over borrowed at 31 March 2021 is calculated by comparing actual external debt against the CFR and is shown in **Table 3** below. It includes "Other long term liabilities", such as PFI and leasing schemes on the balance sheet. These increase the Council's borrowing need, however, as no borrowing is actually required against these schemes, these amounts have been deducted in **Table 3**.

Table 3	31 March 2021 Actual £m	31 March 2021 Estimate £m	Variance £m
CFR (PI-2)*	350.1	362.4	(12.3)
Less: Other long term liabilities **	94.1	97.6	(3.5)
Underlying borrowing requirement	256.0	264.8	(8.8)
External Borrowing at 31/3/21	217.0	212.0	(5.0)
(Under)/Over borrowing	(39.0)	(52.8)	(13.8)

*The CFR for this calculation includes current capital expenditure to 31 March 2021

**PPP/PFI/Finance Lease balances

3. TREASURY MANAGEMENT ACTIVITY

3.1 GROSS BORROWING AND THE CFR (*Prudential Indicator 6*)

- a) In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the current year (2020/21) plus the estimates of any additional capital financing requirement for the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2020/21. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 4	31 March 2021 Actual £m	31 March 2021 Estimate £m	Variance £m
Fixed rate funding			
PWLB	166.4	176.4	(10.0)
Market	15.0		15.0
Variable rate funding			
Market *	35.6	35.6	-
External Borrowing	217.0	212.0	5.0
Other long term liabilities **	94.1	97.6	(3.5)
Total Debt	311.1	309.6	1.5
CFR (inc. next 2 year estimates)	415.9	448.0	(32.1)
(Under)/Over Gross Borrowing against the CFR (PI-6)	(104.8)	(138.4)	(33.6)

* LOBO loans (where a rate change could be instigated by the lender at certain intervals)

** PPP/PFI/Finance Lease balances

The reason for the decrease in the CFR (inc. next 2 year estimates) and level of under-borrowing, compared to that projected, is due to the re-phasing of future years capital plan.

- b) Council deposits were made on a short term basis throughout 2020/21.
- c) There was no rescheduling of debt during 2020/21. Short term borrowing of £15m drawn down in February 2021 was fully repaid in May 2021.

3.2 OPERATIONAL BOUNDARY AND AUTHORISED LIMIT (*Prudential Indicators 7 and 8*)

- a) The **Operational Boundary** and the **Authorised Limit** are indicators which are intended to act as limits to the overall level of borrowing activity. The Authorised Limit represents the maximum limit beyond which borrowing is prohibited. The Operational Boundary represents the level of external borrowing that the Council is expected to operate within. **Table 5** compares the External Debt position with these indicators and demonstrates that the Council has not breached either limit during 2020/21.

Table 5	31 March 2021 Actual £m	Authorised Limit (PI-8) £m	Variance £m	Operational Boundary (PI-7) £m	Variance £m
Total Gross Borrowing	311.1	482.7	(171.6)	402.3	(91.2)

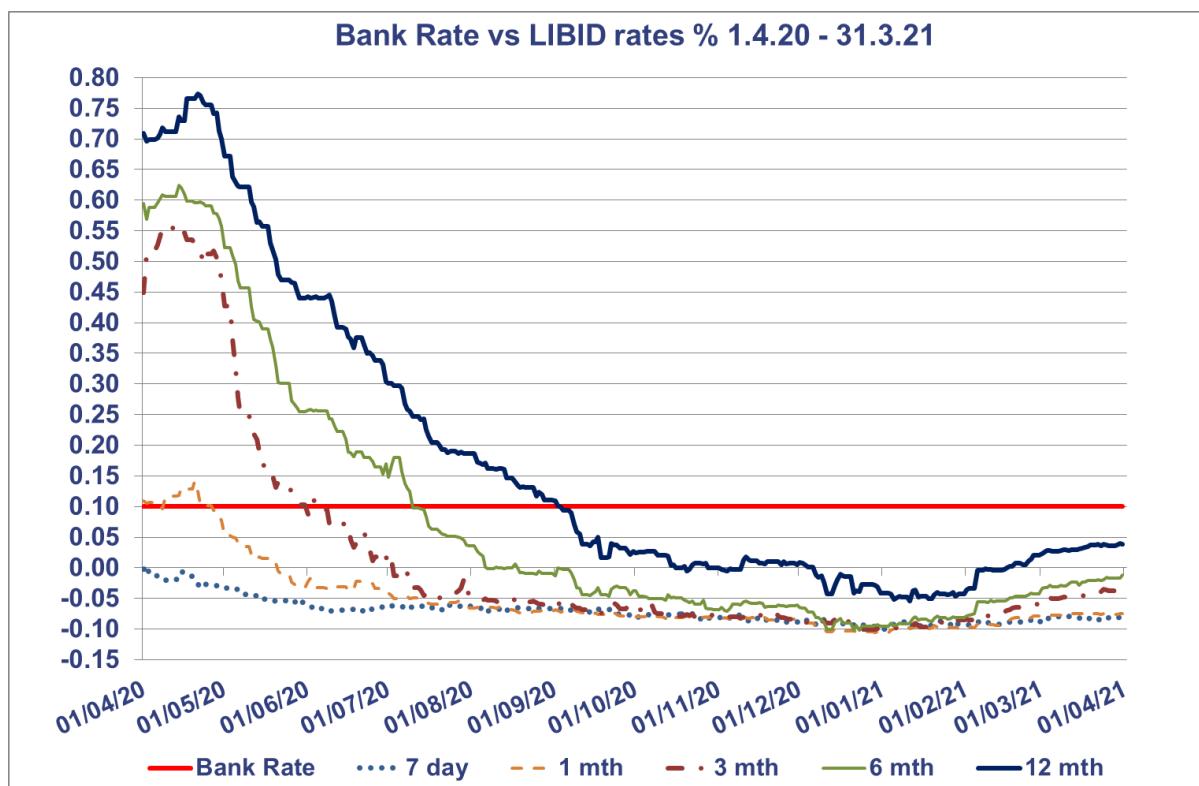
3.3 MATURITY PROFILE OF EXTERNAL DEBT

a) **Table 6** presents an analysis of the maturity structure of the Council's external debt portfolio.

Table 6	31 March 2021 £m
Under 12 months	25.3
12 months and within 5 years	2.8
5 years and within 10 years	25.5
Over 10 years	163.4
Total	217.0

4. INTEREST RATE MOVEMENTS AND EXPECTATIONS

4.1 INVESTMENT RATES IN 2020/21



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.10	-0.11	-0.10	-0.10	-0.05
Low Date	01/04/2020	31/12/2020	29/12/2020	23/12/2020	21/12/2020	11/01/2021
Average	0.10	-0.07	-0.05	0.01	0.07	0.17
Spread	0.00	0.10	0.25	0.66	0.73	0.83

- a) Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.
- b) While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
- c) Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

4.2 BORROWING RATES IN 2020/21

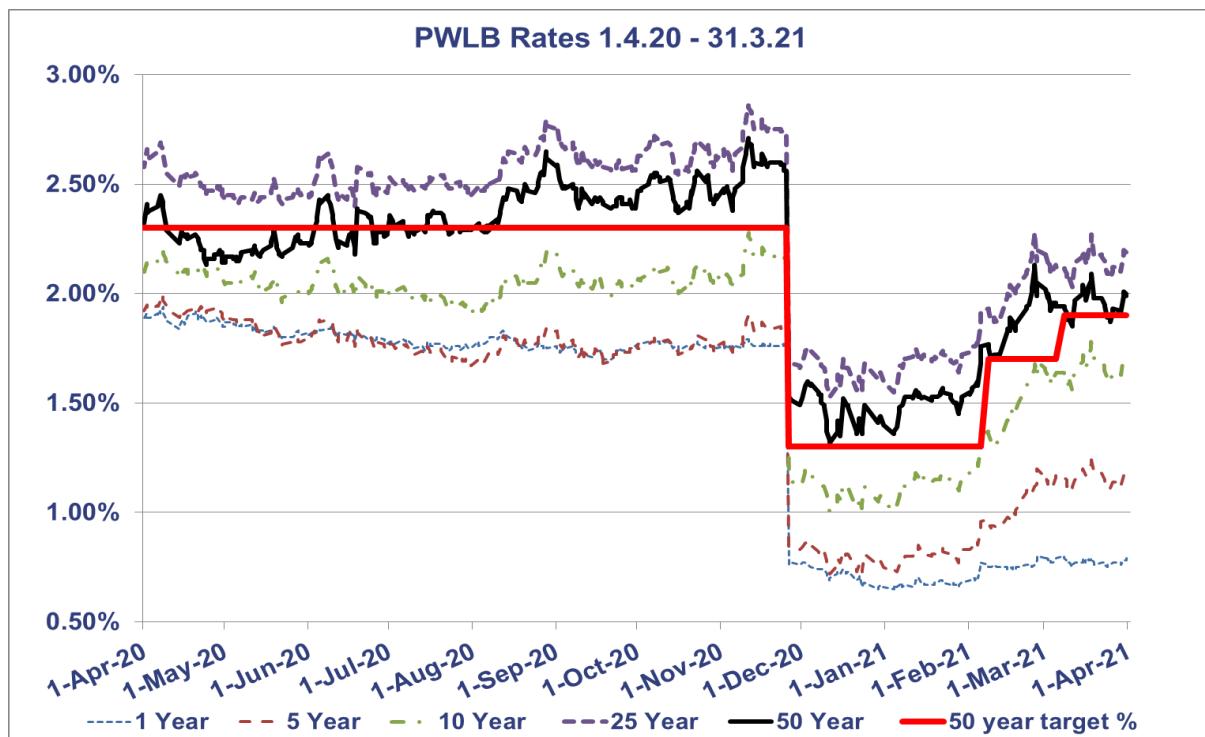
- a) During 2020-21, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.
- b) A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- c) The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- d) Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director Finance & Corporate Governance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:
 - if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and

Scottish Borders Council
Annual Treasury Management Report 2020/21

potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and 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 would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.
- e) Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

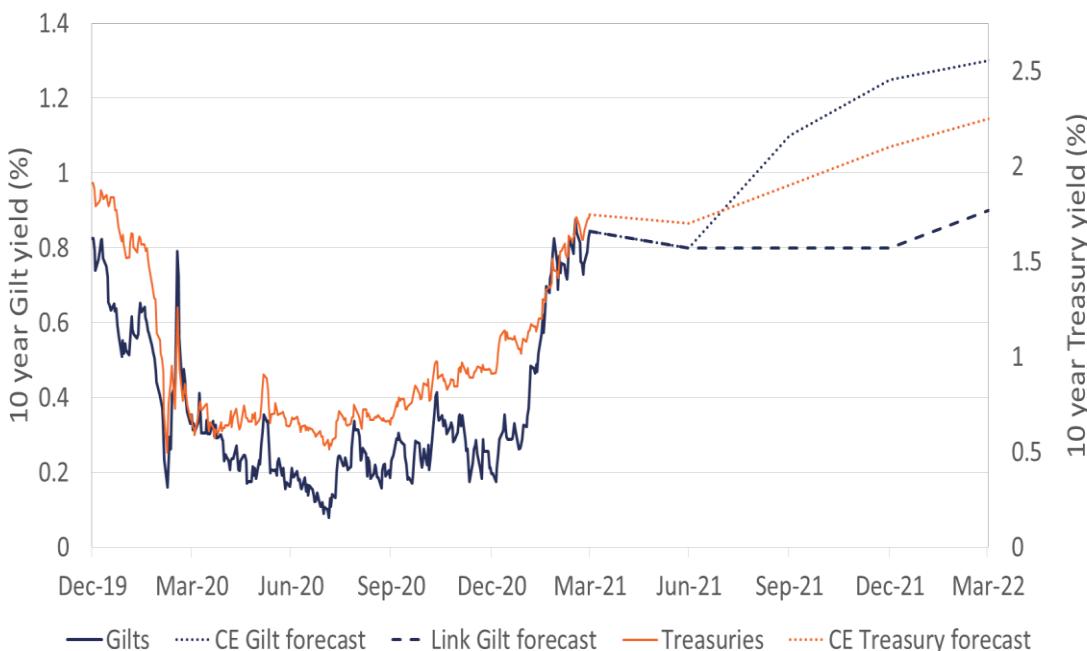
Link Group Interest Rate View		8.3.21												
		Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	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		1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB		1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB		2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB		1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30



- f) PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and 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

Scottish Borders Council
Annual Treasury Management Report 2020/21

much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. 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.



- g) Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report. At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.
- h) HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019/20** without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and **on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates**; the standard and certainty margins were reduced by 1% 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.
- i) 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) There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

5. INVESTMENT STRATEGY FOR 2020/21

5.1 INVESTMENT OBJECTIVES

- a) The Council's investment strategy is governed by Scottish Government investment regulations and sets out the approach for choosing investment categories and counterparties, based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).
- b) The **primary objectives** of the Council's investment strategy are:
 - (i) the safeguarding or **security** of the repayment of the principal and interest of investments on a timely basis;
 - (ii) ensuring adequate **liquidity** within the Council; and
 - (iii) maximising investment **yield** or return.
- c) The Council will ensure:
 - (i) It maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security, and the monitoring of their security; and
 - (ii) It has sufficient liquidity in its investments. For this purpose it sets out procedures for determining the maximum periods for which funds may prudently be committed. The Council's Prudential Indicators cover the maximum period over which sums can be invested.

5.2 INVESTMENT ACTIVITY

- a) The investment activity during the year conformed to the above approved strategy, and the Council had no liquidity difficulties. All money deposited with the Council's bank, Royal Bank of Scotland, was done on an overnight basis to minimise security and liquidity risk to the Council.

5.3 CURRENT INVESTMENT POSITION

- a) The total value of investments/deposits for the Council at 31 March 2021 was £27.9m. Cash was held on a short term basis throughout 2020/21 with major banks and various money market funds (the latter having a credit rating of AAA).

6 TREASURY PERFORMANCE INDICATORS

The Treasury Management Function has established the following additional performance indicators.

6.1 DEBT PERFORMANCE INDICATORS

These indicators are additional to the prudential & treasury management indicators covered earlier in this report. The Indicators are:

- a) **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.

The Council’s loans fund pool rate for 2020/21 was 3.63%. The Scottish Local Authority average “pool rate” for 2020/21 is not yet available at the time of writing, but was 3.71% in 2019/20 and is not expected to be materially different for 2020/21.

- b) **Average rate movement year on year.** Target is to maintain or reduce the average borrowing rate for the Council versus 2019/20. The Council’s pool rate of 3.63% for 2020/21 was 0.38% lower than the reported Council’s rate of 2019/20.

6.2 INVESTMENT PERFORMANCE INDICATORS

a) **Security**

- (i) The Council’s maximum security risk benchmark for the current portfolio, when compared to historic default tables, is 0.02% historic risk of default.
- (ii) During 2020/21, money was deposited in accounts on a short term basis, not exceeding 3 months.

b) **Liquidity**

- (i) Liquid short term deposits should be at least £500,000, available with a week’s notice.
- (ii) This indicator was adhered to in 2020/21
- (iii) Weighted Average Life benchmark is **expected to be 0.5 years** (equivalent to a weighted average life of 6 months), with a **maximum of 1.00 years**.
- (iv) The weighted **average life for 2020/21 was 0.01 years**, well below the 0.5 year target.

c) **Yield**

The target yield is to have internal returns on cash investment above the 7 day LIBID rate. The return for 2020/21 averaged 0.11%, compared against an average 7 day LIBID rate for the year to 31 March 2021 of -0.07%.

2019/20 comparison figures for average internal returns and 7 day LIBID were 0.65% and 0.54% respectively.

Although yields remain low, the Council continues to make deposits on a short term basis with the Government’s Debt Management Office (DMO) and Money Market Funds. The DMO is a very secure (Credit Rating of AAA) form of investment, but delivers a low rate of return (0.01%). The Money Market Funds used for deposits are also secure (with a Credit Rating of AAA). The planned deposit allocation between these two investment types has resulted in the returns mentioned above.

6.3 IMPACT ON REVENUE BUDGET

a) **Ratio of actual financing costs to net revenue stream (Prudential Indicator 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 funding for the Council. The comparison of the revised estimate approved in the 2020/21 mid year report to the outturn as at 31 March 2021 is as follows:

Table 8	Actual	Estimate
Ratio of financing costs to net revenue stream (<i>PI-3</i>)	% 8.9	% 8.7

- b) **Net Cost of Servicing Debt (Loan Charges)** – **Table 9** below summarises the comparison of the outturn versus estimate for the revenue cost of servicing the debt for the Council, including interest relating to PPP schools unitary charges.

Table 9	2020/21 Outturn £m	2020/21 Mid-Year Estimate £m	Variance (Under) /Over £m
Interest on Borrowing	9.4	10.6	(1.2)
Investment Income	(0.2)	(0.2)	-
Capital Repayments	7.0	7.2	(0.2)
Total Loan Charges	16.2	17.6	1.4

- (i) The interest on borrowing costs represents the interest paid on external debt and to internally managed funds (e.g. Pension Fund, Common Good Funds).

6.4 TREASURY MANAGEMENT INDICATORS (*Treasury Indicators 1 – 5*)

- a) The Treasury Indicators (TIs) are shown in **Table 10** below. The Council remained well within these Indicator limits throughout 2020/21

Table 10	2020/21 Revised Indicator	2020/21 Actual as at 31 March 2021	
Upper limits – Debt with fixed and variable interest rates			
Upper limits on fixed interest rates (<i>TI-1</i>)	417.6	402.3	
Upper limits on variable interest rates (<i>TI-2</i>)	146.2	140.8	
Maturity Structure of borrowing			
	Upper (<i>TI-3</i>)	Lower (<i>TI-4</i>)	Actual
Under 12 months	20%	0%	11.66%
12 months to 2 years	20%	0%	0.84%
2 years to 5 years	20%	0%	0.45%
5 years to 10 years	20%	0%	11.75%
10 years and above	100%	20%	75.30%
Prudential limits for principal sums invested (<i>TI-5</i>)			
Cash Deposits < 12 months	100%	100%	
Cash Deposits > 12 months	20%	0%	

ANNEX A

Indicator Reference	Indicator	Page Ref.	2020/21 Original estimate	2020/21 Revised estimate	2020/21 Actual
PRUDENTIAL INDICATORS					
Capital Expenditure Indicator					
PI-1	Capital Expenditure (£m)	3	86.3	68.2	54.8
PI-2	Capital Financing Requirement (£m) (CFR)	5	374.6	362.4	350.1
Affordability Indicator					
PI-3	Ratio of Financing Costs to Net Revenue	12	8.9%	8.7%	8.9%
PI-4	Incremental Impact of Capital Investment Decisions on Council Tax	N/A	£(0.03)	£(0.00)	£(0.04)
External Debt Indicators					
PI-5	Actual Debt (£m)	6	322.7	309.6	311.1
PI-7a	Operational Boundary (inc. Other Long Term Liabilities) (£m)	6	415.1	417.6	402.3
PI-7b	Operational Boundary (exc. Other Long Term Liabilities) (£m)	6	317.3	319.9	308.1
PI-8a	Authorised Limit (inc. Other Long Term Liabilities) (£m)	6	498.1	501.1	482.7
PI-8b	Authorised Limit (exc. Other Long Term Liabilities) (£m)	6	400.4	403.5	388.6
Indicators of Prudence					
PI-6	(Under)/Over Gross Borrowing against the CFR (£m)	6	(122.1)	(138.4)	(104.8)
TREASURY INDICATORS					
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt (£m)	13	415.1	417.6	402.3
TI-2	Upper Limit to Variable Interest Rates based on Net Debt (£m)	13	145.3	146.2	140.8
TI-3 & TI-4	Maturity Structure of Fixed Interest Rate Borrowing	13	Upper		Lower
	Under 12 months		20%		0%
	12 months to 2 years		20%		0%
	2 years to 5 years		20%		0%
	5 years to 10 years		20%		0%
	10 years and above		100%		20%
TI-5	Maximum Principal Sum invested greater than 364 days	13	20%	20%	20%



INTERNAL AUDIT WORK TO AUGUST 2021

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

20 September 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 12 June to 27 August 2021 associated with the delivery of the approved Internal Audit Annual Plan 2021/22 is detailed in this report. A total of 2 final Internal Audit reports have been issued. There were 3 recommendations made associated with 1 of the reports (3 Medium-rated).
- 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 12 June to 27 August 2021 associated with the delivery of the approved Internal Audit Annual Plan 2021/22;**
 - 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; and**
 - c) **Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

3 BACKGROUND

- 3.1 The Internal Audit Annual Plan 2021/22 was approved by the Audit and Scrutiny Committee on 8 March 2021. To facilitate operational delivery an Internal Audit Programme of Work has been developed which provides an indication of when work is scheduled during the year, taking account of discussions with Management and availability of Internal Audit resources.
- 3.2 For each assurance audit: prior to commencement of the fieldwork, an Audit Assignment detailing the scope, objectives and timing is agreed with the relevant Service Management; and, at the conclusion of the fieldwork, a draft Report is issued to relevant Service Management for response on the factual accuracy and acceptance of the findings and recommendations, as appropriate, which is then issued as a final Report.

4 PROGRESS UPDATE

- 4.1 Internal Audit has carried out the following work in the period from 12 June to 27 August 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.
- 4.2 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

- 4.3 Internal Audit issued final assurance reports on the following subjects:
 - Scottish Government Support Grants
 - Performance Management Local Government Benchmarking Framework (LGBF)
- 4.4 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.
- 4.5 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

- 4.6 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2021/22 consists of the following:

Audit Area	Audit Stage
Business Continuity	Drafting the Report
HR Policy Framework	Testing underway
Performance Management Framework	Testing underway
Homelessness	Testing underway
Digital Strategy (b/f from 2020/21)	Testing underway
Sustainable Environment	Testing underway
EU Funded Programme (LEADER)	Audit Assignment issued

Internal Audit Consultancy and Other Work

- 4.7 Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- a) Provide 'critical friend' internal challenge and assurance through engagement in meetings of programmes and projects involving major change (Fit for 2024 Transformation Programme, Information Governance Group, Social Work Performance Board, Social Work Review Delivery Group, Commissioned Services Savings Delivery Group).
 - b) Provided consultation feedback on financial policy framework (School Fund, Income Management, Debt Recovery).
 - c) Learning and development for all Internal Audit team members during the research stage of new audit areas and through joining virtual audit forums and meetings, including the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) Conference 2021 sessions.
 - d) The Chief Officer Audit & Risk joined CIIA Local Authority Forum and webinar on the topic of Inspiring Leadership in Internal Audit to share good practice and to keep knowledge of new developments up to date.
 - e) The Principal Internal Auditor accessed CIIA webinar on Financial Sustainability and Cost Containment, and joined the CIIA Data Analytics Forum and Practitioners Forum, which are providing valuable insights.

Recommendations

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

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

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

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

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

- 4.9 The table below summarises the number of Internal Audit recommendations made during 2021/22:

	2021/22 Number of Recs
High	0
Medium	3
Low	0
Sub-total reported this period	3
Previously reported	3
Total	6
Recommendations agreed with action plan	6
Not agreed; risk accepted	0
Total	6

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

- a) During the development of the Internal Audit Annual Plan 2021/22 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.

5.3 Integrated Impact Assessment

- (a) There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. 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).
- (b) 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 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist.

5.5 Climate Change

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

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 Data Protection Impact Statement

There are no personal data implications arising from the content of this report.

5.8 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 content in this report.

6 CONSULTATION

- 6.1 The Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 6.2 The Corporate Management Team, Director - Finance & Corporate Governance, Chief Legal Officer (and Monitoring Officer), Director – People Performance and Change, 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 29 June 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	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Scottish Government Support Grants</p> <p>No: 087/001</p> <p>Date issued: 20 August 2021 Draft; 13 September 2021 Final</p> <p>Level of Assurance: Limited assurance on 3 of the 4 grants reviewed; Substantial assurance on the Spring Support Payment Grants.</p> <p>Page 32</p>	<p>The purpose of the review was to assess the adequacy of operational processes in place to administer the payment of Scottish Government Support Grants to ensure that they are appropriate and consistent.</p> <p>The Scottish Government Coronavirus Business Support Funds are administered by Scottish Borders Council to provide grant support to help businesses deal with the impact of Covid-19. The intention is to protect jobs, prevent business closure and promote economic recovery. There have been several different funds throughout the Covid-19 pandemic.</p> <p>SBC also administers the Scottish Government Self-Isolation Support Grants and Spring Support Payment Grants. These payments provide financial assistance to individuals advised to isolate due to Covid-19 and to parents of children who receive means-tested free school meals.</p> <p>The legislation surrounding these grants was complex and introduced a number of different grants that had to be incorporated into processes and procedures quickly to allow payments to be made in a timely manner.</p> <p>An 'Update on the Covid-19 Financial Support for Business' was presented to the Executive Committee on 18 May 2021 by the Executive Director Corporate Improvement & Economy. The report stated since April 2020 "The current value of funding distributed to local businesses by Scottish Borders Council is in excess of £70 million, with over 5770 businesses currently supported through the grant process".</p>	0	3	0	<p>Management Response: In general the findings are accurate; however for context the outcomes are a result of:</p> <ul style="list-style-type: none"> • the speed of deployment • lack of time and resources against volumes of work • competing priorities • the frequency of changes within SBC or SG • lack of clarity at start of schemes <p>This report reflects the outcomes driven by the pressures at the time which were exceptional and not the general standard of work or approach to administration undertaken by the service.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Scottish Government Support Grants (cont'd)	<p>The following best practice was found:</p> <ul style="list-style-type: none"> • Staff reacted quickly to a unique, fast changing situation to allow payments to be made to those in need. • Online forms were developed using conditional questions to determine eligibility. • The Spring Support Payment Grants were administered in accordance with Scottish Government criteria. <p>Grants may have been administered correctly but without the supporting evidence, Internal Audit can only provide Limited assurance on 3 of the 4 grants reviewed. Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave the grants vulnerable to being inconsistently administered and without a clear audit trail. Internal Audit are able to provide Substantial assurance on the Spring Support Payment Grant. Largely satisfactory risk, control, and governance systems are in place.</p> <p>The following recommendations for improvements are designed to be applicable to any further Scottish Government grants administered by SBC and to other similar activity:</p> <ul style="list-style-type: none"> • Management should ensure that the timeline of each grant is recorded to capture the specific details and changes made during the administration of the grant. (Medium) • Management should ensure that application forms include all specific and relevant information required to establish eligibility for grants to provide an appropriate audit trail. (Medium) • Management should ensure that staff are able to provide the correct information and supporting evidence to Internal Audit, with Management support if required. (Medium) 				<p>Management Response (cont'd): With that in mind and the lack of anticipated new schemes the timelines for actions have been set several months ahead.</p> <p>Internal Audit will liaise with the Service as a critical friend during the development of the improvement actions to ensure the redesigned internal controls are proportionate to the risks and take account of limited resources.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Corporate Governance Subject: Performance Management Local Government Benchmarking Framework (LGBF) No: 016/016 Date issued: 26 August 2021 Draft; 13 September 2021 Final Level of Assurance: Substantial	The purpose of the review was to provide independent validation of performance indicators which are reported on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF). The LGBF brings together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them. The data is from all Scottish Councils which represent very diverse communities in terms of geography, population, deprivation levels and community needs. Scottish Borders Council reports on 11 Performance Indicators which cover a range of services which the Council and partners provide. They fall under 4 headings: Corporate; Corporate Assets; Culture & Leisure; and Environment. Individual Services are responsible for providing the data to the Performance Team for the LGBF return. There was an improved process this year, where all backing papers were provided with the returns as requested. Our validation testing found anomalies for only one (1) of the indicators. It was agreed that this was an error and a revised performance indicator was submitted. Internal Audit considers the final figures for the 11 performance indicators provided and reported in the LGBF return 2020/21 to be reasonable and accurate, after noted amendment, and is able to provide Substantial assurance. The individual data collection methods applied by the Services are adequate though there is scope for improvement in the process and Management oversight (specifically implementation of the outstanding recommendation) to ensure data is complete, accurate and provided on time.	0	0	0	Management have accepted the factual accuracy of the report and its findings. The LGBF return was discussed by Corporate Management Team on 18 August 2021 prior to its submission on the 25 August 2021 to meet the deadline of 31 August 2021.

AUDIT SCOTLAND FRAUD & IRREGULARITY UPDATE 2020-21

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

20 September 2021

1 PURPOSE AND SUMMARY

- 1.1 **The purpose of this report is to make the Audit and Scrutiny Committee aware of a recently published counter fraud report by Audit Scotland and the Management Actions required in response for improvement and assurance purposes.**
- 1.2 Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on prevention and detection and promotion of anti-fraud culture across the Council, taking account of reducing resources, are associated with the Counter Fraud Strategy endorsed by this Committee and approved by the Council in 2018.
- 1.3 The purpose of the Integrity Group is to improve the Council's resilience to fraud, theft, corruption, and crime. One way it can achieve that is self-assessing the Council's arrangements against best practice and agreeing any appropriate actions to continuously improve the arrangements in place.
- 1.4 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.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Scrutiny Committee:**
 - a) **Acknowledges the Audit Scotland Fraud and Irregularity Update 2020/21 published in July 2021;**
 - b) **Requests that the Integrity Group considers the report as part of their counter fraud role and responsibilities and determines any Management Actions required in response for improvement and assurance purposes;**
 - c) **Requests that the Integrity Group, at the same time, revisits the assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks carried out during 2020/21, and assesses progress on any agreed actions; and**
 - d) **Requests that the Integrity Group reports back to the Committee on findings and necessary actions.**

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, corruption, or crime. 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 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.
- 3.4 The Integrity Group is an officer 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, theft, corruption, 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.
- 3.5 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 Integrity Group carried out an assessment in 2020/21 of counter fraud controls associated with the covid-19-emerging-fraud-risks. The findings from which were reported to the Audit and Scrutiny Committee on 8 March 2021, along with the necessary actions to enhance the Council's resilience to fraud, theft, corruption, and crime.

4 AUDIT SCOTLAND FRAUD AND IRREGULARITY UPDATE 2020/21

- 4.1 The following report has been published by Audit Scotland in recent months relating to fraud risks and outcomes:
 - [Fraud and irregularity 2020/21 \(audit-scotland.gov.uk\)](#) (published 1 July 2021) This report sets out a range of fraud risks emerging since the start of the Covid-19 pandemic. It also shares information about cases where internal control weaknesses in public bodies have led to fraud and irregularity.
- 4.2 This provides an opportunity for the Integrity Group to consider the recently published counter fraud report by Audit Scotland and determine any Management Actions required in response for improvement and assurance purposes.

- 4.3 There are similarities in the fraud risks reported in 2020 and 2021 by Audit Scotland. This provides an opportunity for the Integrity Group at the same time to revisit the assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks carried out during 2020/21, and to assess progress on any agreed actions.
- 4.4 The Audit and Scrutiny Committee is recommended to assign some tasks to the Integrity Group associated with the recently published counter fraud report by Audit Scotland and to request an assurance report thereon.

5 IMPLICATIONS

5.1 Financial

Effective internal control systems are designed to prevent and detect fraud, theft, corruption or crime and this contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse.

5.2 Risk and Mitigations

The process of identifying fraud risks by Management is based on the principles of the Council's Counter Fraud Policy and Strategy. Evaluation and monitoring of fraud risks and mitigations are facilitated through the Integrity Group.

5.3 Integrated Impact Assessment

There is no relevance to the Equality Duty or the Fairer Scotland Duty for this report. This is a routine report published by Audit Scotland for improvement and assurance purposes.

5.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist. However, the application of practices associated with the Council's Counter Fraud Policy and Strategy is fundamental to ensuring an effective response to fraud, theft, corruption, or crime. This will make a difference to the UN Sustainable Development Goal 16 "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels".

5.5 Climate Change

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

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 Data Protection Impact Statement

There are no personal data implications arising from the content of this report.

5.8 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 content in this report.

6 CONSULTATION

- 6.1 The Integrity Group has been consulted on this report as part of fulfilling its role in enhancing the Council's resilience to fraud.
- 6.2 The Corporate Management Team, who play a key leadership role in establishing counter fraud behaviours within the organisation, its partners, suppliers and customers, has been consulted on this report.
- 6.3 The Director - Finance & Corporate Governance, Chief Legal Officer (and Monitoring Officer), Director – People Performance & Change, 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

Background Papers: Audit Scotland publications on website

Previous Minute Reference: Audit and Scrutiny Committee 8 March 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 fraud@scotborders.gov.uk

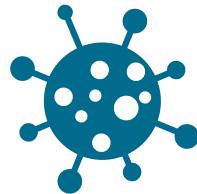
Fraud and irregularity 2020/21

Sharing risks and case studies to support the Scottish public sector in the prevention of fraud

Page 39

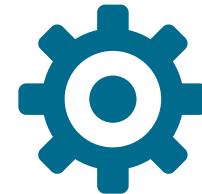


Key messages



1. Significant challenges due to Covid-19

Since the start of 2020/21, the Covid-19 pandemic and the associated lockdowns have brought significant challenges across the public sector. Public bodies have sought to continue to deliver services in new working environments while at the same time experiencing an increase in demand for many services. The challenges during the last year include additional fraud risks for public bodies to identify and manage.



2. Wide range of action required to mitigate new risks

The new fraud risks cover a variety of areas. This means a wide range of actions are required by public bodies to attempt to mitigate these risks.



3. Weaknesses in controls contribute to fraud and irregular activities

Weaknesses in controls have contributed to a variety of fraud and irregular activities being identified across the Scottish public sector. During 2020/21, external auditors reported 13 cases of fraud and irregularity valued at £0.4 million. The value of reported fraud and irregularity remains small compared to the 2020/21 annual Scottish budget of £49 billion.



4. Counter-fraud hub

Audit Scotland's [counter-fraud hub](#) contains useful counter-fraud information.

Recommendations

Public bodies should ensure good governance and counter-fraud arrangements are in place, including:

- having in place appropriate governance and oversight arrangements for counter-fraud
- regularly reviewing controls and governance arrangements to ensure they remain fit for purpose
- being alert to emerging fraud risks and where appropriate working with others to help alleviate these risks
- considering whether appropriate controls are in place to prevent the risks identified in this report materialising in their own organisation
- considering whether the weaknesses in internal control that facilitated each case of fraud or irregularity identified in this report may also exist in their own organisations, and taking the required corrective action.

Auditors should confirm that:

- appropriate governance arrangements for the prevention and detection of fraud are in place at their audit clients and that appropriate reviews and amendments of controls have taken place in response to new ways of working
- internal controls at their audit clients are sufficiently strong to prevent the types of fraud and irregularity highlighted in this report.

Background

Impact of Covid-19

The risk of fraud and error has increased over the last year due to the Covid-19 pandemic. This is due to many reasons, including:

- public bodies have become stretched, controls and governance arrangements have required to be changed
- staff working remotely and under pressure
- staff adapting to new ways of working with associated new processes and procedures
- staff being redeployed to work in new and unfamiliar departments as public bodies have responded to increased demands for certain services
- continuous fraud attempts on public bodies including both traditional types of fraud and newer cybercrimes
- former verification and control processes being unable to operate as new ways of working are introduced
- new support schemes for business and communities being developed and implemented at speed.

Page 42

Public bodies need to review their systems and identify areas where the threat from fraud and error has increased. They need to review existing controls to ensure they are still effective and appropriate and at the same time introduce new controls to address new risks. Measures like these have always been important but the unprecedented challenges and pressures brought by the pandemic, and the opportunities it has presented for fraudsters, bring a renewed focus on ensuring effective governance and controls are in place.

Additional risks will continue to emerge as public money and services are targeted by fraudsters. Fraudsters will continue to look for new opportunities to exploit weaknesses in systems and controls. Public bodies and auditors should stay alert to new scams and approaches by fraudsters, and regularly review controls and governance arrangements to ensure they remain fit for purpose.

Good governance and sound controls are essential in crisis and changing situations.

Aims of this report

This report sets out a range of fraud risks emerging since the start of the Covid-19 pandemic along with suggestions of what public bodies may do to help reduce these risks. It aims to help public bodies identify and manage these risks.

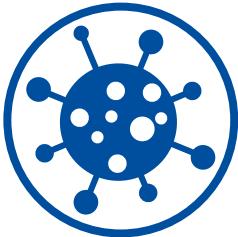
This report also shares information about cases where internal control weaknesses in public bodies have led to fraud and irregularity, to help prevent similar circumstances happening again. External auditors have shared specific details about significant frauds and other irregularities in public bodies during 2020/21. The level of fraud and irregularity reported by external auditors of £0.4 million remains small compared to the 2020/21 Scottish budget of £49 billion.

This report is informed by information provided by external auditors during 2020/21 in their fraud and irregularity returns to Audit Scotland. External auditors are required to report frauds (or suspected frauds) where they are caused or facilitated by weaknesses in internal controls at public bodies. Frauds and irregularities are considered significant where the value of the loss is over £5,000 or where it is of significance due to the nature of the activity.

Auditors of local authorities are not required to report cases of fraud perpetrated by claimants, for example, grant claimants or housing benefit claimants, unless the fraud was facilitated by the collusion of local authority staff or otherwise by weaknesses in internal control. The cases included in this report are likely to have been investigated internally, but it is not necessary for the police to have been involved or for it to have been proven as fraud in a court of law.

Key fraud risks identified in 2020/21

We have grouped the fraud-related risks identified by external auditors over the last year into the following seven categories. They include, but are not limited to, risks associated with:



1. Covid-19 funding and reopening of premises and services



2. Health and wellbeing



3. IT and cybercrime



4. Governance



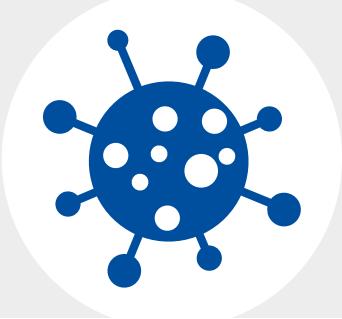
5. Procurement



6. Payment



7. Payroll and recruitment



1. Covid-19 funding and reopening of premises and services

- Government stimulus packages to support individuals and businesses are provided quickly, possibly with a lower level of scrutiny and due diligence than has previously been in place. Often the support is provided to people and businesses that the public body had no previous relationship with, making the verification of details more difficult.

Page 44

Councils may receive emails or Freedom of Information requests asking for details about property details, reference numbers or business grant applications. Fraudsters are possibly looking to identify eligible businesses that have not applied for grants, with a view to submitting a fraudulent application.

- Councils may receive requests for business rate liabilities to be changed. This may be an attempt to ensure a business falls within a category qualifying for grants.
- Due to applications for Covid-19 related support being made online, there is a risk that fraudulent documents and details are provided.
- Councils may receive fraudulent applications for funding purporting to be from genuine qualifying businesses. These applications are often supported by what appears to be genuine supporting information which has often been obtained from publicly available sources.

- As buildings and offices reopen, emails may be received purporting, for example, to be from the Health and Safety Executive (HSE) saying the HSE is carrying out Covid-19 spot checks on newly opened premises. A link supposedly to guidance documents leads to a file which contains malicious software (malware).
- Texts may be received advising recipients that they are eligible for a Covid-19 grant and that an attached form requires to be completed. The form contains a link to a scam website, possibly similar to the HMRC website, asking for business, personal and bank details.

Additional Covid-19 related risks:

Covid-19: Emerging fraud risks

July 2020





2. Health and wellbeing

- Remote working may result in isolation and/or mental health issues. This may lead, in some cases, to increased addictive behaviours (eg, gambling), which could result in vulnerability to serious organised crime gangs.
- An increase in internal fraud in public bodies is possible as staff and their families are under increased levels of financial and health pressures.
- Working for sustained periods of time at high levels of demand may lead to errors or fraud due to lapses in concentration.
- Staff/volunteers could take advantage of vulnerable service users, for example by gaining access to bank cards, cash drop-offs at client's house and befriending with sinister intentions.
- Emails may be received purporting to be from the NHS offering a Covid-19 vaccination. Recipients are requested to provide bank details.



3. IT and cybercrime

- Staff working remotely may pose potential security risks, eg when using personal devices and/or using removable devices to download data.
- Household members may gain unauthorised access to confidential information such as payroll, social work client details etc, by looking at screens or documents used by staff.

Page 46
Staff may be more likely to be tempted to steal data when working remotely without the normal office supervision.
- Staff working remotely may receive calls from fraudsters claiming to be legitimate technical support services and attempting to gain access to systems. The callers may say that they are looking at issues with the public body's network and will request the staff member's login details in order to 'fix' the system issue.
- Staff working at home may receive calls purportedly from their broadband providers. The caller says that they are having technical problems with the service. The caller asks the recipient to switch on their computer to check the broadband signal strength and then to enter a scam web address and/or download a piece of malware.
- There is a risk of increased cybercrime as more public-sector staff connect remotely to access systems and for meetings using online video conference services.

- There is a risk of more system-access breaches where personal information is accessed without a valid reason by staff working remotely, eg possibly to check friends' applications for services.
- It is easier for fraudsters to send 'urgent' emails or texts pretending to be from senior members of staff to their under-pressure teams asking for money to be transferred or for information to be disclosed.
- There is a risk of ransomware attacks. This is where malware is put into bodies' systems and leaves a ransom note demanding money in exchange for the return of information or the reinstatement of systems.
- There is a risk of an increase in **phishing** emails trying to get staff working under pressure to click on links which allow fraudsters access to public-sector systems. For example, staff receive scam emails inviting them to a video conferencing meeting, supposedly being held by someone they know and trust. The link provided leads to a fraudulent log-in page, which asks for the recipient's username and password.

Phishing:

Where criminals send emails purporting to be from reputable sources in order to deceive individuals into providing information or data such as passwords, user names or bank details, or to click on a link that allows malware to be downloaded.



4. Governance

- Public-sector staff are working under extreme pressure which may mean some internal controls are suspended or relaxed.
- Existing controls may have been relaxed to assist homeworking for staff and access to services for clients.

Page 47

Fraud investigations may be paused or unable to continue due to difficulties in collecting evidence or investigation staff being redeployed to frontline services.

- When buildings are closed there are additional risks to the security and unauthorised use of assets from both internal and external sources as the removal or unauthorised use of assets may go undetected.
- New equipment and IT devices purchased during the pandemic may be at more risk of being lost or stolen due to possible weakness in controls around delivery, asset-tagging and recording in asset registers when staff are working from home. Any losses may not be detected.

- Staff may be transferred from their own departments to other areas to meet increased demand for certain services. This may leave some departments under-staffed at the same time that inexperienced staff may be working remotely without a full understanding of the required procedures and controls.
- There is a risk of weakened governance arrangements as internal audit teams are redeployed to operational areas.



5. Procurement

- Previous controls may be relaxed to allow bodies to buy new or existing goods or services which are required urgently, possibly from new suppliers.
- Fraudsters may be ‘selling’ popular and/or hard-to-get items online. The products may not arrive or may be counterfeit, eg medicines, personal protective equipment (PPE) such as face masks and gloves, and hand sanitiser products which do not provide the necessary level of protection.
- An increase in medical and sanitary waste may see criminals attempt to gain waste management contracts. This could result in the inadequate disposal of the waste, with the potential associated harm to public health as well as generating proceeds for the criminals.
- Bodies may buy goods/services from companies without due diligence and vetting being completed due to the urgent demand. This increases the risk of collusion between companies, eg bid fixing, and between companies and staff in the public body buying the goods/services.
- Bodies may receive texts or phishing emails purporting to be delivery companies saying that a parcel is awaiting delivery but that an unpaid shipping fee must be paid. The texts and emails include a link to a scam website asking for payment details.
- Bodies may also receive texts or phishing emails purporting to be from delivery companies saying that they tried to deliver a parcel to closed offices. A link is provided purporting to allow the rescheduling of the delivery. The link leads to a scam website asking for contact and payment details.



6. Payment

- Mandate and diversion fraud may increase as fraudsters try to get employees to update suppliers' bank details and make payments as soon as possible, knowing staff are under pressure. Some attempts may be made using a compromised email account of a genuine member of staff employed at either the public sector body or in an existing supplier.

Due to staff working from home and under pressure, duplicate payments are possibly not detected, or payments may be made without checking whether goods and services were received to a satisfactory quality.

- Due to controls being loosened it may be possible for staff to pay invoices above their authorisation limits or without the normal approvals.
- Emails may be received from fraudsters purporting to be from a senior member of staff in a contractor requesting copies of initial contracts/award letters and previous invoices last issued. The fraudulent email may also note there has been a change in their bank account details.

- Public bodies may be contacted by someone purporting to be from the fraud department at the body's bank and advising of attempted frauds made against the body's bank accounts. The fraudster then may persuade the member of staff that they can stop the fraud by setting up a payment to a given sort code and account number.
- Messages may be received purporting to be from the bank saying that a request to add a new payee has been set up. The recipients are asked to click on a link to authorise or cancel this request. The link leads to a scam website which asks for bank account details.
- Messages may be received purporting to be from a known supplier advising that an unexpected sum of money will be debited from the body's bank account. The recipient is asked to click a link to a scam website supposedly in order to cancel the payment.
- Emails may be received where a fraudster tricks officers into thinking a message came from a person they know. For example, a staff member may receive an email from what appears to be a senior colleague requesting the purchase of gift cards and for the cards and codes to be emailed by return email, or that certain invoices have been authorised for payment.



7. Payroll and recruitment

- There is a risk of recruitment fraud as new staff are needed immediately due to increased demands for services and the normal checks may not be completed.
- Payroll fraud may increase as normal controls around working hours, expenses, overtime etc may be relaxed.

Staff returning to work to help respond to Covid-19 may be targeted by unscrupulous tax avoidance schemes.
- Telephone calls may be made by fraudsters to health and social care staff requesting personal bank details in order for the £500 'thank you' payment to be made.
- Telephone calls may be received advising staff that their national insurance number has been compromised or is invalid. The caller asks for personal details in order to apply for a new national insurance number.
- Fake Covid-19 related job adverts may appear on social media, eg for Covid testers. The scammers ask for personal details that job applicants typically provide, eg bank details, proof of address and passport details. This information can be used for identity theft.

Ways to reduce counter-fraud risks



- Discuss and agree the organisation's risk appetite and associated approach to the newly emerging risks.
- Carry out a risk assessment to identify the most vulnerable areas under the new working conditions. This will include a review of IT system security for remote working.
- Ensure Internal Audit review systems of control. Some of the existing controls are unlikely to be still relevant and appropriate.
- Introduce new systems of control to address new and emerging risks.
Page 51
Ensure existing ways of reporting fraud or irregularity are still operating and are promoted, eg fraud hotlines and whistleblowing processes are still operating.
- Review ways of working and delivering services to help ensure those in need are supported.
- Ensure staff and customers receive regular, appropriate communications on the new ways of working and changes to services.
- As staff move back to offices, controls should be reviewed to ensure they are effective and appropriate for the new ways of working. This will include possibly tightening up previously relaxed controls and carrying out audits on assets.

- Consider bank account verification and active company search services, eg that are available to the UK public sector from the Cabinet Office or **NAFN**.
- Continue staff training, especially for staff moved to work in areas that are new to them.
- Continue staff training on counter fraud including new threats. This will include updates on new and emerging frauds as well as reminders that suspicious activity still needs to be reported.
- Run 'dummy phishing' exercises to test employees' reactions, with a requirement to revisit training modules if an employee 'fails'.
- Ensure all software updates are applied as soon as possible to IT systems. This includes regular reviews and updates to all systems and devices and actively looking for vulnerabilities. Where dangerous vulnerabilities are identified, system updates are done immediately even if it means staff can't work while it is being updated. Where a device, eg a laptop, isn't updated, it is disabled and excluded from the network.
- Block and filter every attack vector possible, which can make things difficult for colleagues, and say no to anything that could increase the organisation's susceptibility to attack.

NAFN:

Shared service organisation open to all public-sector organisations. NAFN provides data, intelligence and best practice services for member organisations.

Ways to reduce counter-fraud risks



- Review **NFI** matches to identify fraud and error or system control weaknesses.
- Rotate employees or volunteers working with vulnerable service users and ensure appropriate employee disclosures are up to date.
- Review the NHS Counter Fraud Authority's guidance including the [**Covid-19 counter fraud guidance**](#)
- Review the UK Government Counter Fraud Function's website for the latest guidance including:
 - [**Covid-19 Counter fraud response team**](#)
 - [**Fraud Control in Emergency Management: Covid-19 UK Government Guidance**](#)

Page 52

NFI:

National Fraud Initiative, an exercise that matches electronic data within and between public and private-sector bodies to prevent and detect fraud.

Further information:

**The National Fraud Initiative in Scotland
2018/19**

July 2020



A focus on procurement risks



Procurement fraud in the UK is not defined but industry experts put the figure at billions of pounds a year. Procurement fraud is complex and covers a wide range of activities from the pre-contract award phase through to the post-contract phase. Procurement fraud is difficult to detect. Although data analytics to identify fraud are on the increase, manual detection techniques are an important part of fraud prevention approaches.

In order to help reduce some of the risks around procurement, bodies may consider the following:

- All staff should be aware of the potential red flags to look out for within any procurement exercise.
- All staff involved in procurement activity should receive regular appropriate training to help them to identify fraud and error.
- There should be clear processes, procedures and controls to be followed regarding procurement. Checks should be made, eg by internal audit, to ensure these are followed.
- A central contract register should be in place which is regularly reviewed and analysed for irregularities.
- Staff should be extra vigilant where a contract is required in a rush and/or where the contractor may be pressurising staff for a quick response.
- Appropriate controls should be in place to ensure invoices, purchase orders and requisitions all agree before payments are made.
- Appropriate segregation of duties should be in place for the authorisation of contracts, payments and technical specifications.

Page 53

- Procedures should be in place and followed, for all requests for payments to new bank account details.
- Due diligence should be carried out on new suppliers. This may include a review of online customer reviews, and calling the landline on a website to check it is genuine.
- Consideration should be given to job rotation to ensure staff do not deal with the same clients on a long-term basis.
- Internal audit should review procurement activity, eg through spending analysis, to identify where any large spend to a particular supplier may exceed approval thresholds when aggregated or a review of the security around bids and tender documentation.

Further information:

Red flags Procurement

October 2019



Fraud and irregularity identified during 2020/21



Auditors have provided Audit Scotland with details of cases of fraud and other irregularity discovered in their audited bodies during 2020/21. This report sets out examples of the various different categories of fraud and irregularity reported during 2020/21 and the control weaknesses which have contributed to these cases.

Reporting cases about fraud and irregularity and sharing information about what happened helps highlight weaknesses in internal controls and aims to help prevent similar circumstances from happening in other public bodies.

Public bodies are encouraged to consider whether the weaknesses in internal control that facilitated each of the cases highlighted in this report may also exist in their own arrangements, and take the required corrective action.

5
Auditors should confirm that appropriate governance arrangements for the prevention and detection of fraud are in place at their audit clients and that appropriate reviews and amendments of controls have taken place in response to new ways of working. They should also confirm whether internal controls are sufficiently strong to prevent the types of frauds and errors highlighted in this report.

Fraud and irregularity reported during 2020/21 totals £0.4 million

Falls into the following key categories:



2

cyber attacks



5 cases = £132,500

Fraud and irregularity involving expenditure



4 cases = £25,000

Fraud involving payroll



1 case = £237,000

Theft



1 case = £7,000

Involving third party funds

Control weaknesses were highlighted where fraud or irregularity was identified.

Common control weaknesses

A review of fraudulent and irregular activity highlights common control weaknesses which have contributed to the fraudulent and irregular activity reported by external auditors.



A lack of management checking and review



Procedures not followed



Weak security arrangements



A lack of staff training



Missing indicators within emails that the email is not genuine



Not verifying applications for funding to existing records



Poor budget monitoring



System reconciliation weaknesses



Poor record keeping

Cyber attacks

A cyber attack is where computers and networks are targeted by criminals in order to alter, disable, steal or gain information through the unauthorised access to computer systems. Our blog entitled '[Cybercrime is a risk that the public sector in Scotland needs to take seriously](#)' raises awareness among boards and non-executive directors of this growing area of risk as well as to signpost readers to key resources to help protect organisations from this type of crime.

Case study 1

A public body was subject to a serious complex cyber attack which impacted upon access to systems, processes and communications.

Key features

Page 5
1.2GB of data amounting to just over 4,000 files had been stolen. The public body instigated its business continuity plan and took action to limit the impact of the attack. The public body made clear that it would not engage with criminals intent on disrupting public services and extorting public funds.

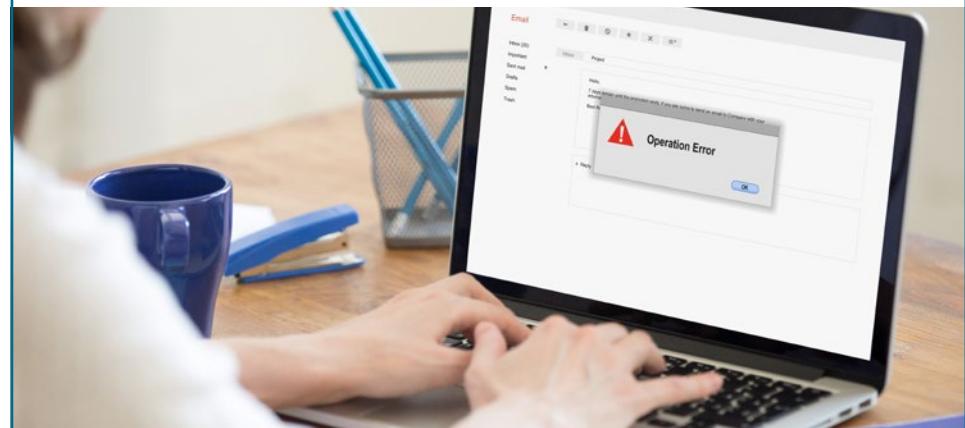
The information that was stolen from the public body's systems was published illegally online on the dark web the following month. The information that was published is still being assessed. IT systems have been disconnected to prevent further data losses.

The impact of this attack will last for some time due to the loss of data, including financial data, and the need to re-build systems and re-create records.

A Police Scotland investigation is under way. The public body is also working with the Scottish Government, the Information Commissioner and the National Cyber Security Centre in order to investigate the specific details of the attack and identify areas to strengthen existing controls.

Case study 2

A cyber-attack caused disruption to services at several colleges.



Key features

The colleges' IT engineers worked to isolate and minimise the impact from the incident.

As a result of the attack, the colleges were closed to some students for a short period of time.

The source of the attack is not known, however a Police Scotland investigation is currently under way.

Expenditure

Expenditure frauds relate to cases where a body has incurred additional expenditure because of fraud. This may be due to invalid suppliers, fictitious invoicing, or the redirection of payments intended for legitimate suppliers.

Case study 3: Invalid supplier

A third party defrauded over £46,000 from a public body by purporting first to be a staff member and then a supplier to the body.

Key features

One of the public body's suppliers received an email purporting to be from the body, asking if there were any outstanding invoices. The supplier replied attaching an invoice. The public body then received an email purporting to be from the supplier with the invoice attached asking for it to be paid to a new bank account. The bank records were amended, and the invoice paid. The fraud was identified when the genuine supplier contacted the body looking for payment of the invoice.

The fraud was possible as:

- the accounts payable department did not confirm that the change of bank details had been verified by the contracting service
- the member of staff within the contracting service had not received training on how to verify new bank details
- indications within the email that it was not genuine were missed
- learning from a previous unsuccessful similar attempted fraud involving the same supplier had not been shared with staff.

The public body is introducing robust verification processes for change of bank details.

Case study 4: Invalid supplier (2)

A third party defrauded £64,500 from a public sector body by purporting to be a genuine supplier.

Key features

The purchase ledger team received several emails purporting to be from a named contact at their utility supply company requesting payment of legitimate outstanding invoices. They included copy invoices from the supplier which appeared to be genuine. The emails requested that the standing bank details be amended to those on the invoices. The bank details were changed, and three payments were made. Remittance advices were sent to the legitimate supplier's email address. The fraud was identified when correspondence was received from the legitimate supplier advising that they had received remittance advice notices but no payment.

The fraud was possible as the procedure for confirming bank account changes was not followed. In addition, the email from the supplier had a subtle difference in the address that was not identified at the time.

All finance staff are now receiving training on fraud prevention and detection. The body has notified Police Scotland.

Expenditure

(continued)

Case study 5: Misuse of a vehicle

A public sector employee defrauded almost £7,000 through unauthorised use of a car over a six-month period.



Page 58

Key features

The employee was using a hire car while at the same time using a leased car. Both cars were provided by their employer.

The fraud was identified after the payroll team questioned why the car was still on hire.

The fraud was possible due to a lack of review and challenge by the line manager of the monthly car hire report for their department.

The case has been reported to Police Scotland and options for civil recovery are being investigated.

Case study 6: Misuse of vehicle

A public sector employee defrauded over £5,000 over an eight-month period through unauthorised use of a car.



Key features

The employee used a pool car for personal use after their own car broke down.

The fraud was identified after a finance report was issued to the budget holder suggesting that providing the employee with a small van would provide better value for money.

The fraud was possible as the budget holder failed to identify the pool car recharges and investigate accordingly.

Internal audit has reviewed the pool car system to identify system weaknesses.

Expenditure

(continued)

Public bodies have been issuing many different grant and funding streams to businesses and individuals over the last year due to the Covid-19 pandemic. There have been many instances of claimant fraud identified in these applications. This report does not include cases of fraud that are perpetrated by claimants, for example, grant claims, unless the fraud was facilitated by either the collusion of local authority staff or by weaknesses in internal control.

Page 59

Case study 7: Grant payment

A third party defrauded £10,000 from a council by making a false claim for a business grant.



Key features

The perpetrator claimed a business grant for premises they had previously occupied. The fraud was identified when the legitimate business proprietor applied for a grant.

The fraudulent payment was possible as the council failed to identify that:

- the name on the business grant application was not the name of the business on the business rates system
- the bank statement used in support of the application was for a personal bank account rather than a business bank account.

Internal controls have been improved and more stringent checks are now carried out.

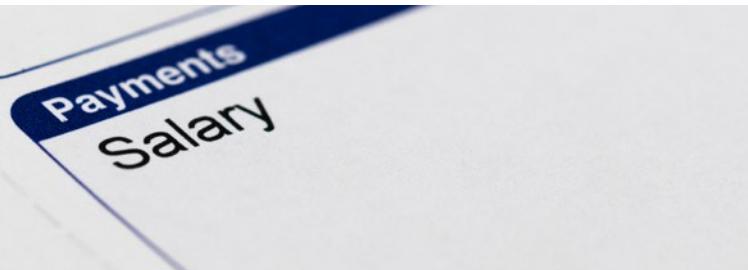
Payroll

Payroll frauds relate to cases where an organisation's payroll has been misappropriated, eg employees working elsewhere while claiming to be unfit or where salary payments have been redirected.

Case study 8: Re-directing salary

Four parties defrauded almost £25,000 from four public bodies by redirecting salary payments.

Page 60



Key features

In all cases, the payroll team received emails purporting to be from genuine members of staff, advising of a change to be made to bank account details. The payroll records were amended, and salary payments were made. The frauds were identified when employees contacted the payroll team to query why they had not been paid.

The fraud was possible as the procedures in place to check the validity of bank detail changes had not been followed.

Payroll staff have been reminded of the proper procedures, including verification procedures for changes to employee bank account details. The cases have been referred to Police Scotland for investigation.

Theft of assets

Theft relates to cases where someone acts dishonestly appropriating property belonging to another with the intention of permanently depriving the other of it.

Case study 9: Theft of assets and cash

An employee misappropriated cash and other assets valued at £237,000 from a public body over a period of eight years.



Page 61

Key features

The employee was responsible for maintaining records for a secure store. The employee abused their position of trust.

The theft was possible due to inadequacies in the reconciliation of a manual card recording system and in management oversight. The theft was identified when a new process for recording the cash and other assets was introduced and the perpetrator was going to be moved to a new department.

A subsequent internal audit identified the cash and assets were missing. Police Scotland were informed.

The employee admitted the theft, was prosecuted and imprisoned for over three years.

Procedures have been reviewed and improvements made.

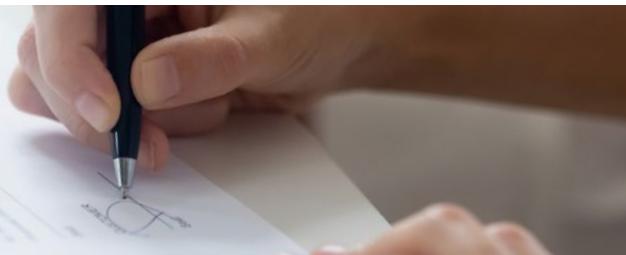
Private funds

Private fund frauds relate to cases where third party's funds have been misappropriated.

Case study 10: Third party funds

A member of staff misappropriated over £7,000 from the accounts of vulnerable social care clients.

Page 62



Key features

The member of staff committed the fraud by forging the signature of another staff member. The fraud was identified when a colleague examined records of client funds and identified an entry that they had apparently authorised but had no knowledge of.

When interviewed, the member of staff admitted forging the signature of a colleague. An internal audit identified the full extent of the fraud.

The fraud was possible due to weakness in record keeping and in the oversight by management and the **Corporate Appointee**. Improvements have been introduced in relation to reconciliation processes and the review of client accounts.

The matter was reported to Police Scotland and disciplinary processes were instigated. The member of staff has repaid the full amount.

Corporate Appointee:

A Corporate Appointee is where an organisation, eg a council, has been appointed by the DWP to manage and look after a customer's welfare benefits to make sure they get the benefits they are entitled to.

Next steps for governance boards in scrutinising counter-fraud arrangements

Strategies

 Page 63



- Are there appropriate and up to date counter-fraud strategies in place?

- Are there appropriate governance and oversight arrangements for the counter-fraud strategies? This will include appropriate performance reporting arrangements.

Risk assessment

-  Has an assessment been carried out of where the fraud and error risks lie?

-  Has the risk from fraud and error risk been measured and reported? This should be updated regularly.

-  Have controls been put in place to prevent and detect these risks?



Controls review

-  Are the controls regularly reviewed to ensure they are operating effectively and still appropriate?

-  Are controls amended or new controls implemented where new risks emerge?



Further information

You can find further information about Audit Scotland's work to support counter-fraud and good governance on our website. This includes information about:



Website:

Our work on counter-fraud

Page 64



Report:

Covid-19: Emerging fraud risks

July 2020



Report:

Red flags in procurement

October 2019



Website:

The National Fraud Initiative



Report:

How councils can safeguard public money

April 2019



Blog:

Cybercrime: A serious risk to Scotland's public sector

May 2021

Fraud and irregularity 2020/21

Audit Scotland's published material is available for download on the website in a number of formats.
For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

ISBN 978 1 913287 55 9

This page is intentionally left blank